ANNUAL REPORT
2020

L-BANK
Staatsbank für Baden-Württemberg

L-Bank in Figures

OVERVIEW 2016–2020 in EUR millions

	2016	2017	2018	2019	2020
Total assets	75,075.39	70,669.98	69,608.87	77,622.56	86,759.63
Equity	2,814.64	2,865.23	2,963.98	3,013.96	3,064.38
Net interest income[1]	368.93	323.41	331.37	302.04	263.20
Net income	49.33	50.59	50.18	49.98	50.42

	2016	2017	2018	2019	2020
'Hard' Tier 1 capital ratio (CET1 ratio)	18.00%	18.67%	18.59%	20.06%	20.39%
Total capital ratio	20.29%	20.73%	20.59%	22.20%	22.29%
Return on equity	12.19%	5.44%	6.29%	4.39%	4.33%
Cost-income ratio	41.65%	52.39%	44.53%	53.45%	57.90%
Leverage ratio	4.37%	4.81%	5.12%	4.86%	4.56%

2020	Moody's	Standard & Poor's
Rating	Aaa	AA+

1 Based on business operations

Contents

A Letter to Our Business Partners

I'm having a crisis! Who hasn't heard – or uttered – that exclamation? And who could have guessed that we would all be having an unimaginable, life-changing crisis together? Our business lives and economies have been turned on their heads, and 'social distancing' is especially painful. An important part of being human is, after all, interacting with other humans. Communities are the foundations of our lives; they sustain us. And as a development bank, we are committed to shared, community values. We help to keep Baden-Württemberg strong – to maintain it as a community worth living in. And during 2020, this turbulent and in many respects historic year, we have used L-Bank's various instruments and tools as weapons for overcoming the crisis – to an unprecedented extent. We have implemented federal and state programmes for the most severely impacted sectors, including the hospitality industry, coach tourism, and the conference and trade fair industry. Providing this support to hundreds of thousands of businesses and self-employed individuals at speed, but also with due care, was a challenge we were only able to meet thanks to the extraordinary commitment and hard work of all L-Bank employees.

And the various programmes are having an effect. From an economic perspective at least, the year ended on a conciliatory note, with the prospects of further easing looking much more promising now that the vaccination programme has begun.

With respect to Baden-Württemberg's economic development, we are full of optimism. In 2021, our federal state may once again become an 'engine of growth' thanks to its strong industrial sector. But even with the anticipated rebound effect on consumption and investment, and the gradual normalisation of business activities in the state, we cannot afford to just sit back and relax. Even before the coronavirus crisis, we saw a clear need for major structural changes and the far-reaching transformation of the state's economy – an insight that has been reconfirmed in recent months. In many industrialised countries, climate change and sustainability have quite rightly become the focus of modernisation projects. These resilience-focused efforts aim to achieve suitably high ecological, economic and sociocultural standards for all human beings, while remaining within the limits of the naturally sustainable. The intention is to transform business by organising focused, systematic initiatives and offering motivational incentives, all of which requires a delicate touch; taking drastic action would do more damage than good. Our development programmes must align with, and be measured against, these socially responsible policies and objectives.

A look at our enterprise development performance over the past year shows the impact of the crisis on demand for L-Bank's established programmes. Our Liquidity Loan programme and its sibling, the Liquidity Loan Plus programme launched on 1 July 2020, attracted huge interest. Our investment programmes, on the other hand, traditionally used for capital expenditure or capacity building, showed a slight decline. At the same time, what encourages us is that businesses were not simply concerned with the here and now – they were also looking ahead to the future. Development programme trends clearly show that businesses are actively tackling tomorrow's major challenges: climate change and digital transformation. As in 2019, the volume of funding disbursed in these areas – as reflected in the figures for our Resource Efficiency Finance, Innovation Finance and Digitisation Premium programmes – amounts to a total of around EUR 1 billion. We regard this as a significant indication that companies are embracing the new and preparing for the future. At the same time, it provides clear evidence of their positive, long-term outlook.

Another very positive picture emerges if we shift our focus to start-ups. Start-ups are often described as an engine of growth and competitiveness. And at regular intervals over the last 12 months in Baden-Württemberg, we worried that this engine might be faltering. I am delighted to say that nothing could be further from the truth. In 2020, our Business Start-up Finance programme improved on the good results achieved in previous years. Nor was this just the result of increased demand driven by emergency circumstances, as often observed during past crises. On the contrary – once again, we found that when individuals decide to launch their own businesses in Baden-Württemberg, they are driven by a strong desire to make a difference.

This motivation is especially pronounced in the high-tech sector. Through our L-Bank technology parks, we have become close neighbours to Baden-Württemberg's university researchers. Our parks have enjoyed full occupancy for years; indeed, we are struggling to meet the additional demand. But this is scarcely surprising, because our comprehensive range of services allows companies to concentrate on what they do best: drive innovation! And now that we have started building our new Freiburg Innovation Centre (FRIZ), we are opening up new prospects for businesses in this part of the state as well.

Sustainable building and affordable accommodation are two of the key criteria shaping modern housing construction. In particular, there has been a shortage of affordable housing for several years now – an issue that is no longer simply urban, but has extended into our rural regions as well. And it is precisely during the coronavirus crisis, due to the increased need for home working and home schooling, that Baden-Württemberg's constrained housing market is putting even more pressure on state residents. This is why the state government's decision to further improve the state housing development programme's funding conditions sent out such an important signal, especially for social rental accommodation.

All this was made possible by you, my dear colleagues at L-Bank. Together, as a team, we have achieved great things, thanks to high levels of personal commitment and a remarkable team spirit. For this, I extend my warmest thanks to you all. During the lunchtime talks we held as we started putting together our annual report, we asked you to describe your experiences of the past year in and around L-Bank – and to give us your own thoughts on the best way forward. The future is, after all, a major issue for the Bank as a whole. As the state development bank, how do we make ourselves even better? Just making a promise to 'keep going!' is not enough – because by 2030, Baden-Württemberg will be very different from the way it was in 2020. This is why we launched a comprehensive strategy review process last year. Together, we can bring our vision for L-Bank to life: 'Efficient, sustainable development inspired by love for our state'. I look forward to continuing our journey into the future together.

Edith Weymayr
Chief Executive Officer, L-Bank

Greetings from the State Premier

2020 was an extraordinary year. A year defined by an invisible enemy that invaded almost every area of our lives, confronting us with new challenges and stressing our society as a whole over and above anything we could have expected – on nothing less than a global scale! The models guiding our personal, working and family lives were thrown into disarray, and are still suffering from the disruption. The pathogen that caused all this? Coronavirus. Of course this ongoing situation also poses a major challenge for policymakers, because during a pandemic, the business of government involves making far-reaching decisions at speed; decisions which, in any other circumstances, we would be reluctant to even contemplate. To enable us to cope with the coronavirus and its economic and social consequences – and to emerge from these trials and tribulations all the stronger – it is especially important to be able to rely on solid, dependable partners like L-Bank to support us and the many businesses in our federal state.

The coronavirus pandemic has had a massive impact on Baden-Württemberg. Many of our local companies have been severely affected by the COVID-19 crisis. This is why it is so important to provide businesses in Baden-Württemberg with fast, unbureaucratic assistance. In 2020, L-Bank disbursed almost EUR 3 billion in COVID-19-related aid to businesses throughout the federal state, making a major contribution to stabilising the economy over this very challenging period.

Over and above the immediate crisis, we need to create the right conditions to ensure that Baden-Württemberg remains viable as a major business centre in the future. So in cooperation with L-Bank, the state government launched the 'Digitisation Premium Plus' programme, making a total of EUR 66 million available to support digitisation projects and efforts to improve IT security by small and medium-sized enterprises (SMEs). After all, another unexpected effect of the coronavirus was to clearly show us just how important digitisation has become. We also, quite deliberately, based our new housing development programme on future considerations. With the launch of the new programme, the state government is bolstering social housing construction to the tune of around EUR 250 million, as well as becoming the first government of a federal state to explicitly base the construction of social housing for rental on climate protection criteria. Meanwhile, the State Prize for Young Entrepreneurs is shining a spotlight on exemplary start-ups from Baden-Württemberg. After all, Baden-Württemberg has long been known as a region of thinkers, inventors and masterminds. And it is the passion and creative energy of our entrepreneurs that have driven Baden-Württemberg to the top of the economic league table – not just in Europe, but worldwide.

I would like to thank L-Bank and all the Bank's employees for working so hard over this difficult period. I wish them every success in fiscal year 2021, and look forward to collaborating with them as smoothly and efficiently as ever – because the State of Baden-Württemberg needs strong partners if we are to emerge strengthened from this crisis and maintain our leading position as a hub of technology and innovation.

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

Greetings from the Chair of the Supervisory Board

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

2020 will remain graven in our memories as the year of the coronavirus pandemic – a year that started full of energy and enthusiasm, only to hit a watershed moment of unimaginable proportions. This turning point affected us all: society as a whole, as well as L-Bank. From March onwards, we were obliged to rethink our lives and discard much of what we had planned. As from that moment, our main concern was to overcome the crisis. Our emergency aid and assistance programmes for all those affected by the pandemic were given top priority. Everything else took second place – the rapid implementation of this support was vital to the survival of many businesses and individuals. Today we can finally say that we have completed the first, laborious stage of the journey. By distributing loans and grants worth more than EUR 2.7 billion, we were able to assist around 270,000 small and medium-sized enterprises, self-employed individuals, start-ups and entrepreneurs who, through no fault of their own, had been plunged into an existential crisis by the COVID-19 pandemic.

We will also remember 2020 as the year in which we once again became aware of the importance of social cohesion and solidarity – solidarity with friends and family, but also with people less close to us. Many of our fellow citizens demonstrated their solidarity by helping to hold our society together. Many more of us became aware of certain things we had hitherto taken for granted. And the crisis obliged us to experience Aristotle's proposition 'the whole is more than the sum of its parts' in reverse – when parts of society break away, the outcome is a disproportionate decline in our overall quality of life.

We fought against the pandemic and its economic consequences with all our might – in the health sector, in our care facilities, with the support of companies and self-employed individuals. In spring 2020, more than 1,000 of our employees worked around the clock to process applications for COVID-19 emergency aid. Later in the year, we had to implement a wide variety of support programmes for businesses in the state, many of them industry-specific. Only with the most extraordinary commitment on the part of L-Bank and its workforce did we succeed in making it all happen.

At the same time, L-Bank never ceased to watch over Baden-Württemberg's long-term prospects. Together with the state government, the Bank continued to take on the challenges involved in transforming and developing our federal state with due social and environmental responsibility. In the process, well-established programmes for enterprise and housing development were given new impetus in 2020 – programmes such as 'Innovation Finance 4.0', providing businesses with incentives for transforming our economy, or 'Living with Children', assisting young families to build or buy their own homes. L-Bank and its subsidiaries proved to be effective, valuable partners to the state government. Family support was another area in which L-Bank faced particular challenges, with demand for family allowances reaching a record high. During 2020, more mothers and fathers than ever before took advantage of our childcare funding options.

All in all, 2020 was a tremendous feat of energy and endurance! I would like to thank every single one of my colleagues at L-Bank for their hard work, and wish you all every success for the next fiscal year. The state government is counting on you. Let us continue our successful work to build Baden-Württemberg's future.

Stay healthy, stay safe, stay confident.

Best wishes

Edith Sitzmann MSP
Chair of the Supervisory Board

Because solidarity is what holds our federal state together – a review of fiscal year 2020

L-Bank is the development bank of the German federal state of Baden-Württemberg. The Bank's business purpose is defined by the L-Bank Act passed by the State of Baden-Württemberg: to support the State of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by implementing and managing development programmes that comply with European Union (EU) rules and regulations governing state aid.

The aim of the state government is to take executive action that achieves social objectives. One way of doing this is by providing monetary support, for example through development programmes or one-off funding initiatives. Each of these support projects is expected to have a specific social effect. Through its business activities as a development bank, L-Bank optimises the effectiveness of these development initiatives for Baden-Württemberg's citizens, economy and overall welfare, thereby making a valuable contribution to achieving the outcomes intended by the state government.

Everything we do is based on our ability to empower

The cornerstone of L-Bank's business activities is our continuous and enduring ability to implement development projects on behalf of the State of Baden-Württemberg.

By 'continuous', we mean our ability to respond quickly. L-Bank aims to provide a very high level of availability as a matter of course, so we can carry out urgent assignments from the state government with all necessary flexibility. And by 'enduring', we mean our ability to guarantee the required development funding on a short, medium or long-term basis, so that we are constantly available to the State of Baden-Württemberg as an enduring instrument for taking effective action.

Stable financial performance is a key prerequisite for sustaining L-Bank's continuous, enduring ability to take financial action. And despite the challenging circumstances, we were able to preserve our ability to take decisive action throughout 2020, just as in previous years. Consequently, we can look back on another successful year.

The basis for effective, efficient development funding is L-Bank's institutional expertise in providing development services. And our ability to provide expert development services is in turn based on two vital, interdependent factors: our workforce and our infrastructure.

L-Bank is responsible for processing, under one roof, a wide variety of business activities using a range of different instruments. In addition to our lending activities, which are structured in accordance with regulatory requirements, we also implement suitable procedures for administering, for example, financial assistance, or for managing technology centres as part of our business zone development remit. This places heavy demands on L-Bank as an organisation. To manage the resulting complexity, we must ensure that the appropriate governance structures, goal-driven processes, modern IT infrastructure and underlying principles of sustainable thought and action intermesh smoothly and effectively.

But the key factor that really determines L-Bank's ability to provide expert development services is our workforce. As an institution involved in activities that are, in many respects, highly specialised, with a mission statement that differs fundamentally from that of many other businesses and organisations, L-Bank makes high demands on employees' expertise and commitment. Knowledge of a wide variety of fields, gained from experience and coupled with a high degree of flexibility, is a vital factor behind L-Bank's success, forming the basis of the Bank's HR strategy and personnel management. For staff at the Bank, the past year has been both a success story and an inspiration. It called many assumptions into question while making many previously unimaginable things not just conceivable, but also possible. The crisis triggered or accelerated various change processes such as home working, which is now standard for most of our staff. At the same time, however, it also became clear that working from home requires new support strategies, as well as changes in the way staff are managed.

Our approach: using values to guide structural change and digitisation

Transforming structures in core economic sectors

Baden-Württemberg is one of the most innovative industrial centres in Europe, with a strong emphasis on the automotive industry and mechanical engineering. The federal state is currently facing major challenges in the form of digitisation and ongoing changes in the mobility landscape. On the one hand, the emergence of new business models, areas of research, companies and jobs is generating exciting opportunities; on the other, existing value chains and worldwide export markets are under threat. The business and research structures that have become established in our federal state must continue to evolve. And yet the necessary transformation is not some long-term task for the future – we need to devise the appropriate models and strategies right now.

Breakdown of Baden-Württemberg's industrial mix

by share of turnover in 2019

A fully digitised society

The digital transformation is affecting every aspect of society: work, consumer and leisure behaviour, social interactions and how we communicate in general. It is encouraging emancipation, facilitating access to information, driving forward innovation and creating new user experiences. From a business perspective, digitisation is opening up opportunities to innovate. These opportunities include sustainability, new business models, management of production processes and the rethinking of customer relationships – as well as the recruitment and retention of employees.

At L-Bank, we see great opportunities in human-centric digitisation – both in terms of our own organisational structure and in terms of what it promises for companies in Baden-Württemberg.

Sustainability is not an 'optional extra'

Peace, prosperity and a healthy environment by 2030 – this is the vision now being pursued by the inhabitants of 193 countries around the world. The yardstick has been established by the United Nations in the form of 17 Sustainable Development Goals (SDGs). At L-Bank, we feel strongly committed to these goals and are making our own contribution to achieving them. By (re)designing our business operations and our development funding processes, we are striving to deliver a future worth living in!

Sustainability is embedded in the heart of our business activities. By 'sustainability', we mean responsible business practices, risk management that takes sustainability factors into account – but above all, development funding priorities that focus on the technologies needed to protect the climate, conserve resources and make products safer for the sake of future generations.

Moreover, by integrating sustainability into corporate decision-making criteria, social added value can be combined with corporate added value. For businesses in Baden-Württemberg, value chains that emphasise resilience and sustainability offer enormous opportunities for growth without 'side effects'.

Fairness (and equivalent opportunities) is an important prerequisite for stability

The COVID-19 pandemic has reemphasised the importance of justice based on equality in its many different forms. How do we distribute workloads more fairly? Or achieve equal opportunities? Creating fair conditions for all is one of the key goals of our development funding activities. This includes levelling up the different (launch pad) opportunities either by providing finance for businesses (enterprise development) or social support for individuals (language tuition); by boosting social justice (through social housing construction) or offsetting undeserved financial difficulties (such as those caused by the current pandemic). All these activities help to build social cohesion and stability.

Repositioning L-Bank through StrategyDIALOGUE

To meet stakeholders' expectations – which tend to change in ever-shorter cycles under the impact of persistently low or even negative interest rates, the digital transformation of the financial and real economies, and demographic trends – L-Bank has launched a strategic review. The Bank's new StrategyDIALOGUE (StrategieDIALOG) is founded on broad-based participation processes involving the entire workforce, the management team and the Bank's various boards and committees. One key component is the range of remits for the new Strategy Boards, each of which focuses on a specific action area: 'Digitisation', 'Development Finance', 'Bank as a Whole' and 'Corporate Culture'. By involving senior management, we seek to ensure that strategic assignments and ideas processed by the Strategy Boards are progressed to achieve the desired outcomes.

The entire StrategyDIALOGUE review is bracketed by L-Bank's newly formulated mission statement: 'Efficient, sustainable development inspired by love for our state'. This mission statement provides L-Bank employees with a guiding principle for their day-to-day work while providing a focus for the Bank's ongoing development. All proposed initiatives must contribute to the Bank's overarching goal: to preserve L-Bank's ability to provide expert development services. With our StrategyDIALOGUE, we are actively defining L-Bank's strategic action areas and objectives.

Our development services for Baden-Württemberg

We support our clients by providing them with customised development loans, problem-solving financial assistance, goal-focused equity capital and business zone development opportunities. Overall, we were able to provide more development support for parents, companies and start-ups, homeowners and other organisations and individuals in the state during 2020 than ever before. So despite, and in the midst of, the pandemic, we were able to sustain and maintain Baden-Württemberg's economic, social and ecological progress.

L-Bank's total development business

12.1 billion euros

Further developing economic strength, even in exceptional circumstances

2020 was marked by unprecedented turbulence. First and foremost, of course, as a result of the COVID-19 pandemic. But corporate investment decisions were also impacted by uncertainties concerning the future development of international economic relations and the expected increase in trading costs caused by Brexit.

Last year, L-Bank provided development support to more businesses than ever before. The various aid programmes for coping with the economic consequences of the coronavirus pandemic contributed significantly to the overall funding increase. But there was also significant demand for our already well-established development finance programmes.

From ensuring survival to anticipating the future: COVID-19 aid and assistance

Large parts of the SME sector were already well prepared for an economic downturn: high levels of equity have significantly strengthened SMEs' crisis resilience. But even the most careful corporate planning cannot readily encompass exogenous shocks such as the COVID-19 pandemic. For companies in heavily affected sectors, the resulting slump swiftly turned into an existential threat. Together with the federal government and Baden-Württemberg's state government, we responded to the pandemic challenges by offering a total of 12 new programmes, some of them general, some of them offering very specific forms of support. We also made appropriate adjustments to some of our existing development programmes.

Supported companies

270,000

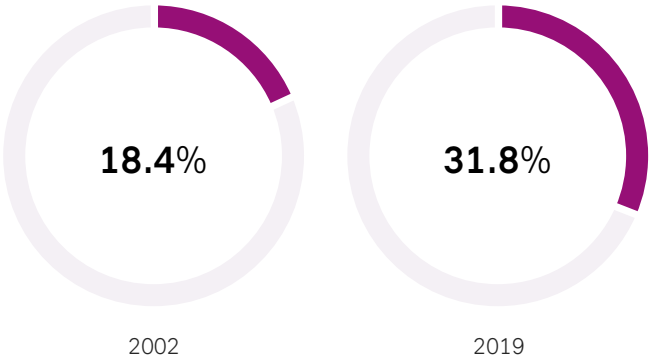
Total funding volume COVID-19 aid and assistance programmes

2.7 billion euros

Total funding volume Enterprise development

6.2 billion euros

Changes in equity ratio



Initially, L-Bank's remit was to support companies by organising emergency aid. So during the first phase of the crisis, the main instruments used to pre-empt a widespread liquidity crisis were repayment suspensions, grants and debt capital. As the pandemic progressed, priorities changed to focus on the stability and future-proofing of business models. More recently, to enable companies to make the most of any opportunities resulting from a future upswing, the Bank prioritised the strengthening of equity capital and finance for innovative investment projects.

Coronavirus emergency aid for 243,000 companies
totalling

2.3 billion euros

Providing COVID-19 emergency aid at the start of the pandemic represented a historic challenge for L-Bank in every sense – designing, implementing and executing the programme extended our resources to their limits. To enable businesses to survive, the Bank had to resolve acute liquidity bottlenecks caused by the rampant virus while at the same time introducing effective quality assurance measures under huge time pressure. The development programme was the most ambitious in L-Bank's near-century of existence.

Start-up BW Pro-Tect supports 75 companies with
a total of

12.0 million euros

In addition to cross-sectoral subsidy programmes, the Bank also took specific problem situations into account as the crisis continued to unfold. Such as high-tech start-ups, for example, which are particularly dependent on capital-market conditions. L-Bank's Start-up BW Pro-Tect programme supports promising start-ups in an effort to ensure that promising stars of the future are not lost. And the Bank's Baden-Württemberg Mezzanine Investment Programme supports investment firms that provide companies with equity or equity-equivalent funding. The different roles played by L-Bank in these various programmes perfectly demonstrate the Bank's agility and adaptability in respect of both form and content. This flexibility enabled the Bank to develop suitable development programme solutions for an exceptionally wide variety of business clusters as the crisis progressed.

More SMEs take advantage of liquidity protection programmes

L-Bank's enterprise development programmes provide customised funding solutions for the increasingly dynamic process of transformation that characterises the federal state's economy. Even in 2020, we successfully maintained our high level of development funding support. The highest volume of development finance for SMEs continues to flow into our family of *Resource Efficiency Finance* programmes, which we manage jointly with Germany's central development bank KfW. The programmes make a strong contribution towards achieving the climate targets set by state and federal governments.

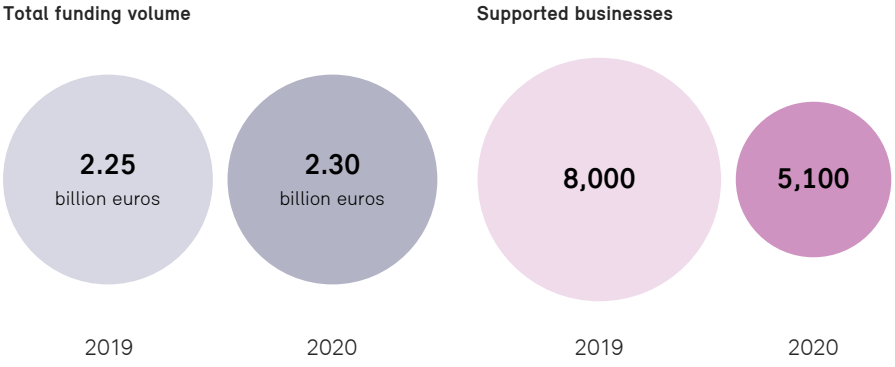
Resource Efficiency Finance

totalling

530 million euros

Loans for SME development projects

compared to previous year



The crisis also made itself felt by causing a structural shift in L-Bank's established programmes. In the process, it became apparent that programmes that had already proven their worth as a first line of support during the earlier financial and economic crisis were still fulfilling their remit. For example, the *Liquidity Loan* programme and its sibling *Liquidity Loan Plus,* launched on 1 June 2020, enable smaller businesses to finance extended payment deadlines for customers, pre-finance orders, or reschedule coronavirus-related drawings on current accounts and thus cushion acute financial challenges. Demand for these programmes has risen steadily throughout the year, indicating that even businesses not directly affected by the lockdowns are feeling the more acute effects of the crisis.

Liquidity Loan and variants

compared to previous year

Number of companies

2019
225

2020
866

Total funding volume

2019
43 million euros

2020
267 million euros

We also provided effective support to companies through our guarantee programme. In contrast, investment programmes such as *Growth Finance* and *Investment Finance,* which are primarily geared to capital expenditure or additional capacity, showed a decline.

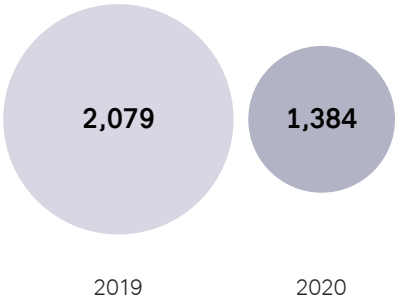
Volume of guarantees

89 million euros

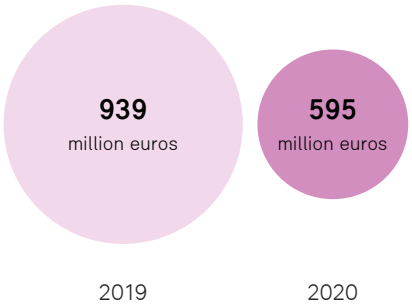
Growth Finance and Investment Finance

compared to previous year

Number of companies



Total funding volume



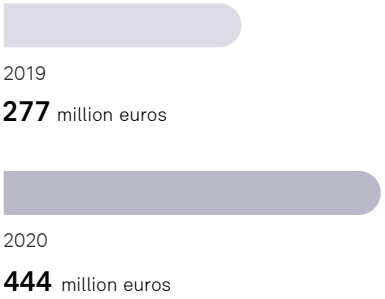
Innovations: more in demand than ever during the crisis

Thus it was all the more gratifying to find that companies were not neglecting the social issues of the future. They continued to vigorously pursue new projects for mitigating climate change and transforming the economy, as clearly reflected in the development of our *Resource Efficiency Finance* and *Innovation Finance* programmes, both run in collaboration with Germany's national development bank KfW. This trend indicates that companies are looking forward to the future with confidence in the long term. Over the last year, *Innovation Finance 4.0* in particular experienced what can only be described as a boom, reflecting the attractiveness of market-based interest rates coupled with additional repayment subsidies granted after companies successfully invest in innovation.

During the COVID-19 pandemic, many companies experienced abrupt changes in their internal workflows and processes, as well as their interactions with customers and suppliers. Digitisation is opening up brand-new opportunities in this respect. We are helping SMEs with our *Digitisation Premium* programme and a new complementary variant, *Digitisation Premium Plus,* which support the business digitisation offensive by providing direct subsidies or development loans with repayment subsidies.

Funding volume Innovation Finance 4.0

compared to previous year

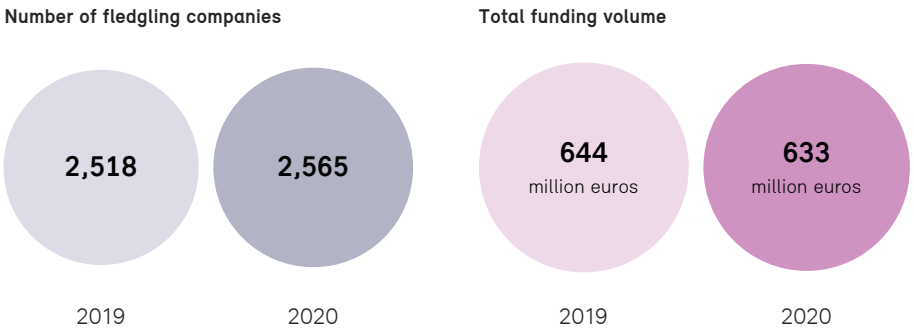


Start-up development finance still in high demand

In 2020, demand for start-up development finance remained steady, in line with the good results achieved in previous years. However, the weighting of our financing instruments has shifted somewhat: growth in our *Start Finance 80* and *Pre-Seed Finance Grant* programmes was offset by a decline in our *Start-up Finance* programme.

Start-up development finance

compared to previous year

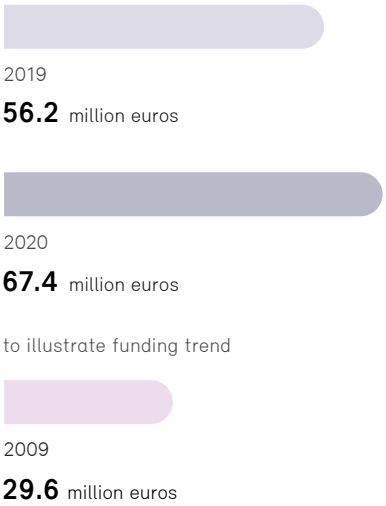


Especially noteworthy is the development of our *Start Finance 80* programme, a joint venture with Bürgschaftsbank Baden-Württemberg. The programme reached a new high, demonstrating that the entrepreneurial spirit is alive and well across the economy as a whole. And with the launch of our *Master Start-up Premium* in December 2020, we are providing extra encouragement for new business start-ups.

Interestingly, our start-up development finance is less in demand by entrepreneurs struggling with emergencies than is typically true during crises – especially at federal level, as we have frequently observed in the past. At our Financing Advisory Days, we encounter a great deal of interest from business founders who want to build something new. This indicates that the desire to set up a business is not driven by practical necessity, but rather by the prospect of building up one's own small or medium-sized business

Funding volume Start Finance 80

compared to previous year



In many cases, shareholdings top loans

Fast-growing SMEs and innovative start-ups are the source of future prosperity. They open up new markets, create new jobs and in doing so, make a significant contribution to Germany's economic development and ability to innovate. However, lack of access to finance for business development often turns out to be the bottleneck constraining these companies – especially when debt capital still dominates the business finance world, as it does in Germany.

A company's lack of financing history, or prospective investors' doubts concerning the probable success of a key innovation, or simply risks that make it hard to gauge how well the company will do in the marketplace – these are all factors that can hinder a start-up's access to debt capital. At this point, equity investment becomes an attractive alternative.

There is a broad spectrum of equity investment firms offering various different forms of participation and strategic orientation. As a development bank, we too seek to motivate and inspire actors in this sector. To do so, we restructured L-Bank's equity investment programmes, starting in 2016. L-Bank has two main channels for engaging in SME and venture-capital-related activities: the *LEA Mittelstandspartner* fund, which became active in spring 2016, and our *LEA Venturepartner* fund, which was launched the following year.

In both 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. In the past year, the two funds were able to bring about two successful exits: Bellin GmbH and IDL GmbH.

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, pre-seed entrepreneurs are mentored by regional Start-up BW Pre-Seed partners as they work on their business models and develop their companies.

Number of new commitments Start-up BW Pre-Seed

141

Total funding volume

26.0 million euros

For business zones, we have just three key criteria: location, location, location!

How do you rapidly turn scientific discoveries into new products? What does efficient, effective knowledge transfer look like – the kind that binds together knowledge bearers so inclusively that it accelerates the whole corporate innovation process? One answer is L-Bank's technology parks. In 2019, a study by Prognos analysed what makes them so successful and in so doing, established the principles for future action. High-level interviews held in the course of the study clearly showed that the most important criterion behind the current concept is a strong research and innovation environment. A follow-up study completed at the end of last year investigated ways of transferring the existing technology park concept to smaller locations further away from conurbations, identifying various options for modifying the concept accordingly.

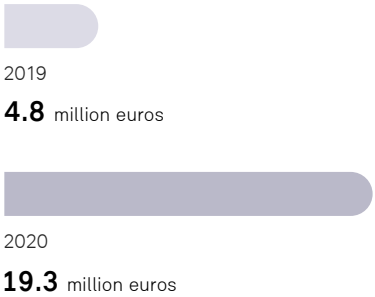
By locating our technology parks right next door to the state's many universities, we create an ideal environment for transferring knowledge from university research projects to businesses, making it much easier for young, technology-centric companies to succeed at, for example, our Karlsruhe Technology 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. And our technology park family continues to grow – next on the list is the Freiburg Innovation Centre (FRIZ), currently under construction.

Financial assistance helps, regardless of COVID-19

Protecting the environment, reducing emissions, cutting costs, improving one's corporate image – there are plenty of reasons for reinventing the whole concept of mobility. In 2020, L-Bank offered a suitably broad range of programmes for funding a wide variety of electric mobility developments. Our e-mobility portfolio includes development finance for electric two-wheelers for young people, a BW e-voucher used to support the maintenance and operating costs of all-electric vehicles running on batteries or fuel-cell-powered drivetrains, and electric cargo bikes and trailers used for commercial, non-profit, community or municipal purposes. But there was lively demand for other assistance programmes, too – in fact, our financial assistance portfolio as a whole experienced strong growth.

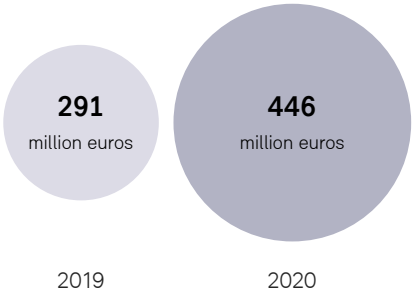
Funding for e-mobility

compared to previous year



Financial assistance for business

compared to previous year



Affordable housing for our families

A special survey conducted in the course of compiling the L-Bank/ifo business climate index showed that construction companies in Baden-Württemberg are also feeling the pinch of the coronavirus pandemic. However, companies in the residential construction sector are in a decidedly more positive mood than the business community as a whole. Even so, it is highly likely that anxiety will continue to plague individuals and families in need of affordable accommodation – supply is scarce, and not just in metropolitan areas.

Lengthy approval processes for construction projects (building permits, project approvals) and a shortage of suitable building sites are placing major constraints on housing construction. The amended version of the state housing development programme (LWRFP 2020/2021) that came into force on 1 April 2020 further reduced potential obstacles on the financing side, making rental housing construction and owner-occupied housing even more attractive. Demand for the Bank's own housing development programmes was also intense.

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 efforts to improve the housing supply as well as the quality of accommodation on offer. At the same time, the Bank is optimising energy efficiency and supporting 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.

Funding volume
Housing development finance
compared to previous year

2019
1.75 billion euros

2020
1.97 billion euros

Improving access to home ownership remains an important goal

Owner-occupied housing is a mainstay of the housing market. If we compare home ownership across the member states of the European Union, major differences rapidly become apparent – not least the fact that Germany is still bringing up the rear.

Our home ownership assistance is intended to make it easier for families with children to build or buy 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. Funding for owner-occupied housing under the state housing development programme remained at a gratifyingly high level.

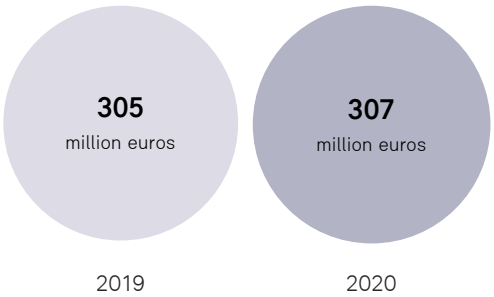
Funding volume
Home ownership assistance
compared to previous year

2019
934 million euros

2020
1.17 billion euros

Volume of state housing development funding for home ownership

compared to previous year



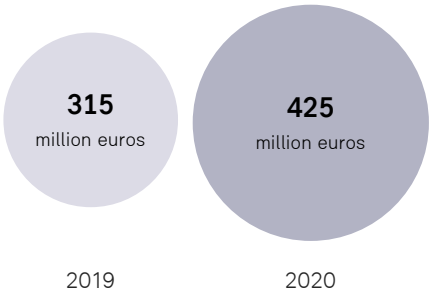
The development loans we issue through the 'borrower's bank' process also showed a positive trend, especially our *Living with Children programme,* which we use to provide families in Baden-Württemberg seeking to own their own homes with up to EUR 100,000 in funding. Our *Energy Efficiency Finance – Refurbishment* programme, relaunched in September 2020, prioritises sustainability by providing finance for particularly ambitious renovation projects.

Funding volume Energy Efficiency Finance

17.0 million euros

Funding volume: Living with Children

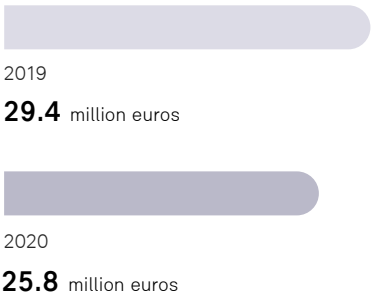
compared to previous year



In the past, energy transition projects have tended to neglect homeowners' associations. However, associations have been an integral part of L-Bank's housing development service for some years now. By financing homeowners' associations, the Bank is helping to modernise Baden-Württemberg's housing stock by supporting improvements in energy efficiency as well as projects for making properties more physically accessible. In 2020, the COVID-19 pandemic made it more difficult for homeowners' associations to hold meetings, causing delays to the joint resolutions required to progress renovation or modernisation projects. This is another reason why we did not achieve quite the same level of funding as in the previous year.

Funding volume Support for homeowners' associations

compared to previous year



Essential welfare: support for social rental housing

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.

The turnaround in funding for social rental accommodation started in 2017 and continued throughout the year under review. Applicants took advantage of the favourable financing situation to secure long-term conditions. More than 80% of the newly built apartments for rental were sold with regulated tenancy agreements spanning 25 or 30 years.

The amended terms and conditions of the 2020/2021 state housing development programme are now taking effect, resulting in more opportunities. By regularly using the 'Effizienzhaus' (Efficient House) Quality Standard 55 as the basis for funding new-build construction projects, the programme also gives new weight to climate goals in social housing construction. The new programmes on offer, such as *Rental Accommodation Finance – BW – municipal funding,* provide attractive incentives for municipalities wanting to build or buy new housing for rental. And for the first time, the new *Rental Accommodation Finance – BW – employee housing* programme makes it possible to link subsidised social housing for rental with a regulated tenancy and occupancy agreement that benefits the employees of a company or several specific companies.

Total funding
Rental housing development
compared to previous year

2019
788 million euros

2020
770 million euros

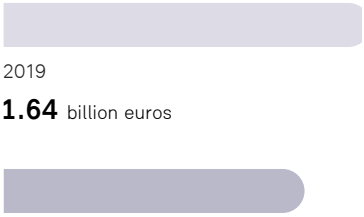
Strengthening families and communities

Family, education and social activities play a variety of roles at every stage in our lives. So it makes sense for us to take up and support these activities through a range of highly varied programmes. Take early language development, for example. Speaking a language is child's play. Well, yes, but not for everyone – which is why we support child day-care centres and day-care services with our *Hummingbird* programme, providing language tuition for children with special needs.

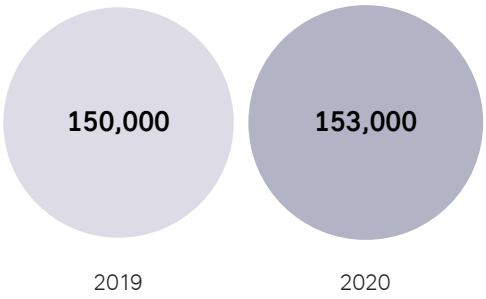
To progress at school, children also need good German-language skills. Our *Homework, Language and Learning Assistance* programme is intended specifically for schoolchildren who need extra language support – especially children with migrant backgrounds. The programme does not just teach language skills; its aim is to improve the schoolchildren's ability to engage with the education system.

The family allowance is one of Germany's most highly appreciated family benefits. It provides economic stability and helps mothers and fathers to find a better work-life balance. For L-Bank, the distribution of family allowances is still by far the largest single item in our development funding portfolio for families and communities.

Funding volume
Financial assistance for families, education and social projects
compared to previous year



Approved family allowance applications
compared to previous year



Family allowances help to safeguard the financial livelihood of families after the birth of a child, at a time when parents are obliged to interrupt or restrict their work and consequently earn lower incomes. Parents can choose between our *Standard Family Allowance* or *Family Allowance Plus* programmes, or opt for a combination of both. In addition, part-time employees may opt to extend their family allowance by up to four 'partnership months' each. Parents living apart are also eligible for family allowances.

Given the difficult circumstances in which we are currently living, parents need plenty of in-depth advice on the different family allowance options and the most significant pandemic-related adjustments. The level of demand for L-Bank's advisory services is an impressive demonstration of just how important personalised support is for parents and families. Our family allowance application process also clearly reflects the benefits of technical progress: while it takes an average of 28.5 days to approve applications that are not made online, it takes just 18.4 days for us to approve online applications.

Family allowance consultations

280,000

Development finance by business segment: 1 January to 31 December 2020

DEVELOPMENT FINANCE ACROSS ALL LINES OF BUSINESS	VOLUME OF COMMITMENTS	COMMITMENTS	
	5,286,378,344.42	**20,095**	
	VOLUME OF COMMITMENTS	COMMITMENTS	RESIDENTIAL UNITS*
HOUSING DEVELOPMENT	**1,968,168,820.42**	**10,492**	**15,969**
Home ownership assistance	**1,172,304,268.18**	**9,465**	**7,153**
Home Ownership Finance – BW including finance for growing families – Structured loans (state housing development)	307,249,161.70	1,891	1,382
Top-up and miscellaneous loans	153,289,500.00	951	X
Living with Children	424,615,800.00	4,446	4,446
Living for the Future	7,206,606.48	283	446
Combined Home Loan	258,110,900.00	1,754	648
Other programmes	21,832,300.00	140	231
Rental accommodation assistance	**770,099,352.24**	**797**	**6,656**
Rental Accommodation Finance – BW – New builds – MW15/MW25 (state housing development)	325,693,300.00	157	2,097
Rental Accommodation Finance – BW – Approval of regulated tenancies (state housing development)	13,956,200.00	306	397
Rental Accommodation Finance – BW – Modernisation (state housing development)	33,073,000.00	57	921
Rental Accommodation Finance – L-Bank – New builds	223,068,000.00	99	1,604
Rental Accommodation Finance – L-Bank – Modernisation	53,865,100.00	78	1,554
Other financial instruments	19,141,970.40	42	83
Top-up loans (new builds/modernisation)	101,301,781.84	58	X
Support for homeowners' associations (state housing development)	**25,765,200.00**	**230**	**2,160**

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

	VOLUME OF COMMITMENTS	COMMITMENTS
INFRASTRUCTURE DEVELOPMENT	**254,781,127.00**	**145**
Municipal investment loan, direct	134,956,327.00	101
New Energy – Community wind farms	68,824,800.00	40
Other financial instruments	51,000,000.00	4

	VOLUME OF COMMITMENTS	COMMITMENTS	COMPANIES
ENTERPRISE DEVELOPMENT	**3,063,428,397.00**	**9,458**	**8,368**
Business start-up finance	**632,833,762.62**	**2,806**	**2,565**
Start Finance 80	67,398,930.00	941	930
Start-up Finance	539,168,312.62	1,707	1,494
Pre-Seed Finance Grant	26,266,520.00	158	141
SME finance	**2,304,484,949.58**	**5,845**	**5,057**
Growth Finance	356,566,756.97	1,267	1,163
Local Transit Finance	54,732,007.10	970	533
Tourism Finance	4,330,000.00	3	3
Liquidity Loan	267,761,500.00	883	867
Investment Finance	237,986,267.72	294	221
Rural Area Development programme	79,678,310.05	508	493
Resource Efficiency Finance	530,127,683.55	458	416
Direct loans and syndicated finance	172,500,000.00	14	9
Surety and guarantee programme/ Sureties for refinancing loans	89,543,648.08	40	24
Loans to associated companies	10,000,000.00	1	1
Refinancing of associated companies	4,100,000.00	7	6
Innovation Finance	443,668,857.13	977	898
CPD Finance	1,555,000.00	6	6
Digitisation Premium	18,890,158.98	407	407
Microfinance	44,760.00	5	5
Mezzanine financing instruments	33,000,000.00	5	5
Agricultural development finance	**126,109,684.80**	**807**	**746**
Agricultural Liquidity Assurance BW	210,000.00	2	2
Agricultural Growth	61,505,581.80	627	583
Loans for environmental and consumer protection, sustainability, new forms of energy	37,523,364.00	113	100
Working capital loans – Growth in the agri-food industry	26,870,739.00	65	61

Corporate Governance Report 2020

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 approach 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 valid version of the Code. This Corporate Governance Report covers fiscal year 2020; the following declaration applies in full as at the reporting date, 31 December 2020.

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 2020, two women were represented on the four-strong Board of Management. As at the reporting date, five of the 18 members of the Supervisory Board (27.8%) and 72 of the 225 employees in executive management positions (32.0%) 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 2020

Background

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) is the development bank of the German federal state of Baden-Württemberg. The Bank has its head office in Karlsruhe, with a branch office in Stuttgart. L-Bank is wholly owned by the State of Baden-Württemberg and, as a public-law institution, is subject to the supervision of the federal state government. L-Bank is also supervised by the Federal Financial Supervisory Authority (BaFin) in cooperation with Deutsche Bundesbank.

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'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

The ten-year economic upswing in Germany was brought to an abrupt end by the outbreak of the coronavirus (COVID-19) pandemic. In 2020, it caused the country's gross domestic product (GDP) to slump by 5.0% (2019: 0.6% growth), resulting in one of the deepest recessions of the post-war period. The slump was caused first, by the temporary disruption of international supply chains combined with a worldwide decline in demand, and second, by restricted social contact that severely curtailed opportunities for domestic consumption. Economic development in the course of the year was characterised by unprecedented fluctuations as a result of the infection rate and government-imposed restrictions on business activities and everyday social life. While GDP declined in the first two quarters (by 1.9% and 9.8% respectively – in each case compared to the previous quarter), the temporary cessation of stringent official measures to counter the pandemic caused GDP to rebound by a surprisingly strong 8.5% in the third quarter. However, this upward trajectory was temporarily impeded by the renewed surge of infections in the autumn and the partial lockdown imposed in November. Consequently, the fourth quarter saw GDP rise by just 0.1%.

While both manufacturing and service sectors were strongly impacted by the pandemic over the year as a whole, the construction sector proved relatively robust in the face of relatively unimpaired demand. The extensive use of short-time work schemes along with other measures helped to significantly mitigate the pandemic's impact on the labour market. Consequently, the rise in the average unemployment rate (to 5.9% from 5.0% in 2019) was comparatively modest. Consumer price trends were affected by the decision to reduce value added tax in the second half of the year, as well as by declining energy prices. These factors caused Germany's rate of inflation to fall from 1.4% in 2019 to 0.5% in the year under review.

The coronavirus pandemic and the various ways it affected international economic activity had a strong impact on export-focused businesses in Baden-Württemberg, especially during the first half of 2020. This was reflected by, among other symptoms, the decline in the volume of exports from the federal state, down by 11.5% on the previous year over the first six months. The stark exposure of Baden-Württemberg's economy meant that the decline in the federal state's GDP during the second quarter in particular (–11.7% compared to the previous quarter) significantly outpaced the overall decline at national level. In addition, the many ongoing medium-term and long-term changes – including structural upheavals caused by digitisation, demographic shifts and the migration to a climate-neutral economy – are putting ever greater pressure on Baden-Württemberg's businesses. However, despite these momentous challenges and the economic slump caused by the pandemic, the situation on the labour market can still be described as stable and positive. In 2020, the state government's allowance for short-time workers exerted a strong stabilising influence; at times, this instrument was used more extensively in Baden-Württemberg than elsewhere in the federation. And while the average unemployment rate rose to 4.1% from 3.2% in 2019, it remained significantly lower than the national average. This low unemployment rate, combined with the very minor increase in consumer prices, appreciably moderated the impact of the crisis on many private households. The personal income situation as reflected in the regular L-Bank/GfK consumer survey was significantly more positive at year-end 2020 than was the case during the 2008/2009 financial crisis.

Business performance

L-Bank's business activities in 2020 were dominated by the coronavirus pandemic. In addition to the disbursement of COVID-19-related aid to businesses and the self-employed, the Bank's tried-and-tested development programmes continued to show strong demand.

The Bank's development activities in the year under review focused on enterprise development in particular. The various aid programmes for mitigating the economic consequences of the COVID-19 pandemic made a major contribution to boosting the volume of new business. Levels of new business in the housing development and infrastructure development segments also showed an increase, meaning that the overall volume of new business exceeded expectations across all lines of business.

Enterprise development

To assist in the structural transformation of Baden-Württemberg's economy and to safeguard local jobs, L-Bank partners with commercial banks to provide funding for investment projects by start-ups and established SMEs. The Bank also supports initiatives in rural areas, issuing low-interest loans and subsidies and systematically assuming risks.

During the year under review, the level of new enterprise development business was driven by the demand for development funding to counter the coronavirus-

induced crisis. In particular, companies focused on safeguarding liquidity, strengthening equity, and financing innovation. This was clearly reflected by the increased demand for specific development programmes, as well as the many applications for coronavirus-related financial aid. In total, the volume of new enterprise development business came to EUR 6,220.2 million.

As a services provider for the State of Baden-Württemberg, L-Bank is responsible for disbursing financial assistance under coronavirus aid programmes. In addition to funding from the federal state, the Bank also distributes subsidies from the federal government. The various programmes provide companies with rapid, selective access to liquidity with the aim of mitigating the pandemic's economic consequences and improving their financial situation. During the year under review, L-Bank paid out coronavirus-related aid totalling EUR 2,674.2 million to around 270,000 companies serving a wide variety of target markets.

As well as COVID-19-related aid, companies in Baden-Württemberg also have access to a broad range of financing options thanks to L-Bank's well-established development programmes. Individual development programmes were adapted to the challenges currently facing businesses as a result of the coronavirus pandemic, with demand rising steadily throughout the year. The volume of new business across the Bank's established enterprise development programmes (excluding COVID-19-related aid programmes) came to EUR 3,546.0 million (2019: EUR 3,338.1 million).

As in the previous year, L-Bank supported startups and fledgling companies in particular through the 'Start-up Finance' programme, which helps them not only to achieve commercial autonomy, but also to expand and acquire existing companies. As expected, new business figures were slightly down at EUR 617.6 million (2019: EUR 643.7 million).

Development funding commitments to small and medium-sized enterprises (SMEs) rose by EUR 26.2 million to a total of EUR 2,272.8 million (2019: EUR 2,246.6 million). As before, the most popular development programme was 'Resource Efficiency Finance', through which L-Bank specifically funds investments resulting in a more efficient use of energy and materials in corporate value creation. The volume of new business under this programme declined to EUR 530.1 million (2019: EUR 654.2 million). Against the backdrop of the COVID-19 crisis, demand for funding under, for example, the 'Innovation Finance' and 'Liquidity Loan' programmes increased. The volume of funding commitments under 'Innovation Finance' rose significantly to EUR 443.7 million (2019: EUR 277.4 million). Innovation Finance provides SMEs with low-interest loans and grants for the development of new products and production processes. The new business figures for the 'Liquidity Loan' programme also developed very positively. Due to the impact of the COVID-19 pandemic, the Liquidity Loan programme – which companies can use to finance working capital or other liquidity needs – was expanded mid-year to include the programme variant 'Liquidity Loan Plus'. The Liquidity Loan Plus programme can be used to finance extended payment terms for customers, pre-finance orders, or convert the coronavirus-related use of corporate current accounts. The volume of approved loans more than quintupled during the reporting year, coming to a total of EUR 267.0 million (2019: EUR 42.7 million). In contrast, the crisis suppressed demand for the Bank's 'Growth Finance' and 'Investment Finance' development programmes. New business figures for the 'Growth Finance' programme, used to fund all forms of corporate investment, declined to EUR 356.6 million (2019: EUR 614.9 million). The 'Investment Finance' programme is intended to support business investments in rural areas of Baden-Württemberg – approved funding under this programme fell to EUR 238.0 million (2019: EUR 324.0 million).

As planned, the 'Digitisation Premium' development programme for helping SMEs to implement new digital solutions or improve their IT security was relaunched in the year under review. By the end of the year, development finance totalling EUR 18.9 million had been paid out (2019: EUR 117.0 million).

The volume of new business in the agricultural development segment fell to EUR 126.1 million (2019: EUR 156.6 million). The increasing reluctance of farmers and agricultural firms to invest due to the coronavirus crisis was clearly reflected by the 'Agri-Food Industry – Environmental and Consumer Protection' programme, which supports investments for improving energy efficiency, reducing emissions and improving consumer protection. New business under this programme was down again compared to the previous year (2019: EUR 56.8 million), falling to EUR 37.5 million. The 'Agriculture – Growth' development programme finances agricultural investments that help to reduce production costs or enhance production and working conditions, thereby improving the sector's competitiveness. At EUR 61.0 million, the volume of approved funding was slightly down on the previous year (EUR 64.9 million).

Housing development

L-Bank uses low-interest loans and grants to help private individuals and companies in Baden-Württemberg build and purchase both owner-occupied and rental 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 COVID-19 pandemic, demand for housing remains high, especially in urban areas. During the year under review, the volume of new business increased to a total of EUR 1,968.2 million (2019: EUR 1,751.6 million). As expected, demand for the 'Living with Children' and 'Combined Home Loan' development programmes continued to rise.

The Bank's various programmes in support of rental accommodation help to fund the construction and modernisation of rental housing in Baden-Württemberg. As predicted, the volume of new business remained high at a total of EUR 770.1 million (2019: EUR 788.1 million). Funding conditions for the state housing development programme were revised as of 1 April 2020 following an amendment to the State Housing Development Act. Since then, subsidies have been based on a fixed percentage of the eligible costs, regardless of market interest rate levels. Due to COVID-19-related delays in construction projects and an increased demand for grants, the volume of lending issued under the state development programme declined slightly to EUR 382.2 million (2019: EUR 387.8 million). The Bank's own development programmes, which supplement the federal state's programmes for funding social rental accommodation, saw a similar trend in overall levels of new business. Financing commitments fell slightly to EUR 387.9 million (2019: EUR 400.3 million), while the volume of funding approved for homeowners' associations for purposes of energy-efficient renovation or improved physical access to residential buildings came to EUR 25.8 million (2019: EUR 29.4 million). As a result of the COVID-19 pandemic, fewer homeowners' meetings were held to pass the resolutions required for joint borrowing by associations.

Home ownership development programmes saw financing commitments rise by EUR 238.2 million to EUR 1,172.3 million (2019: EUR 934.1 million). This pleasing development was driven by the improved terms and conditions of the 'Living with Children' and 'Combined Home Loan' programmes, which have been in place since mid-2019.

The volume of new business in the 'Living with Children' development programme rose by 34.9% to EUR 424.6 million (2019: EUR 314.7 million). The 'Combined Home Loan' programme supplements other development programmes by covering the additional funding required to build, buy or modernise owner-occupied housing. At EUR 258.1 million, loans granted under the programme were 39.2% up on the previous year (2019: EUR 185.4 million). As expected, the volume of approved funding for owner-occupied housing under the state housing development programme – EUR 307.2 million – more or less equalled the previous year's level (2019: EUR 305.3 million). The improved funding conditions introduced on 1 April 2020 and the temporary closure of housing development offices due to the coronavirus pandemic had a somewhat constraining effect on demand during the first quarter of 2020 in particular. The second half of 2020 saw a trend towards consolidation. In line with new business developments in the home ownership segment, demand for top-up finance also increased. Total lending commitments rose by 27.8% to EUR 153.3 million (2019: EUR 120.0 million).

Other developments

L-Bank strengthens Baden-Württemberg's position as a business centre by providing funds for public infrastructure projects. Demand in the public sector rose sharply as a result of the coronavirus pandemic. In the year under review, the total volume of new business amounted to EUR 2,543.4 million (2019: EUR 1,529.8 million).

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for awarding and managing a wide variety of financial assistance services, disbursing state, federal and European Union funds. In 2020, the Bank processed a total of 24,122 new approvals (2019: 15,128) representing a total volume of EUR 2,509.4 million (2019: EUR 1,646.8 million). The increase in the volume of funding was due primarily to expanded funding for hospitals at EUR 1,600.5 million (2019: EUR 434.5 million) in response to the coronavirus pandemic. A total of EUR 191.0 million (2019: EUR 104.1 million) was awarded for funding urban development. Technology and enterprise development received funding of EUR 171.6 million (2019: EUR 109.6 million), while a total of EUR 159.0 million (2019: EUR 165.7 million) was approved for investments in water, wastewater, flood protection, site decontamination and hydropower projects. A total of EUR 145.6 million (2019: EUR 506.4 million) was disbursed to fund schools. L-Bank also supported families on behalf of the federal and state governments, in particular by distributing family allowances. At EUR 1,094.8 million, the volume of funding approved for family allowances exceeded the previous year's level (2019: EUR 1,049.4 million), mainly as a result of general wage increases.

As at the balance sheet date, L-Bank's equity investments in companies showed a book value of EUR 259.9 million (2019: EUR 238.5 million). The bulk of L-Bank's investment portfolio consists of strategic and credit-equivalent shareholdings in companies, as well as shareholdings in subsidiaries involved in the regional development of Baden-Württemberg.

The book value of strategic investments held by L-Bank on behalf of the State of Baden-Württemberg totalled EUR 183.8 million at year-end 2020 (2019: EUR 180.1 million).

L-Bank provides equity capital to strengthen businesses based in Baden-Württemberg, acting as a co-investor. LEA Mittelstandspartner, an external SME fund with EUR 200.0 million in assets (L-Bank stake: EUR 50.0 million) helps established companies in particular to overcome the challenges associated with the ongoing digital transformation of products and value chains

('Industry 4.0'). The external venture-capital fund LEA Venturepartner (assets: EUR 60.0 million; L-Bank stake: EUR 29.4 million), set up in cooperation with the State of Baden-Württemberg, provides venture capital to strong technology companies with growth potential. The total book value of the Bank's credit-equivalent shareholdings at the reporting date was EUR 65.7 million (2019: EUR 49.5 million).

Through subsidiaries, L-Bank operates technology and business parks located near universities and research institutes. In doing so, the Bank aims to provide a real-estate medium for transferring technology from academia to business. These 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. As planned, the Bank further expanded its site development activities. Construction work began on the new Freiburg Innovation Centre (FRIZ) in mid-2020; Stuttgarter Engineering Park GmbH (STEP), an L-Bank subsidiary, is responsible for developing and operating FRIZ. As at 31 December 2020, L-Bank provided companies involved in business zone development with a total of EUR 59.0 million in funding (2019: EUR 58.9 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 as expected to EUR 263.2 million (2019: EUR 302.0 million), due primarily to the ECB's expansive monetary policy and the low interest rates associated with it.

Once again, net commission income, at EUR 61.2 million (2019: EUR 44.7 million), was comprised primarily of cost reimbursements by the State of Baden-Württemberg for services provided by L-Bank. These included, in particular, the distribution of family benefits (especially family allowances) and the granting of financial aid. The unexpected but significant 36.9% increase was primarily due to payments for processing COVID-19-related emergency aid.

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, are 3.9% up on the previous year, rising to EUR 187.1 million (2019: EUR 180.0 million). Certain scheduled costs under general expenses were not incurred as a result of COVID-19-related delays to projects. These savings were offset, however, by additional coronavirus-related expenses, especially in connection with the processing of COVID-19 emergency aid. The increase in personnel expenses was due primarily to a change in the methodology used for reporting the actuarial valuation of company pension plans and salary expenses, associated with the processing of COVID-19 emergency aid.

The net result from other operating income and expenses was positive at EUR 2.5 million (2019: negative net income of EUR 1.4 million). The operating result before risk provisioning/valuations fell to EUR 139.8 million (2019: EUR 165.3 million).

At EUR –8.8 million, the net result from asset revaluation was better than expected due to income from the disposal of investments (2019: EUR –35.1 million). Despite the coronavirus crisis, the number of loan defaults was minimal; an additional general loan-

loss allowance covered the risks resulting from the COVID-19 crisis. As a result, the operating result was virtually unchanged at EUR 131.0 million (2019: EUR 130.2 million). L-Bank's distributable income totalled EUR 130.4 million (2019: EUR 130.0 million).

Due to the development fund system, L-Bank's current development contributions had no impact on earnings in 2020. Of the total development fund (provision) of EUR 89.2 million set up for the year under review, EUR 75.3 million were utilised. The development fund available for financing development services in 2021 amounts to EUR 93.9 million. Out of the Bank's earnings for 2020, an amount of EUR 80.0 million was transferred to the development fund for 2022's development contributions.

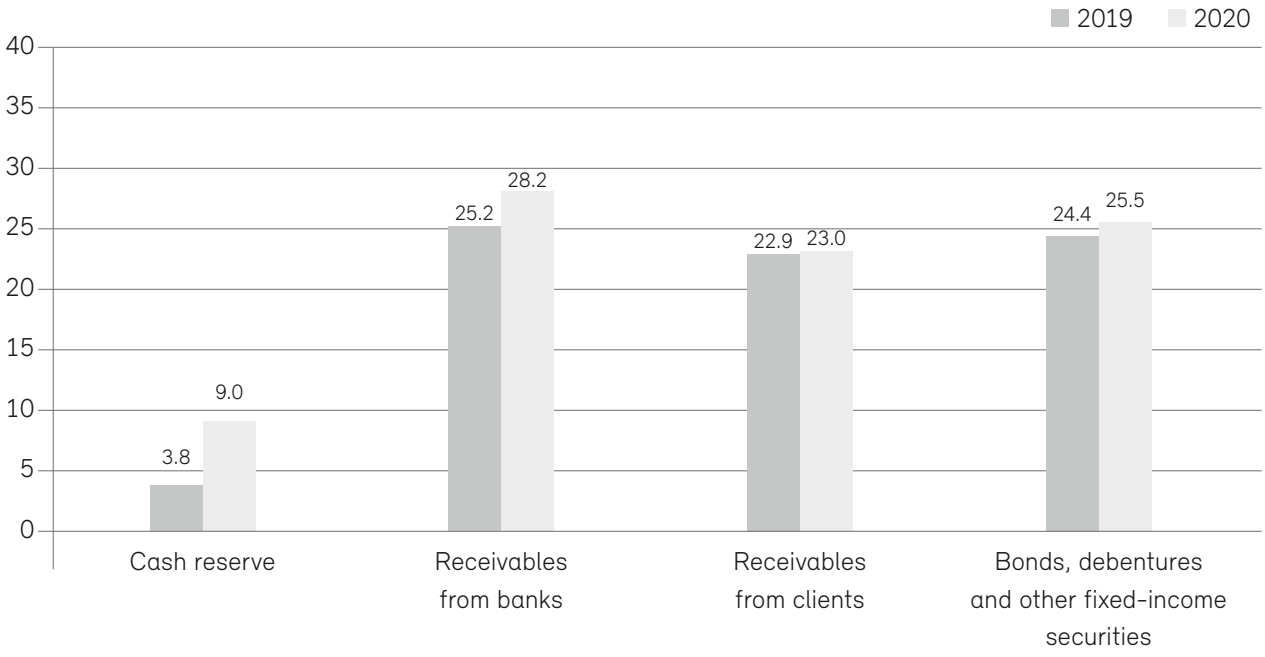
Net income for the year totalled EUR 50.4 million (2019: EUR 50.0 million). Taking account of the profit carried forward from the previous year, net profit amounted to EUR 51.4 million. The Board is planning to transfer EUR 50.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 1.4 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

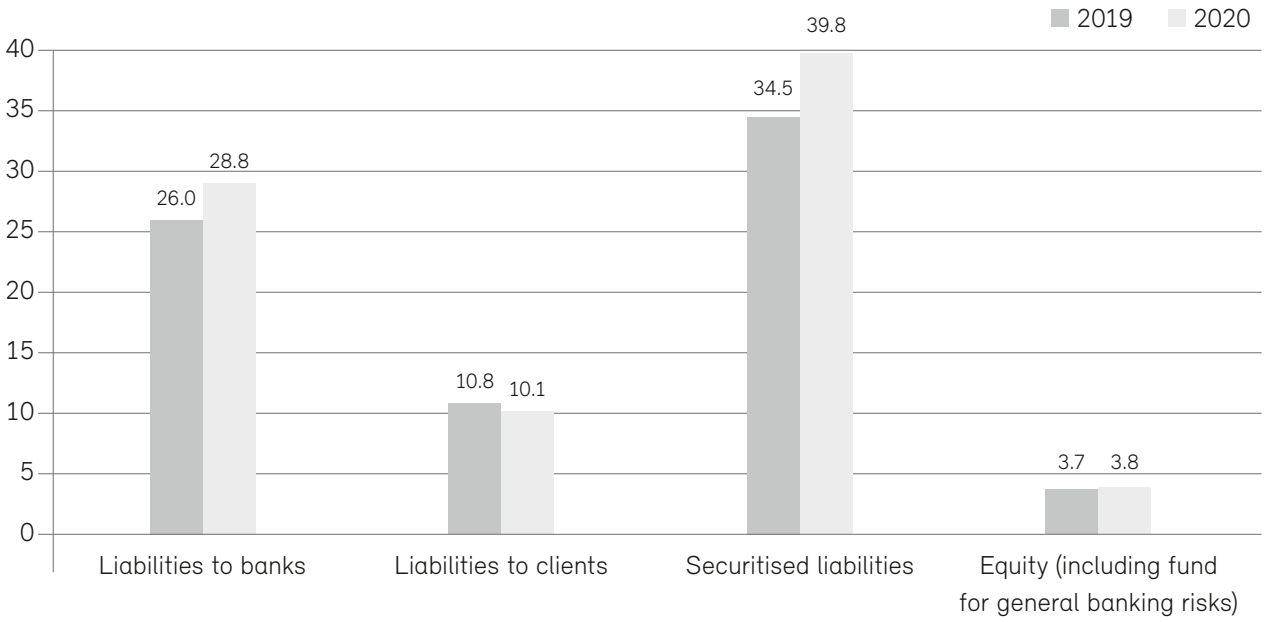
	01.01.2020 to 31.12.2020	01.01.2019 to 31.12.2019	Change	Change in %
Net interest income	263.2	302.0	–38.8	–12.8
Net commission income	61.2	44.7	16.5	36.9
Administrative expenses	187.1	180.0	7.1	3.9
Net result from other income/expenses	2.5	–1.4	3.9	<–100.0
Operating result before risk provisioning/ valuations	**139.8**	**165.3**	**–25.5**	**–15.4**
Net income from asset revaluation	–8.8	–35.1	26.3	–74.9
Operating result	**131.0**	**130.2**	**0.8**	**0.6**
Taxes on income	0.6	0.2	0.4	>100.0
Distributable income	**130.4**	**130.0**	**0.4**	**0.3**
Addition to development funds (provision)	80.0	80.0	0.0	0.0
Net income	**50.4**	**50.0**	**0.4**	**0.8**

Assets and liabilities

SELECTED ITEMS UNDER ASSETS in EUR billions



SELECTED ITEMS UNDER LIABILITIES in EUR billions



L-Bank's total assets showed a significant improvement, mainly due to short-term portfolio growth, amounting to EUR 86,759.6 million at the balance sheet date (2019: EUR 77,622.6 million). The assets side saw increases in the cash reserve, receivables from banks and securities receivables. On the liabilities side, this was offset by higher securitised liabilities and liabilities to clients.

The business volume, which also encompasses contingent liabilities and irrevocable lending commitments, rose by 11.4% to EUR 90,669.8 million as at the balance sheet date (2019: EUR 81,397.0 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. In August 2020, rating agency Standard & Poor's downgraded the State of Baden-Württemberg from its top rating of AAA to its second-best AA+ rating due to the effect of extraordinary COVID-19-related impacts on the state budget. L-Bank's rating was downgraded in tandem to AA+; even so, banks can still 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 21,704.1 million were utilised as at 31 December 2020 (2019: EUR 17,193.8 million). The total volume of medium and long-term refinancing undertaken in the capital markets amounted to EUR 8,179.2 million (2019: EUR 5,711.7 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 17,221.0 million (2019: EUR 14,050.7 million). In addition, L-Bank participated for the first time in targeted longer-term refinancing operations (TLTRO-III) organised by the ECB and Deutsche Bundesbank, with a total volume of 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). The following table provides a breakdown of the Bank's equity as at 31 December 2020, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY in EUR millions	
'Hard' Tier I capital after deductions	3,711.6
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	346.9
Total equity	4,058.5

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

For L-Bank, 2020 was also an especially challenging year in terms of personnel. Quickly approving and disbursing COVID-19 emergency aid to companies and self-employed persons in the federal state involved a tremendous collective effort, requiring very considerable flexibility from all the Bank's employees. The additional staffing capacity required was the main reason for the increased headcount during the fiscal year. For the most part, however, the new funding programs were handled by the existing workforce. With 1,351 active employees, L-Bank employed slightly more staff at the 2020 reporting date than in the previous year (1,307).

L-Bank was also affected by the COVID-19-driven expansion of mobile and home working, which accelerated the push towards digitisation. Wherever their work assignments made it possible, the majority of the Bank's employees worked from home during the 2020 fiscal year. Those employees who had to remain on the Bank's premises because their work assignments were not compatible with home working were protected by comprehensive health and safety measures, including socially distanced workplaces and minimised interpersonal contact.

Even during this difficult time, L-Bank allowed parents plenty of latitude to structure their personal working hours so they could reconcile their careers with family life. The Bank also offers personalised part-time models to help employees adapt their working lives to their personal circumstances. A total of 351 employees were working part-time as at the reporting date (2019: 354).

L-Bank offers employees a phased retirement programme to help them manage the transition to retirement. With an average employee age of 46.1 (2019: 46.6), the programme enables the Bank to plan for long-term recruitment as positions become vacant for demographic reasons. The staff turnover rate rose from 5.39% to 6.87% due to the increased number of age-related departures.

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. Following Edith Weymayr's assumption of the office of Chair of the Board of Management on 1 January 2020, the membership of L-Bank's Board of Management now comprises an equal number of women and men. As at the reporting date, 32.0% of all the Bank's executive managers were women (2019: 33.5%). Overall, L-Bank employs more women than men: female employees still account for 56.4% of the workforce, as in 2019.

The training of interns, working students, volunteers, trainees and employees on work-study programmes is a cornerstone of the Bank's recruitment strategy; 30 new junior members of staff started their careers at L-Bank during the fiscal year. Due to the increasing demand for IT specialists, L-Bank introduced two new IT-related training programmes: IT specialist and an IT work-study programme. Providing junior staff with appropriate training and support is a collective remit of the Bank as a whole.

In a constantly evolving digital environment, personnel development is especially important. The top priority of the Bank's personnel development activities is to recognise, maintain and develop employee competencies and talents, and to align them with the Bank's various job and function profiles by formulating systematic, long-term learning and change-management processes.

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. By integrating sustainability issues into the Bank's business strategy, L-Bank ensures that it is fully committed to resolving them.

In October 2020, the Bank concluded a climate protection agreement with the State of Baden-Württemberg. In the agreement, L-Bank undertakes to organise its business activities so that they are largely climate-neutral by the year 2030. The accompanying reports illustrate the material economic, ecological and social impacts of L-Bank's activities. L-Bank continues to document the discharge of its social responsibilities in detail by issuing regular reports in compliance with the Eco-Management and Audit Scheme (EMAS), and by preparing annual reports in accordance with the WIN Charter framework.

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

Infection rates and the resulting restrictions will probably continue to be the key factors affecting economic development in 2021. We should continue to expect extensive restrictions on social interactions in Germany, especially during the winter months, which in turn will delay the process of economic recovery. Even so, the pandemic will probably influence economic activity to a lesser extent than it did in spring 2020, when plant closures brought industry to a standstill. In the course of the year, the situation is expected to normalise gradually as infection rates decline and the population is steadily immunised by the various vaccines. From the second quarter onwards, the rate of growth is expected to turn positive, driven by rebound effects in domestic consumption and investment activity. In view of the unchangingly high demand for residential accommodation, persistently low funding costs and a lack of investment alternatives, the construction sector should continue to act as a growth driver. Furthermore, the ECB's monetary policy – still strongly expansionary – should continue to support growth throughout 2021. Overall, L-Bank predicts that Germany's economy will show a growth rate of between 3.3% and 3.6% during 2021. With respect to the situation on the labour market, the Bank expects that initially an increase in insolvencies will result in redundancies, but that as the year continues the situation will improve as a result of cyclical effects. Overall, the average unemployment rate in Germany should remain at much the same level as in 2019. The expiry of the VAT rebate and the introduction of carbon emission certificates will cause Germany's rate of inflation to rise to around 1.8%; this will have a negative impact on real-wage trends.

With respect to the development of Baden-Württemberg's economy, we expect to see the state participate in the economic recovery to a disproportionate extent during 2021, in much the same way as it was more strongly impacted by the pandemic-related slump in spring 2020. For example, our L-Bank/ifo business survey indicates that companies in Baden-Württemberg had higher business expectations during the first half of 2021 than companies in the remainder of the Federal Republic.

Furthermore, rising external demand is expected to provide a positive stimulus for Baden-Württemberg's export companies during 2021. On the one hand, a combination of pandemic-related containment measures and the United Kingdom's exit from the EU's internal market is likely to impact export volumes in the earlier part of the year. On the other, starting in spring 2021, the anticipated recovery in major partner countries should give impetus to exports and deliver a significant boost to Baden-Württemberg's economic recovery. The dynamic development of China's economy could have an especially stimulating effect, so that the federal state can expect to see higher GDP growth rates than other parts of the Federal Republic. L-Bank predicts that Baden-Württemberg's GDP is likely to grow by between 3.8% and 4.1%. Downside risks are associated with the ongoing progression of the pandemic and the speed and effectiveness of the vaccination campaign, but especially with the consequences of Brexit, which are difficult to calculate. In line with trends at federal level, the unemployment rate in Baden-Württemberg is likely to remain more or less unchanged from 2020.

As before, the main focus of L-Bank's business activities in 2021 will continue to be the provision of financial support for small and medium-sized businesses and business start-ups, as well as initiatives for building and modernising residential accommodation. As a result, the Bank essentially plans to continue its development finance activities by means of the existing programmes. Alongside the established development programmes, the Bank will also continue to distribute COVID-19 emergency aid until the middle of the year at least; volumes are expected to remain consistently high. In light of the economic forecasts described above, the Bank is anticipating a moderate improvement in overall demand.

Finance for start-ups and SMEs should see roughly the same volumes of new business as in 2020. In view of the coronavirus pandemic, there will be less demand for development funding for traditional investment finance, but greater demand for development programmes that help to overcome the crisis. Overall, the most likely outcome is a slight decline in the volume of new start-up and growth financing business. On the other hand, the Bank expects the volume of new business under the 'Liquidity Facility Plus' programme to remain high as companies seek to safeguard liquidity jeopardised by the crisis. Additional repayment subsidies strengthen corporate equity, putting companies in a favourable starting position once government-imposed restrictions have been relaxed. To provide hotel and restaurant owners with incentives to invest once the pandemic has been overcome, along with the best possible opportunities to relaunch their businesses, the Bank has added a repayment subsidy to the 'Tourism Finance' programme. 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 segment, new business in 2021 is expected to reach at least the same level as it did in 2020. The Bank is expecting to see a moderate increase in the volume of lending associated with private home ownership programmes, although it does not expect any significant changes on the home ownership side of the state housing development programme. Development programmes for rental accommodation will probably continue at the same high level as previously. While the coronavirus pandemic will almost certainly continue to cause delays in construction projects, L-Bank is nevertheless expecting the lending volume to remain high, especially for new building projects. New business associated with finance for homeowners' associations is likely to slightly exceed the level achieved in 2020.

In 2021, L-Bank is predicting a somewhat lower operating result before risk provisioning/valuations. On the one hand, this is due to the fact that net commission

income will decline slightly. On the other hand, slightly higher costs are expected, especially for IT projects. Income from asset revaluation is expected to remain at a comparable level to the reporting year, while total assets in 2021 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 2021 will remain almost unchanged from 2020. 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 survival should be sustainably 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, and
- 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 (principles/operational directives). 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 2020, Divisions I and IV were front-office areas, Division II was back office, and the Risk Controlling function formed part of Division III.

The Head of Division II was the Chief Financial Officer (CFO), responsible for the back office (second vote). The CFO's deputy was head of Division III (the Chief Risk Officer), who bears bank-wide responsibility for assessing and monitoring all counterparty, market price, liquidity and operational risks. As head of the Risk Controlling function, she 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 – where necessary – reports on specific incidents. 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, while 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. The department's staff perform the duties of the Risk Controlling function. Their 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. The Credit Analysis department also acts as the back office and casts the back office vote on business decisions involving risk.

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, on behalf of the Board of Management. The unit reports directly to the Board of Management. 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 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 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. And 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 equity, liquidity adequacy and relevant risk exposure projections,
- validation of risk measurement methods, and
- 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% confidence 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 2020 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.

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 are 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). Since March 2020, the anticipated impact of the COVID-19 pandemic has been included and regularly updated in the parameters set for the baseline scenario, based on expert opinions:

- New business planning was regularly adapted to the latest expectations.
- Additional expenses (setting up home-office workplaces, provision of more services on behalf of the federal state) were used as the starting point.

- A deterioration of the refinancing spread was assumed.
- Increased operational risks associated with the processing of COVID-19-related aid programmes were taken into account.
- Assumptions were made regarding coronavirus-related repayment holidays.
- The risk parameters used to project risk provisions and assess counterparty risks were adjusted:
  - Rating migrations were no longer based on historical observations, but took account of an anticipated increase in rating downgrades.
  - Assumed correlations were increased to account for 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 the CRR. In the normative perspective, the CRR 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: calculation 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 or the market valuation method specified in Article 274 CRR.

- 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 325-383 CRR.
- Operational risk: The Bank's total risk exposure to operational risk is calculated using the baseline indicator approach described in Articles 315-316 CRR.
- 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.

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 2020	31.03.2020	30.06.2020	30.09.2020	31.12.2020
Total risk exposure in EUR millions	18,918.4	18,613.4	18,586.6	18,206.0
Tier I capital in EUR millions	3,659.0	3,709.9	3,708.2	3,711.6
Equity in EUR millions	4,037.9	4,079.2	4,066.4	4,058.5
Tier I capital ratio in %	19.34	19.93	19.95	20.39
Total capital ratio in %	21.34	21.92	21.88	22.29
Leverage ratio in %	4.65	4.50	4.39	4.56

The normal scenarios performed as at 31 December 2020 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 2020, 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 2020 and their maximum utilisation in fiscal year 2020. The maximum utilisation of RWA limits per business segment and in total is based on monthly calculations.

In EUR millions	RWA LIMIT 2020	MAXIMUM UTILISATION 2020	RWA LIMIT 2021
Total credit risk (CRSA)	25,000	17,934.8	25,000
Thereof for:			
Home ownership assistance	5,500	3,917.5	5,500
Companies	10,500	6,557.8	10,500
Financial institutions	8,150	7,256.4	8,150
Public sector	750	458.4	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 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 6,152.7 million. This is offset by NPV administrative expenses totalling EUR 388.7 million, plus imputed NPV risk provisioning costs of EUR 282.0 million, resulting in an NPV-based risk coverage capability of EUR 5,482.0 million.

As at the balance sheet date, 54.84% of this was taken up by VaR values totalling EUR 3,006.2 million. Utilisation of NPV risk coverage capital in 2020 ranged between 47.25% and 58.89%. 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 (upper limit of all value-at-risk sub-limits; aggregate loss ceiling (ALC)) of EUR 4,300.0 million on all observation dates in the last fiscal year. At 85% on 31 March 2020, the maximum share of the ALC in the Bank's internal capital briefly rose above the internally defined limit of 84%. This was due primarily to the sharp decline in the prices of securities following the market-wide increase in credit spreads driven by the COVID-19 crisis. The Bank did not need to take any risk management action. For control purposes, an ALC of EUR 4,300 million has been specified for 2021. This corresponds to 81.7% of the Bank's internal capital as at the planning date (30 June 2020), totalling EUR 5,265.8 million.

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

VALUE-AT-RISK LIMIT 2021

in EUR millions

Aggregate loss ceiling	4,300.0
Thereof for:	
Counterparty risks	1,600.0
Market-wide 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
Longevity risk	20.0
Real-estate risk	10.0

Adequacy of Bank's liquidity

The Bank manages insolvency risk by means of LCR 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 2020, neither the LCR nor the survival time frame ever fell below the internally specified minimum thresholds. The projections carried out as at 31 December 2020 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 2020.

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 2020 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 2020 inverse stress test showed that the liabilities required to trigger these mechanisms – based on the already exceptional situation caused by the coronavirus – only appear conceivable on the assumption that the Bank becomes liable for borrowers' bank claims on end-clients while at the same time suffering significant loan losses as the result of a severe European economic crisis.

The stress test assumes that the European economy suffers a massive loss of international competitiveness due to increasing levels of regulation and the failure of monetary policies to counter this regulatory burden (due to tariffs levied by target countries). In this scenario, the crisis is ultimately mitigated by undertaking extensive market economic reforms as well as restructuring debt to safeguard the euro. The scenario is, however, highly unlikely – especially with respect to the implied intensity.

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. Since March 2020, migration and default probabilities have been predicated on an anticipated increase in rating downgrades due to the pandemic, based on historical analysis of rating migrations.

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. 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 directly applied 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), or 55% in the case of all other business segments (Article 161 (1a) CRR). As at the reporting date of 31 December 2020, 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), 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 the 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 2020.

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 satisfy at the time the loan is granted.

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 directives
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 the case of non-programme-related development business, exceptions to the minimum risk categories must be approved by the Board of Management.

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. However, demand for residential accommodation remains high, significantly exceeding regional supply due to the fact that new builds are currently lagging behind demand, especially in metropolitan areas. Consequently, it is safe to assume that residential property prices will remain at the current level, if not higher. Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 7,975.5 million, the State of Baden-Württemberg accounts for some EUR 7,314.7 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 42,673.9 million, the highest volume of receivables is due from banks. Also included in this amount are receivables from central banks and other public bodies that are not 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 banks 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 21,436.6 million as at 31 December 2020. These lendings to banks are secured by the assignment to L-Bank of claims on end-clients. Another EUR 93.2 million is attributable to the fact that L-Bank has underwritten the commercial banks' exposure to end-client risk. EUR 21,144.1 million of the Bank's total lending commitment relates to transactions associated with development aid business, whereby the Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of this amount of EUR 21,144.1 million, EUR 4,890.6 million is secured by public guarantee/maintenance obligation, and EUR 20.0 million against Pfandbriefe. After deducting receivables from central banks (EUR 9,013.7 million) and multilateral development banks (EUR 1,260.5 million), the remaining unsecured volume is EUR 5,959.4 million. Roughly 88.5% of this is assigned to risk categories 1 to 4 and only around 11.5% to risk categories 5 and 6. Consequently, the concentration on 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 88.3% of the risk portfolio is assignable to Germany, of which 65.6% relates to the State of Baden-Württemberg. 6.7% of the risk-relevant portfolio is located in France, the Netherlands, Austria, Belgium, or with international organisations (such as the World Bank). 5.0% 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 (e.g. by increasing the collateral requirement) at the level of individual transactions 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 2020.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2020 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	149.6	200.6	14,676.4	17,802.1	32,828.7	38.7
2	5.2	908.2	1,580.7	5,050.1	7,544.1	8.9
3	5.1	2,518.9	10,454.2	44.1	13,022.3	15.3
4	11.4	3,036.1	16,801.7	66.9	19,916.1	23.4
5	5,333.7	1,527.5	1,171.1		8,032.3	9.5
6	163.0	595.5	1,799.8	0.4	2,558.8	3.0
7	39.9	362.7	11.1	9.8	423.5	0.5
8		83.1	238.8		321.8	0.4
9		22.7	9.9		32.6	0.0
10		42.2	0.4	0.0	42.6	0.1
11		0.1	35.9		36.0	0.0
12	0.9	21.3	27.7		49.9	0.1
13	25.4	75.1	2.5		103.0	0.1
14	10.4	14.0	2.7		27.1	0.0
Total	**5,744.7**	**9,408.0**	**46,813.0**	**22,973.3**	**84,939.1**	**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 2020.

VALUE AT RISK FOR COUNTERPARTY RISKS IN 2020 in EUR millions

	01.01.2020		31.03.2020		30.06.2020		30.09.2020		31.12.2020	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	2,504.4	4,300.0	2,975.4	4,300.0	2,945.2	4,300.0	2,960.5	4,300.0	3,006.2
Share of counterparty risks in %	37.2	29.9	37.2	34.7	37.2	34.1	37.2	36.0	37.2	37.0
Counterparty risks	1,600.0	749.4	1,600.0	1,033.3	1,600.0	1,003.2	1,600.0	1,065.5	1,600.0	1,111.4

The sharp rise in counterparty risks since the end of the preceding year is primarily due to the predictable economic consequences of the COVID-19 pandemic. As of 31 March 2020, the Bank assumed that individual borrowers' creditworthiness would deteriorate more rapidly than has been observed in the past (by roughly EUR 284 million). On 31 December 2020, the Bank also adjusted borrowers' interdependencies (correlations) by around EUR 92 million. This adjustment was made because the impact of measures to limit the spread of the coronavirus (lockdowns) 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 according to 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), or
- according to the Bank's internal rating, the client is in risk category 13 or 14, or
- an individual risk provision has been made against the client, or
- collateral provided to L-Bank by the client is realised (by compulsory auction excluding partition by auction), or
- 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 2020. When classifying NPEs, the Bank distinguishes between restructuring exposure (risk category 13) and workout exposure (risk category 14).

NPE PORTFOLIO AS AT 31.12.2020 in EUR millions

	Total risk portfolio	NPE portfolio		Restructuring portfolio		Workout portfolio	
		total	in %	total	in %	total	in %
Private clients	5,744.7	36.7	0.64	26.3	0.46	10.5	0.18
Rental housing construction clients	6,404.9	9.2	0.14	3.4	0.05	5.8	0.09
Companies in the financial sector	46,813.0	0.0	0.00	0	0.00	0	0.00
Other companies	3,003.2	72.4	2.41	61.5	2.05	10.8	0.36
Public sector	22,973.3	0.0	0.00	0	0.00	0	0.00
Total	**84,939.1**	**118.3**	**0.14**	**91.2**	**0.11**	**27.1**	**0.03**

The total NPE portfolio as at 31 December, 2020 includes forborne loans in the amount of EUR 35.0 million. Another EUR 12.4 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. The number of rating downgrades increased in the second quarter of 2020 – at least partially due to the COVID-19 pandemic – with the result that the first early-warning threshold for the 'Volume of rating downgrades' indicator was temporarily exceeded. However, as at the start of the third quarter, the volume of rating downgrades over the previous three months had already returned below the early-warning threshold, and by the end of the year the indicator had 'normalised'. As at the reporting date, and indeed over the whole of fiscal 2020, none of the other 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.

Outlook

So far, comprehensive government support initiatives combined with changes to insolvency laws have prevented a general surge of insolvencies. However, depending on the development of the COVID-19 pandemic, it is not impossible that insolvencies will rise in the course of 2021. Based on existing collateral, the currently robust state of the real-estate market, and the general loan-loss provisions made during the year under review, the Bank assumes that any increase in insolvencies will only have a limited impact on earnings.

In view of the ongoing climate protection debate, the major role played by the automotive industry in Baden-Württemberg's economy may make structural adjustments more difficult and consequently exacerbate counterparty risks. However, the extremely low level of interest rates and high supply of credit should make it easier to finance investment in such adjustments, mitigating the potential consequences.

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-currency 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 market-wide spread risks associated with securities in the investment book.

Assessing market price risks

The interest rate and foreign-currency 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-currency 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-currency 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 2020, 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 market-wide spread risk is quantitatively assessed by means of value at risk based on a historical simulation involving tradable securities in the investment book. Because the Bank generally holds securities from issue to redemption, 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 2020, this was not the case in projections in either the normal or adverse scenarios.

To monitor risk-bearing capacity, the market-wide spread risk is assessed for the economic perspective on the Bank's risk-bearing capacity on the basis of a historical simulation of changes in industry- and rating-dependent CDS spread curves over an observation period of 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-currency 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 2020, the portfolio of interest rate swaps had a nominal value of EUR 68.9 billion. Cross-currency interest rate swaps had a nominal value of EUR 20.4 billion, currency swaps had a nominal value of EUR 18.1 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 not classed as material risks, but even so are limited. As at

31 December 2020, embedded option-related risks were assessed at EUR 24.6 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-currency 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 2020.

VALUE AT RISK FOR MARKET PRICE RISK IN 2020 in EUR millions

	01.01.2020		31.03.2020		30.06.2020		30.09.2020		31.12.2020	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	2,504.4	4,300.0	2,975.4	4,300.0	2,945.2	4,300.0	2,960.5	4,300.0	3,006.2
Share of interest rate and exchange-rate risks in %	4.7	5.1	4.7	4.3	4.7	3.6	4.7	2.1	4.7	2.8
Interest rate and exchange-rate risks	200.0	128.5	200.0	126.6	200.0	105.7	200.0	61.4	200.0	83.5

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 (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 specified by the supervisory authority (pursuant to BaFin Circular 06/2019 (BA) – Interest rate risks in the investment book) 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 figures 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-currency 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 market-wide spread risk. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by this risk in the course of 2020.

VALUE AT RISK FOR THE MARKET-WIDE SPREAD RISK IN 2020 in EUR millions

	01.01.2020		31.03.2020		30.06.2020		30.09.2020		31.12.2020	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	2,504.4	4,300.0	2,975.4	4,300.0	2,945.2	4,300.0	2,960.5	4,300.0	3,006.2
Share of market-wide spread risks in %	34.9	42.9	34.9	38.3	34.9	38.8	34.9	38.0	34.9	36.7
Market-wide spread risks	1,500.0	1,074.8	1,500.0	1,138.8	1,500.0	1,144.0	1,500.0	1,126.1	1,500.0	1,102.8

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, 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 from the valuation of the interest rate book as a whole after comparing book values with NPVs. As at 31 December 2020, 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 VaR 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 2020.

VALUE AT RISK FOR ROLLOVER FUNDING RISK IN 2020 in EUR millions

	01.01.2020		31.03.2020		30.06.2020		30.09.2020		31.12.2020	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	2,504.4	4,300.0	2,975.4	4,300.0	2,945.2	4,300.0	2,960.5	4,300.0	3,006.2
Share of rollover funding risks in %	16.3	19.1	16.3	20.2	16.3	21.0	16.3	21.4	16.3	21.1
Rollover funding risks	700.0	479.0	700.0	602.2	700.0	617.7	700.0	633.0	700.0	633.8

Rollover funding risks are significantly up on the previous year's value. The decline in interest rates since 1 January 2020 means that collateralised derivatives have negative market values for longer, necessitating deposits of cash collateral. The longer-term funding required for this collateral causes the VaR for rollover funding risks to increase.

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 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 VaR on the basis of historical loss events alone. An aggregated VaR 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 2020 in EUR millions

	01.01.2020		31.03.2020		30.06.2020		30.09.2020		31.12.2020	
	Limit	Used	Limit	Used	Limit	Used	Limit	Used	Limit	Used
Aggregate loss ceiling	4,300.0	2,504.4	4,300.0	2,975.4	4,300.0	2,945.2	4,300.0	2,960.5	4,300.0	3,006.2
Share of operational risks in %	1.2	1.3	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.1
Operational risk	50.0	32.6	50.0	34.2	50.0	34.3	50.0	34.3	50.0	34.3

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 VaR in 2020 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-19 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 a processing concept 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 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 aim of the Compliance function is 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.

With respect to workflow organisation, the Bank differentiates between principles/operational directives – which represent binding prescriptions for action – and operational manuals. Principles/operational directives always apply, regardless of the underlying workflow or IT systems used. Operational manuals and IT user manuals, on the other hand, describe specific processes. L-Bank has broken down the entire loan administration process into multiple stages: granting of loans, further processing of loans, processing of problem loans (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; for agreeing, recording, forwarding and changing closing dates; for updating the trading transactions portfolio; for the legal form of contracts; for closing trades outside the Bank's own trading rooms and normal working hours (late trades); for recording and monitoring telephone calls; and for ongoing supervisory activities relating to settlement and controls.

The rules governing corporate structure specify where particular business activities are carried out (organisation chart and schedule of responsibilities). The rules governing 'management and representation' specify who may carry out specific business activities. 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. The ongoing high international demand for liquid and safe investments will continue to offer the Bank broadly diversified and reliable opportunities to raise capital in the 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 imposed for the purpose of containing the COVID-19 pandemic are jeopardising the solvency of companies and self-employed persons, especially in the service industry. Despite comprehensive government support initiatives, it is not impossible that the number of insolvencies will increase in the course of 2021. However, the impact on L-Bank's earnings should remain limited. A sharp rise in real-estate prices is one factor that could reduce potential defaults, by making it easier for borrowers threatened by insolvency to settle their remaining debt by liquidating the real estate they are often using as collateral. It is likely that the need for risk provisioning will grow, especially if the pandemic develops unfavourably over the longer term. In the reporting year, this risk was accounted for by setting up an additional general provision. However, the recently launched vaccination campaign may overcome the pandemic in relatively short order.

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 2020, however, remained below the average in previous years. The progressive automation of our processes and IT support mean that we can expect an ongoing decline in employee-related loss events, whereas technological 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 directives governing the various workflows within L-Bank. The Accounting department is responsible for monitoring internal documents on a regular basis, and for adapting them in line with any legal or regulatory changes. The comprehensive management reporting function and the Accounting department's involvement in the standardised process for introducing new products also help to ensure that the accounting treatment of new products is correct.

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

The 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, and
- 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. For the management report in particular, financial and risk control data is obtained from the internal man-

agement 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, 2 March 2021

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Separate Non-financial Report – Report of the Board of Management of L-Bank for fiscal year 2020

Background, classification and methodology

The coronavirus pandemic represents a historically significant moment for Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank). To protect and safeguard employees' health and safety, the Bank is implementing 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 coronavirus aid programmes for companies and self-employed persons on behalf of the state and federal governments, including COVID-19 emergency aid and stop-gap finance. This activity is safeguarding business livelihoods and preserving jobs. 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 2020, L-Bank provided around EUR 6.2 billion in financial support to Baden-Württemberg's businesses.

The various aid programmes for coping with the economic consequences of the COVID-19 pandemic made a significant contribution to this overall increase in development funding, accounting for a total volume of EUR 2.7 billion. The Bank's coronavirus aid programmes reached around 270,000 companies in Baden-Württemberg.

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

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). It 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 agenda at various levels. To take account of the complexity and dynamics involved, in 2019 the Board of Management decided to set up a Sustainable Finance working group.

The group was given a specific remit: since then, the priorities of the core Sustainability team, which was set up in 2021, have focused on operational business issues associated with sustainability, especially banking operations involving business-related environmental protection, procurement and employment issues. Meanwhile, the Sustainable Finance working group deals with the strategic focus of L-Bank's banking business. Its role is to assess developments and draw up suitable options for future action by L-Bank in the context of sustainable finance. The working group began its work in the 2020 fiscal year by drawing up an agenda.

In spring 2020, a strategic dialogue was initiated across the Bank as a whole. As part of this process, action areas were defined for L-Bank's ongoing strategic development, and Strategy Boards were set up for implementing actions related to digitisation, development finance, the Bank as a whole, and corporate culture. This strategic realignment is focusing ever more strongly on sustainable, efficient development finance activities.

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 forms 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. An additional aspect specific to L-Bank was also identified. 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 2020 fiscal year. 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

In fiscal year 2020 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 it, the federal state has set itself the goal of organising the state's administrative bodies so they are largely climate-neutral by 2040. L-Bank has voluntarily adopted this objective for its own business management and, as part of a climate protection agreement concluded with the State of Baden-Württemberg in October 2020, brought the target date forward to 2030 and made it more specific. 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 obligation, 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 2020 the Bank successfully passed the 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 1,024 tonnes of CO_2 equivalents (CO_2e) in 2020, breaking down as follows:

Direct greenhouse-gas emissions (GHG emissions) (Scope 1)*	242 t CO_2e
Indirect GHG emissions from energy supply (Scope 2)**	510 t CO_2e
Other indirect GHG emissions (Scope 3)***	272 t CO_2e
Total	**1,024 t CO_2e**

* Increased Scope 1 emissions due to leaks in the cooling system that have since been repaired.
** District heating was offset against the energy providers' specific emission factors.
*** Railcards were recognised at 12,700 km each, based on the COVID-19 pandemic.

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. Due to the rise in mobile and remote working in 2020, the Bank

has recorded and extrapolated the resulting energy consumption for the first time. The calculation assumes that between March and December, an average of 350 employees worked away from L-Bank premises. Due to COVID-19-related changes in 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. Thus the Bank indirectly contributes to reducing carbon emissions. Many of L-Bank's housing development products provide direct incentives for environmental and climate protection. The 'Resource Efficiency Finance' development programme exerts significant influence as an incentive for environmental protection measures, encouraging businesses to save energy and materials. This programme, offered in conjunction with the Ministry of Economic Affairs, Labour and Housing and the Ministry of the Environment, Climate and Energy, awards low-interest development loans, in some cases with repayment subsidies, to small and medium-sized businesses (see also the 'Economic report' section of the management report).

A 'Digital Filing' system is already in use by individual departments. The system, which is being rolled out across the whole of L-Bank, will not only streamline processes and make them more efficient, it will also help the Bank to consume less paper. Due to the exceptional situation in 2020, however, the project has been put on hold for the time being.

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 strategic 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 strategy, personnel planning, work-life balance, and social welfare. 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. Providing a family-friendly environment is one important aspect of this approach; in 2020, L-Bank was named one of the 400 most family-friendly companies, offering, among other things, various part-time working models, flexible working hours, remote-working options, a childcare allowance and, in the event of childcare shortfalls, the option of a parent-and-child office.

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 Cooperative 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.

Last year's additional coronavirus aid programmes 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. 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, and in Business IT. In 2020, this offer was extended to cover computer science. In addition, L-Bank offers a wide range of training opportunities, including a trainee programme, apprenticeships for aspiring chefs, winemakers and, since 2020, IT specialists, as well as voluntary work and internships. In-house talent management is a key element in employees' continuing professional development (CPD). Based on L-Bank's skills profile, it 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. 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. In early 2020, in response to the COVID-19 pandemic, a crisis management team was formed to discuss and adopt measures and precautions for containing the coronavirus. 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. This crisis mode was terminated in July 2020, when the crisis management team was replaced by a newly established Operations Coordination unit. The various preventive measures were left in place.

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 was obliged to close its own in-house health centres due to the coronavirus pandemic; employees were offered virtual programmes through the company's Health Management unit. Further information on employee-related matters can be found in the 'Personnel' section of the management report.

Social matters

In the economic system favoured by social market economies, companies are the initiators and facilitators of change and progress, thereby safeguarding a society's prosperity. 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.

L-Bank offers a broad range of social development services, ranging from family benefits to the provision of affordable housing. These include the promotion of equal opportunities, accompanied by the promotion of entrepreneurship and job creation, as the basis of a successful social market economy. In 2020, L-Bank distributed various forms of state aid to mitigate the economic consequences of the COVID-19 pandemic. Among the various programmes for managing the crisis, emergency aid and development loans help to safeguard businesses' economic survival by bridging liquidity bottlenecks caused by the consequences of the pandemic, as well as strengthening equity capital. In addition, specific development programmes such as Digitisation Plus were made even more attractive so that companies could more easily invest in digitisation.

The relative significance of the various development programmes based on the volume of funding distributed is discussed in the 'Economic report' section of the management report.

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 launched a project in 2020 to map the impact of a negative target interest rate.

So 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.

Entrepreneurship is the foundation of market economies and the driving force behind economic development. 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 – from debt financing to quasi-equity financing, and 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.

L-Bank extends loans for business development purposes using the 'borrower's bank' principle. 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. To identify changing needs as early as possible, L-Bank commissions studies from specialist third parties. These enable the Bank to further refine the Bank's 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 was obliged to hold these events as online or hybrid fixtures was in itself a source of 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. With the adoption of the National Action Plan on Human Rights (NAP) in 2016, the German federal government aims to further improve the human rights situation. Building on an impact analysis, companies should assume their share of the responsibility for this. The foundations for further developing L-Bank's human rights due diligence processes have been laid in the form of the Bank's 'FIT FOR NAP' programme plus an industry analysis, and are now embedded in the Sustainable Finance working group's agenda as part of the group's remit.

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.

A complaints management system safeguards the fundamental right to report violations by or make complaints about the Bank. The system was evaluated last year, and further steps were taken towards process standardisation.

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 2020, there was 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-19 pandemic meant that no staff assembly could be held in 2020. 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 (operational directives).

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-19 pandemic, the risk of abuse actually increased in 2020. As a result of the large number of suspicious cases, the crisis management team and the central unit set up as part of the Compliance function pursuant to Section 25h KWG decided to

centrally record and categorise all cases of suspected abuse of the emergency aid disbursed by L-Bank, in a process that was deliberately extended beyond the processing of individual cases.

While COVID-19 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 Bank's new-product processes and the recently established Fraud 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 whistle-blowing 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, Internal Audit checks whether and to what extent laws are being correctly implemented and applied, and also checks compliance with internal guidelines (operational directives).

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, supplementary training courses are compulsory every three years. The Bank monitors participation in these courses. To prevent fraud and other criminal acts, staff are given extended training courses every three 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, was 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 onboarding new clients or engaging in critical activities, for example 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 guideline (operational directive).

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 Bank, L-Bank issues public development funding for the whole of Baden-Württemberg. L-Bank's principal, the State of Baden-Württemberg, as well as its development clients and business partners, expect L-Bank to process their requests swiftly and cost-efficiently while applying a high level of data security.

Digitisation is enabling L-Bank to operate more efficiently and establish new relationships with clients and business partners. In its business strategy, L-Bank has given a high priority to the gradual digitisation of internal processes, as well as the various interfaces with clients and business partners. Together with the Bank's IT strategy, digitisation is the most concrete reflection of the technological direction taken by the Bank. While the IT strategy contains information on the restructuring of IT systems and IT processes, it is also the basis for the ongoing phased development of the Bank's value chain and the configuration of client contact points.

In its digitisation efforts, L-Bank is dependent on client-side developments, as well as developments among business and joint-venture partners. One example of this is the online system for family allowance applications, which was implemented in May 2019 in close collaboration with the Ministry of Social Affairs and Integration, and in partnership with the Ministry of the Interior. Thanks to the system, parents benefit from shorter processing times. From receipt, it takes an average of 28.5 days to approve applications that are not made online, whereas the time required to process online applications has fallen to just 18.4 days.

In 2020, the Bank introduced new identification procedures for the home ownership programmes. These procedures enable clients to legitimise their identities via video chat or using mobile identification (electronic IDs). This in turn allows the Bank to process applications faster.

The digitisation of internal and external business processes will play an increasingly important strategic and operational role over the next few years. As part of the internal strategic dialogue, the Bank consequently decided to set up a Digitisation Strategy Board. L-Bank also regards itself as a provider of information on all aspects of development finance, and for this reason is constantly developing its online presence. In 2020, L-Bank fundamentally revised its expert portal, adding a number of new functions. With the L-Bank funding calculator for state housing development, access to home ownership funds has become considerably easier, making L-Bank's online services even more attractive. The funding calculator is also a key component in the gradual digitisation of state housing assistance. Another element in our social home ownership programme is the very personal client support we have been offering since August 2019 as part of a

pilot project in partnership with the state housing development agency in Heilbronn. Due to the coronavirus, our on-site personal counselling services were severely constrained during 2020. If it becomes apparent that online (digital) advisory sessions are generally suitable for supporting social home ownership, and that they are accepted by the target market, we shall continue our phased rollout of the range of services on offer.

L-Bank's aim is to make the most of these opportunities by digitising and automating the Bank's intermediation business to make the sale of development finance products even more efficient and client-centric for L-Bank and its financing partners. With this in mind, L-Bank linked residential housing products offered via clients' commercial banks to KfW's 'Bankdurchleitung Online 2.0' (BDO 2.0) platform back in 2016.

With respect to commercial development loans, L-Bank enters into partnerships with online brokerage portals so it can offer companies the opportunity to integrate development loans into attractive financing solutions. In 2020, L-Bank entered into another joint venture with an online brokerage platform for construction financing. The platform can be used to broker residential housing development loans and incorporate them into financing solutions. This provides companies and private individuals with even greater transparency and strengthens the tried and tested 'borrower's bank' principle.

The Portfolio Management committee coordinates and prioritises the Bank's individual digitisation projects, reporting to the Board of Management on the status of the project portfolio at least every quarter. Rules have been defined for the change process: the operational risks are assessed and managed; the process follows the defined new product process where appropriate, and the level of protection is determined by a Security Office that is independent of the Bank's operational IT units. In terms of process, scrum methodology is used, following an agile software development approach. The IT security strategy is used to support this approach, enabling L-Bank to protect business partners and specialist knowledge from attacks by third parties. In particular, the Security Office is responsible for supporting the Board of Management in all matters relating to corporate security. For this purpose, the office runs a fully integrated management system which, in addition to managing information security, also takes care of emergency planning and physical security, as well as continuous process improvement. Security Office activities are always based on a factually relevant, cross-departmental approach. The office reports to the full Board of Management as and when required, or else once a quarter.

Karlsruhe, 2 March 2021

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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 pursuant to Section 340a (1a) in conjunction with Section 289b (3) HGB for the period from 1 January to 31 December 2020 (hereinafter the 'non-financial report') published by Landeskreditbank Baden-Württemberg – Förderbank –, independent public-law institution, Karlsruhe (hereinafter the 'institution').

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 are necessary to enable the preparation of a non-financial report that is free from material misstatement, whether intended or unintended.

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 non-financial report based on the limited-assurance engagement we have performed.

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

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 non-financial report for the period from 1 January to 31 December 2020 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 sustainability organisation
- making inquiries of the legal representatives and relevant personnel involved in the preparation of the non-financial report concerning the preparation process, the internal control system relating to this process, and disclosures in the non-financial report
- identifying likely risks of material misstatement in the non-financial report
- performing an analytical evaluation of disclosures in the non-financial report
- comparing disclosures with corresponding data in the annual financial statements and management report
- evaluating the presentation of the disclosures

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 2020 has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB.

Intended use of the assurance report

We issue this report on the basis of the engagement agreed with the institution. The assurance engagement was performed for the purposes of the institution and the report is solely intended to inform the institution of the results of the assurance engagement. 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.

Frankfurt am Main, 2 March 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke	pp. Urata Biqkaj
Certified Public	Certified Public
Accountant	Accountant

Report of the Supervisory Board

During fiscal year 2020, 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.

The Supervisory Board held three meetings during calendar year 2020, 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 2020. Throughout the 2020 calendar year, the Board of Management's reports on business development were regularly supplemented with details of the coronavirus pandemic's impact.

Due to the pandemic, the Supervisory Board's spring meeting, at which the 2019 financial statements were adopted, was held as a teleconference/videoconference.

The focus of the Board's activities in the 2020 calendar year was the initiation of a process of business and risk strategy updates that is expected to last several years. This will cover major areas such as cost and revenue management, L-Bank's digitisation strategy, and the management of human resources. As part of this process, the Supervisory Board held a strategy meeting in the summer, then met again in the autumn for another information event as part of the strategic dialogue.

Another important topic was business zone development and the possibility of extending it into rural areas.

In the autumn meeting (once again held online), the Supervisory Board approved L-Bank's business, risk and IT strategy, took note of the Bank's funding targets, approved the business plan for 2021 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).

The Supervisory Board resolved a new allocation of responsibilities for the Board of Management starting on 1 January 2021, and has adapted the rules of procedure for the Board of Management and Supervisory Board to the new circumstances, along with the business directives for the Supervisory Board's committees, with retroactive effect as from 1 January 2020. In line with L-Bank's amended articles of association, the amended legal principles include the option to hold meetings as teleconferences or videoconferences as of 1 January 2020.

The Board of Management brought the following information to the Supervisory Board's attention:

- An annual report on the status of L-Bank's digitisation initiatives
- Annual details of the structure of the Bank's remuneration systems

The Risk Committee met four times during the 2020 calendar year to discuss risk reports, the annual reports submitted by the Data Protection Officer and Security Office, and the Bank's strategies.

The Board of Management also gave a report on how sustainability risks are handled in L-Bank's credit risk management. Between meetings, urgent decisions were taken by written circular.

Members of the Risk Committee and Audit Committee were informed of the impact of the coronavirus pandemic on the Bank's business development in a series of ongoing briefings.

The Audit Committee met three times during the 2020 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 2019 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 2020.

The Audit Committee also 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 Personnel Committee met twice in the 2020 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, on the review of the strategy for selecting Board of Management members, and on the Bank's human resources strategy.

The Remuneration Control Committee met once in the 2020 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 2020 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 2020 prepared by the Board of Management do not give rise to any objections. Accordingly, in its meeting on 16 April 2021, the Supervisory Board took note of and approved the Bank's annual financial statements for 2020.

The Supervisory Board has also reviewed the separate non-financial report for fiscal year 2020. 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 2020.

Taking account of the profit carried forward from the preceding year, the distributable net profit totalled EUR 51.4 million. The Supervisory Board approved the Board of Management's proposal to allocate EUR 50.0 million of this amount to other retained earnings and to carry forward the remaining amount of EUR 1.4 million.

Ms Edith Weymayr took up her position as Chair of the Board of Management on 1 January 2020. Dr. Iris Reinelt and Mr Johannes Heinloth began their second term of office as members of the Board of Management on 1 March 2020.

The Supervisory Board consists of 15 voting members and three consulting members. There were no changes in the composition of the Supervisory Board in 2020.

Shortly after the end of the fiscal year, long-standing Board of Management member and Risk Committee Chairman Dr. Maximilian Dietzsch-Doertenbach passed away quite suddenly and unexpectedly. His loss has hit us hard; we will all miss his approachable manner, his expertise and his valuable advice. We cherish his memory with fondness and gratitude.

Stuttgart, 16 April 2021

Chair of the Supervisory Board
Edith Sitzmann MSP
Minister of Finance for the State of Baden-Württemberg

Annual Financial Statements 2020

L-Bank Balance Sheet as at 31 December 2020

ASSETS	31.12.2020 EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
1. CASH RESERVE				
a) cash in hand		13,028.77		12,493.42
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 9,011,517,972.17 (EUR 3,754,815,808.51)		9,011,517,972.17		3,754,815,808.51
			9,011,531,000.94	**3,754,828,301.93**
2. RECEIVABLES FROM BANKS				
a) due on demand		5,424,719.52		6,049,204.09
b) other claims		28,198,770,875.89		25,205,089,745.89
			28,204,195,595.41	**25,211,138,949.98**
3. RECEIVABLES FROM CLIENTS thereof: secured through real-estate liens EUR 4,332,326,301.61 (EUR 4,472,206,792.20) municipal loans EUR 9,597,168,248.47 (EUR 9,728,171,238.56)			**22,941,323,978.79**	**22,862,293,061.59**
4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) money-market instruments				
aa) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 926,870,354.02 (EUR 720,998,218.29)		2,148,686,438.45		1,486,202,306.73
b) bonds and debentures				
ba) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 5,630,744,588.76 (EUR 5,332,302,106.15)	5,672,448,785.55			5,457,789,593.27
bb) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 13,716,410,565.78 (EUR 13,638,143,512.55)	17,669,592,429.15			17,452,433,092.45
		23,342,041,214.70		22,910,222,685.72
			25,490,727,653.15	**24,396,424,992.45**

ASSETS	31.12.2020 EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
5. SHAREHOLDINGS thereof: in financial institutions EUR 1,986,360.52 (EUR 1,986,360.52)			249,533,456.15	229,561,766.84
6. HOLDINGS IN AFFILIATED COMPANIES			10,409,201.00	8,909,201.00
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 19,207,959.88 (EUR 23,621,267.30)			19,208,535.42	23,621,842.84
8. INTANGIBLE ASSETS a) licences acquired for consideration, industrial property rights and similar rights and assets, and licences to such rights and assets			3,705,790.30	2,949,520.40
9. TANGIBLE ASSETS			74,580,121.77	75,910,130.29
10. OTHER ASSETS			57,835,542.73	283,186,524.93
11. ACCRUED ITEMS			696,574,859.54	773,732,491.14
TOTAL ASSETS			86,759,625,735.20	77,622,556,783.39

LIABILITIES	31.12.2020 EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
1. LIABILITIES TO BANKS				
a) due on demand		15,246,430.63		11,480,127.01
b) with agreed term or notice period		28,797,178,256.92		25,976,466,757.13
			28,812,424,687.55	**25,987,946,884.14**
2. LIABILITIES TO CLIENTS				
a) other liabilities				
aa) due on demand		211,923,203.84		99,657,190.33
ab) with agreed term or notice period		9,921,238,322.61		10,657,108,095.99
			10,133,161,526.45	**10,756,765,286.32**
3. SECURITISED LIABILITIES				
a) notes issued			**39,821,763,135.21**	**34,450,313,104.27**
4. FIDUCIARY LIABILITIES				
thereof: fiduciary loans				
EUR 19,207,959.88 (EUR 23,621,267.30)			**19,208,535.42**	**23,621,842.84**
5. OTHER LIABILITIES			**1,693,335,808.10**	**23,309,943.69**
6. DEFERRED ITEMS			**1,540,497,820.37**	**1,596,639,151.77**
7. PROVISIONS				
a) provisions for pensions and similar obligations		383,231,133.00		336,679,009.00
b) tax provisions		100,000.00		100,000.00
c) other provisions		362,440,039.53		353,808,990.57
			745,771,172.53	**690,587,999.57**
8. SUBORDINATED LIABILITIES			**118,435,918.91**	**118,434,727.86**

LIABILITIES	31.12.2020 EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
9. PROFIT-SHARING RIGHTS OUTSTANDING thereof: due within two years EUR 0.00 (EUR 143,000,000.00)			**110,643,750.00**	**260,975,600.00**
10. FUND FOR GENERAL BANKING RISKS			**700,000,000.00**	**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		1,715,000,000.00		1,665,000,000.00
d) net profit		51,380,590.97		50,959,453.24
			3,064,383,380.66	**3,013,962,242.93**
TOTAL LIABILITIES			**86,759,625,735.20**	**77,622,556,783.39**

1. CONTINGENT LIABILITIES a) liabilities from sureties and guarantee contracts			**208,661,726.26**	**183,377,681.82**
2. OTHER COMMITMENTS a) irrevocable lending commitments			**3,701,477,760.22**	**3,591,023,484.64**

L-Bank Statement of Income for the Fiscal Year 1 January to 31 December 2020

		2020 EUR	2020 EUR	2020 EUR	2019 EUR
1.	INTEREST INCOME FROM				
	a) lending and money-market transactions	772,443,671.62			1,019,935,791.20
	b) fixed-income and book-entry securities	470,615,554.42			457,666,741.50
			1,243,059,226.04		1,477,602,532.70
2.	INTEREST EXPENSES		1,045,630,411.62		1,235,235,488.73
				197,428,814.42	**242,367,043.97**
3.	CURRENT INCOME FROM				
	a) shareholdings			**2,301,441.06**	**1,672,548.77**
4.	COMMISSION INCOME			**62,217,965.13**	**45,726,212.01**
5.	COMMISSION EXPENSES			**4,559,995.62**	**4,537,170.40**
6.	OTHER OPERATING INCOME			**7,740,094.48**	**8,433,872.60**
7.	GENERAL ADMINISTRATIVE EXPENSES				
	a) personnel expenses				
	aa) wages and salaries	87,897,726.85			81,551,021.63
	ab) social security contributions and expenses for pensions and other benefits thereof: for pensions EUR 20,711,320.77 (EUR 14,722,757.96)	34,811,444.27			28,274,527.34
			122,709,171.12		109,825,548.97
	b) other administrative expenses		58,353,129.65		64,512,302.27
				181,062,300.77	**174,337,851.24**
8.	WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			**6,064,827.52**	**5,621,347.59**

	2020 EUR	2019 EUR
9. OTHER OPERATING EXPENSES	18,039,607.43	28,245,927.51
10. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON RECEIVABLES AND CERTAIN SECURITIES AS WELL AS ADDITIONS TO PROVISIONS FOR LOAN LOSSES	59,157,365.75	44,007,912.40
11. INCOME FROM REVALUATION OF RECEIVABLES AND SELECTED SECURITIES AS WELL AS FROM REVERSALS OF LOAN-LOSS PROVISIONS	50,380,162.11	8,941,866.59
12. INCOME FROM ORDINARY BUSINESS ACTIVITIES	51,184,380.11	50,391,334.80
13. TAXES ON INCOME AND EARNINGS	581,578.47	260,975.65
14. OTHER TAXES NOT STATED UNDER ITEM 9	181,663.91	150,656.17
15. NET INCOME	50,421,137.73	49,979,702.98
16. PROFIT CARRIED FORWARD FROM THE PREVIOUS YEAR	959,453.24	979,750.26
	51,380,590.97	50,959,453.24
17. NET PROFIT	51,380,590.97	50,959,453.24

L-Bank Cash Flow Statement for the Fiscal Year 1 January to 31 December 2020

	01.01.–31.12.2020 EURk	01.01.–31.12.2019 EURk
Net profit/loss for the period	50,421	49,980
Amortisation, value adjustments and write-ups on receivables including contingent liabilities and securities	58,893	38,507
Depreciation/amortisation, value adjustments and write-ups on tangible assets and intangible assets	6,065	5,621
Amortisation, value adjustments and write-ups on financial assets (excluding securities)	–16,391	6,807
Change in provisions (excluding loan-loss provisioning)	160,351	125,773
Profit/loss on the sale of tangible and intangible assets	–52	–1
Profit/loss on the sale of financial assets	–29,739	–14,408
Other adjustments (net)	–252,367	–85,834
Change in receivables from banks	–2,993,724	–1,817,485
Change in receivables from clients	–130,335	–257,749
Change in securities	–1,089,386	–2,368,696
Change in other assets from operating activities	306,912	16,531
Change in liabilities to banks	2,824,478	125,031
Change in liabilities to clients	–623,604	1,743,648
Change in securitised liabilities	5,371,450	6,172,422
Change in other liabilities from operating activities	1,342,134	–205,362
Net interest income	–197,429	–242,368
Income tax charges	582	261
Interest payments and dividend payments received	1,493,046	1,518,649
Interest paid	–1,043,249	–1,190,448
Income tax payments	–582	–261
Cash flow from operating activities	**5,237,474**	**3,620,618**
Proceeds from sales of financial assets	41,164	25,887
Disbursements for investments in financial assets	–16,496	–25,605
Proceeds from sales of tangible assets	220	24,093
Disbursements for investments in tangible assets	–3,522	–4,275
Disbursements for investments in intangible assets	–2,137	–1,018
Cash flow from investment activities	**19,229**	**19,082**
Cash flow from financing activities	**0**	**0**
Cash and cash equivalents at start of period	3,754,828	115,128
Cash flow from operating activities	5,237,474	3,620,618
Cash flow from investment activities	19,229	19,082
Cash flow from financing activities	0	0
Cash and cash equivalents at end of period	**9,011,531**	**3,754,828**

L-Bank Statement of Changes in Equity as at 31 December 2020

	Subscribed capital EURk	Reserves			Net profit EURk	Equity EURk
		Capital reserve pursuant to Section 272 (2) art. 4 HGB EURk	Other retained earnings EURk	Total EURk		
Balance as at 31.12.2018	**250,000**	**1,048,003**	**1,615,000**	**2,663,003**	**50,980**	**2,963,983**
Transfer to reserves			50,000	50,000	–50,000	0
Net income for the year					**49,979**	**49,979**
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**	**51,380**	**3,064,383**

Notes to the Annual Financial Statements of L-Bank as at 31 December 2020

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), sentence 1 of the above-mentioned law sets the share capital of L-Bank at EUR 250 million.

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

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 accrued or deferred items and written back pro rata temporis. Administrative charges are collected immediately. Low-interest and zero-interest receivables are discounted. Zero bonds issued and similar liabilities are stated at the offer price plus any prorated interest accrued at the balance sheet date.

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

The Bank treats loans linked to development programmes for which it subsidises the interest portion as low-interest lending transactions. Such development programme loans are stated at their net present value. Provisions 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 value adjustments, specific provisions and generalised value 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 value adjustments are measured on the basis of historical losses for homogeneous portfolios. Portfolio and general loan-loss provisions are based on historical or expected losses.

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 value 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) sentence 1 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 2.30% (2019: 2.71%). During the year under review, the methodology was changed to fully reflect employees' retirement options; this caused the total provision to rise by EUR 12 million. 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 51 million as at 31 December 2020 (2019: EUR 44 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) sentence 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 35 million (2019: 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 2020, totalling EUR 89 million, EUR 75 million were utilised. The remaining balance was carried forward to the following year, increasing the development fund available for the 2021 fiscal year to EUR 94 million in total. On 31 December 2020, L-Bank made a provision of EUR 80 million to cover its obligation to pay out development contributions in fiscal year 2022.

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	63,468
Commission expenses	3,500
Other operating expenses	13,032
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-currency cash transactions are translated at the mean spot rate on 30 December 2020. 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 liabilities' (2019: 'Other assets').

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

Reviews of the non-trading portfolio (bank book) within the meaning of IDW RS BFA Opinion 3 with the aim of ensuring loss-free valuation are based on a net-present-value approach. Calculations are based on book values (as in the balance sheet), discounted cash flows and risk 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 2020.

Underlying transaction in micro hedge	Book value in EURk	of which interest rate risk	of which currency risk	of which price risk
Assets	55,367	–	–	55,367
Liabilities	1,433,155	1,282,250	150,905	–
Total	**1,488,521**	**1,282,250**	**150,905**	**55,367**

BREAKDOWN OF SELECTED BALANCE SHEET ITEMS BY TIME TO MATURITY OR CALL	31.12.2020 EURk	31.12.2019 EURk
RECEIVABLES FROM BANKS		
due on demand	5,425	6,049
up to three months	1,792,565	986,142
more than three months and up to one year	7,746,433	6,019,016
more than one year and up to five years	7,551,974	7,281,323
more than five years	11,107,799	10,918,609
RECEIVABLES FROM CLIENTS		
up to three months		581,333
more than three months and up to one year	1,074,162	1,741,311
more than one year and up to five years	3,623,825	3,528,142
more than five years	16,673,618	17,011,507
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	3,514,363	2,987,369
LIABILITIES TO BANKS		
due on demand	15,246	11,480
up to three months	1,485,565	1,404,132
more than three months and up to one year	1,745,296	1,923,998
more than one year and up to five years	12,388,602	9,040,216
more than five years	13,177,716	13,608,121
LIABILITIES TO CLIENTS		
due on demand	211,923	99,657
up to three months	4,333,513	4,430,351
more than three months and up to one year	61,706	140,806
more than one year and up to five years	525,608	508,377
more than five years	5,000,412	5,577,574
SECURITISED LIABILITIES		
maturing in the following year	24,595,093	17,748,145

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2020 EURk	31.12.2019 EURk
RECEIVABLES FROM BANKS		
This item comprises:		
– receivables from companies in which an equity interest is held	104,991	144,987
RECEIVABLES FROM CLIENTS		
This item comprises:		
– receivables from affiliated companies	47,170	48,544
– receivables from companies in which an equity interest is held	63,450	62,378
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises:		
– receivables from companies in which an equity interest is held	1,715,267	1,715,228
The marketable securities in this item break down as follows:		
– listed	23,220,589	22,491,292
– unlisted	2,274,839	1,914,133
Securities with a book value (excluding prorated interest accrued) of EUR 23,013,886,000 are assigned to investment assets. Of these, securities with a book value of EUR 436,418,000 have a market value of EUR 429,397,000. 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	3,565	–
FIDUCIARY ASSETS		
This item breaks down as follows:		
– receivables from banks	18,883	22,815
– receivables from clients	325	806
– other assets	1	1
TANGIBLE ASSETS		
This item comprises:		
– plots and buildings used for the Bank's own activities	67,284	69,602
– plant and office equipment	7,199	6,024

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2020 EURk	31.12.2019 EURk
ACCRUED ITEMS – ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	520,245	591,079
– Difference between issue price and higher repayable amount of liabilities	37,605	37,338
FIDUCIARY LIABILITIES		
Fiduciary liabilities break down into:		
– liabilities to banks	158	411
– liabilities to clients	19,050	23,210
– other liabilities	1	1
DEFERRED ITEMS – LIABILITIES		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	477	705
– Difference between issue price and lower repayable amount of liabilities	77,425	48,953
SUBORDINATED LIABILITIES AND PROFIT-SHARING RIGHTS		
– Interest expenses on subordinated liabilities	2,851	2,848
– Interest expenses on profit-sharing rights	9,308	12,995

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

Profit-sharing rights consist of profit participation certificates and break 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 profit participation certificates, the servicing of distribution and repayment claims is linked to the result of the Bank's ordinary business activities.

Subordinated liabilities and profit-sharing rights 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	31.12.2020 EURk	31.12.2019 EURk
OTHER ASSETS		
– Balancing item from currency translation	–	218,759
– Receivables from swaps	36,670	42,477
– Works of art	11,651	11,617
PREPAYMENTS AND ACCRUED ITEMS		
– Single payments made in advance for swaps	130,355	137,934
OTHER LIABILITIES		
– Balancing item from currency translation	1,672,294	–
– Single (bullet) repayments on swaps	6,828	12,133
DEFERRED ITEMS		
– Single payments received in advance for swaps	1,455,487	1,544,738
PROVISIONS		
under other provisions:		
– Provisions for development funds	173,853	169,171
– Provisions for development contributions already made	44,655	51,977
INTEREST INCOME		
– Negative interest from financial investments	68,197	35,853
INTEREST EXPENSES		
– Negative interest from borrowing	51,180	27,981
COMMISSION INCOME		
– Income from other services	58,757	42,663
Other services mainly relate to services on behalf of the State of Baden-Württemberg.		
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excluding sales tax):		
– for year-end auditing services	389	389
– for other auditing services	127	36
Other auditing services include investigations associated with a longer-term refinancing instrument taken out with Deutsche Bundesbank (TLTRO-III) for the first time, an audit of business operations associated with COVID-19 emergency aid, the limited-assurance engagement related to the non-financial report, 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 89 (1) of the German Securities Trading Act (WpHG).		

INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS	31.12.2020 EURk	31.12.2019 EURk
OTHER OPERATING EXPENSES		
– Addition to the provision for development funds	13,032	18,500
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	5,213,598	5,003,276
– Liabilities	34,393,219	27,425,183
The exchange-rate risk from foreign-exchange balance sheet items is essentially covered by off-balance-sheet hedging transactions. Currency translation produced: other operating income in the amount of	–	79
other operating expenses in the amount of	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 9,057 million (2019: EUR 3,367 million) were deposited with Deutsche Bundesbank. As at 31 December 2020, securities totalling EUR 3,420 million had been credited in the course of open-market transactions (2019: none). Securities in the amount of EUR 1,043 million (2019: EUR 784 million) were deposited in respect of membership of EUREX (the electronic derivatives exchange).

As collateral for OTC transactions, the Bank posted cash surety bonds totalling EUR 8,083 million (2019: EUR 5,120 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 31.12.2020	Nominal values 31.12.2019	Market values positive 31.12.2020	Market values negative 31.12.2020	Market values positive 31.12.2019	Market values negative 31.12.2019
INTEREST RATE RISKS						
Interest rate swaps	68,852	71,512	2,472	–8,076	2,280	–6,505
Interest rate risks – total	**68,852**	**71,512**	**2,472**	**–8,076**	**2,280**	**–6,505**
CURRENCY RISKS						
Forward currency contracts/ swaps	18,126	14,170	19	–804	124	–53
Currency swaps/cross-currency interest rate swaps	20,402	16,779	136	–1,829	467	–1,108
Currency risks – total	**38,528**	**30,949**	**155**	**–2,633**	**591**	**–1,161**

On balance, no significant profit or loss on foreign-exchange transactions or interest rate valuations is due from interest rate/currency swaps and the corresponding hedged items, especially on bonds or debentures issued in foreign currencies. Market values of interest rate/currency swaps totalling EUR –1,672 million are due to changes in spot exchange rates. A balancing item from currency translation was set up in this amount on the liabilities side and stated under 'Other liabilities'. If individual swap contracts include bullet payments, these are reported under 'Other assets' or 'Other liabilities'. Any advance payments are included in 'Accrued items'.

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 5,604 million as at year-end 2020. 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 31.12.2020	Nominal values 31.12.2019	Market values positive 31.12.2020	Market values negative 31.12.2020	Market values positive 31.12.2019	Market values negative 31.12.2019
Banks in the OECD	96,360	91,753	2,378	–9,197	2,605	–6,439
Other counterparties (including stock-exchange transactions)	11,020	10,708	249	–1,512	266	–1,227
Total	**107,380**	**102,461**	**2,627**	**–10,709**	**2,871**	**–7,666**

DERIVATIVE TRANSACTIONS – BY TERM

Nominal values in EUR millions	Interest rate risks 31.12.2020	Interest rate risks 31.12.2019	Currency risks 31.12.2020	Currency risks 31.12.2019
RESIDUAL MATURITIES				
– up to three months	1,395	2,806	13,250	12,488
– more than three months and up to one year	3,445	4,756	11,277	2,843
– more than one year and up to five years	25,738	24,396	10,964	11,829
– more than five years	38,274	39,554	3,037	3,789
Total	**68,852**	**71,512**	**38,528**	**30,949**

There are no trading transactions.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2020, 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	36,308	171
2	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH	Stuttgart	24.00	4,813	–4,115
3	BrandMaker GmbH	Karlsruhe	33.10	2,759	–1,869
4	BWK GmbH Unternehmensbeteiligungsgesellschaft	Stuttgart	10.00	246,026	19,599
5	DBAG Expansion Capital Fund GmbH & Co. KG	Frankfurt	21.77	46,293	–6,065
6	European Investment Fund	Luxembourg	0.18	1,990,071	175,668
7	Immatics N.V.	Tübingen	1.15	32,655	–8,054
8	Landesbeteiligungen Baden-Württemberg GmbH	Stuttgart	12.14	770,829	–37,082
9	LEA Mittelstandspartner GmbH & Co. KG	Karlsruhe	25.00	56,255	–2,541
10	LEA Venturepartner GmbH & Co. KG	Karlsruhe	49.00	3,105	–588
11	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	26.80	81,296	4,303
12	Micropelt Abwicklungsgesellschaft GmbH	Freiburg	20.10	**	**
13	OnSee Holding GmbH	Bruchsal	47.71	1,357	677
14	Selbca Holding GmbH	Berlin	36.55	5,873	–428
15	StEP Stuttgarter EngineeringPark GmbH	Stuttgart	100.00	15,899	–276
16	Strohheker Holding GmbH	Pforzheim	49.50	–870	–919
17	Technologiepark Karlsruhe GmbH	Karlsruhe	96.00	25,255	2,092
18	Technologiepark Mannheim GmbH	Mannheim	100.00	1,261	–270
19	Technologieparks Tübingen-Reutlingen GmbH	Tübingen	100.00	14,653	12,429

* As at the last fiscal year for which annual financial statements are available in each case.
** No annual financial statements were prepared due to insolvency.

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

STATEMENT OF CHANGES IN FIXED ASSETS

Fixed assets Balance sheet items	Acquisition costs 01.01.2020 EURk	Add-itions EURk	Retire-ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation/ amortisation, cumulative EURk	Book value 31.12.2020 EURk	Annual depreciation/ amortisation for 2020 EURk	Annual write-ups for 2020 EURk
Bonds, debentures and other fixed-interest securities	23,515,319	Net change pursuant to Section 34 (3) sentence 2 RechKredV: –607,716					23,013,886	–	–
Shareholdings	351,793						249,533	–3,659	20,050
Holdings in affiliated companies	14,432						10,409	–	–
Intangible assets	32,385	2,137	–23	–	–	–30,793	3,706	–1,381	–
Tangible assets	192,985	3,522	–1,316	–	–	–120,611	74,580	–4,684	–
Other assets	13,108	40	–	–	–	–1,497	11,651	–6	–

Depreciation/amortisation	01.01.2020	Addition	Write-up	Transfer	Retirement	31.12.2020
Intangible assets	29,435	1,381	–	–	23	30,793
Tangible assets	117,075	4,684	–	–	1,148	120,611
Other assets	1,491	6	–	–	–	1,497

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

Remuneration paid to members of the Board of Management for 2020 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	21	0	621
Dr. Ulrich Theileis Vice-Chair	01.01.–31.12.	525	21	19	564
Dr. Iris Reinelt	01.01.–31.12.	442	20	9	471
Johannes Heinloth	01.01.–31.12.	442	20	5	466
Total		**2,008**	**81**	**33**	**2,122**

[1)] All amounts were rounded; no adjustments were made to totals.

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 2020 in EURk[1)]

Name	Membership period	Membership of Supervisory Board	Membership of committees	Attendance fees	Total
Edith Sitzmann[2)] Chair	01.01.–31.12.	9.0	14.0	1.7	24.7
Dr. Nicole Hoffmeister-Kraut[2)] 1st Vice-Chair	01.01.–31.12.	7.5	9.4	1.4	18.3
Franz Untersteller[2)] 2nd Vice-Chair	01.01.–31.12.	7.5	2.4	1.1	11.0
Dr. Jürgen Bufka	01.01.–31.12.	6.0	–	0.6	6.6
Dr. Maximilian Dietzsch-Doertenbach	01.01.–31.12.	6.0	12.9	1.7	20.6
Martin Gross	01.01.–31.12.	6.0	2.4	0.6	9.0
Manuel Hagel	01.01.–31.12.	6.0	–	0.5	6.5
Roger Kehle	01.01.–31.12.	6.0	–	0.2	6.2
Gabriele Kellermann	01.01.–31.12.	6.0	8.1	1.5	15.6
Andrea Lindlohr	01.01.–31.12.	6.0	–	0.3	6.3
Rainer Reichhold	01.01.–31.12.	6.0	–	0.5	6.5
Prof. Dr. Wolfgang Reinhart	01.01.–31.12.	6.0	–	0.3	6.3
Dr. Florian Stegmann[2)]	01.01.–31.12.	6.0	7.2	0.3	13.5
Harald Unkelbach	01.01.–31.12.	6.0	2.4	0.9	9.3
Joachim Walter	01.01.–31.12.	6.0	–	0.3	6.3
Barbara Bender-Wieland	01.01.–31.12.	6.0	-	0.6	6.6
Thomas Dörflinger	01.01.–31.12.	6.0	–	0.3	6.3
Clemens Meister	01.01.–31.12.	6.0	–	0.6	6.6
Total		**114.0**	**58.8**	**13.1**	**185.9**

[1)] All amounts were rounded; no adjustments were made to totals.

[2)] Subject to a duty of surrender to the State of Baden-Württemberg.

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

	31.12.2020 EURk	31.12.2019 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,630	1,550
– Pension provisions for former members of the Board of Management and their surviving dependants	25,740	25,300

LOANS TO ADMINISTRATIVE BODIES (INCLUDING CONTINGENT LIABILITIES)

	31.12.2020 EURk	31.12.2019 EURk
Supervisory Board	6	8

All loans bear interest at market rates.

NUMBER OF EMPLOYEES (ANNUAL AVERAGE)

	Male	Female	Total
Employees*	551	698	1,249
of whom: full-time employees	516	386	902
of whom: part-time employees	35	312	347

* Headcount; excluding vocational 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	
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

BOARDS OF L-BANK

BOARD OF MANAGEMENT

Edith Weymayr
Chair

Dr. Ulrich Theileis
Vice-Chair

Dr. Iris Reinelt

Johannes Heinloth

SUPERVISORY BOARD MEMBERS

Regular members

Edith Sitzmann MSP*
Minister of Finance for the State of Baden-Württemberg
Chair

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

Franz Untersteller MSP*
Minister of the Environment, Climate and Energy, State of Baden-Württemberg
2nd Vice-Chair

Dr. Jürgen Bufka
Managing Director, Amber Infrastructure GmbH

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

Martin Gross
Regional Manager, ver.di Baden-Württemberg

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

Roger Kehle
President, Baden-Württemberg Association of Municipalities

Gabriele Kellermann
Member of the Board of Managing Directors, BBBank eG

Andrea Lindlohr MSP*
Vice-Chair, Alliance 90/The Greens parliamentary group, Baden-Württemberg State Parliament

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

Prof. Dr. Wolfgang Reinhart MSP*
Chair, CDU parliamentary group, Baden-Württemberg State Parliament

Dr. Florian Stegmann
Secretary of State, Baden-Württemberg Ministry of State

Harald Unkelbach
President, Heilbronn-Franken Chamber of Industry and Commerce

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 2020.

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 2020, totalling EUR 51,380,590.97, an amount of EUR 50,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 1,380,590.97 carried forward to the current fiscal year.

Karlsruhe, 2 March 2021

L-Bank

Edith Weymayr Dr. Ulrich Theileis Dr. Iris Reinelt Johannes Heinloth

Declaration of the Board of Management Regarding the Financial Statements of L-Bank as at 31 December 2020

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, 2 March 2021

Edith Weymayr Dr. Ulrich Theileis Dr. Iris Reinelt Johannes Heinloth

The auditor's report reproduced below also includes a 'Report on the audit of the electronic reproductions of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3b) HGB' ('ESEF Report'). The subject matter of the ESEF Report (ESEF documents to be audited) is not attached. The audited ESEF documents can be viewed in or downloaded from the Federal Gazette.

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 2020, income statement, cash flow statement and statement of changes in equity for the fiscal year from 1 January to 31 December 2020, 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 2020. In accordance with German statutory provisions, we have not audited the contents of the separate non-financial report pursuant to Section 289b (3) of the German Commercial Code (Handelsgesetzbuch (HGB)).

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 2020, and of the results of its operations for the fiscal year from 1 January to 31 December 2020, 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. Our audit opinion on the management report does not cover the contents of the aforementioned separate non-financial report.

In accordance with Section 322 (3) sentence 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 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 2020. 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 2020, loan receivables in the amount of EUR 22,941 million (26.4% of total assets) were reported under the balance sheet item 'Receivables from clients' in the institution's annual financial statements. As at 31 December 2020, 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 losses, not least in view of the anticipated impact of the ongoing COVID-19 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 COVID-19 pandemic. This takes account of the increased latent credit risk associated with the COVID-19 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 organisational procedures, 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 COVID-19 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.

We anticipate that the annual report and the Supervisory Board report will be made available to us after the date of this 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 and, in so doing, to consider whether the other information:

- is materially inconsistent with the annual financial statements, the 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, determine 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 to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether 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, as well as 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 users 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 that 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 audit of the electronic reproductions of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3b) of the German Commercial Code (HGB).

Audit opinion

In accordance with Section 317 (3b) of the German Commercial Code (Handelsgesetzbuch (HGB)), we have performed a reasonable assurance engagement to determine whether the reproductions of the annual financial statements and management report (hereinafter also referred to as 'ESEF documents') contained in the attached data file L-Bank_JA+LB_ESEF-2020-12-31.zip and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) of the German Commercial Code regarding the electronic reporting format ('ESEF format'). In accordance with German statutory provisions, this audit 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 reproductions or any other information contained in the above-mentioned data file.

In our opinion, the reproductions of the annual financial statements and management report contained in the above-mentioned attached 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 reproductions 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 2020 contained in the preceding 'Report on the Audit of the Financial Statements and the Management Report'.

Basis for the audit opinion

We conducted our audit of the reproductions of the annual financial statements and management report contained in the above-mentioned attached data file in accordance with Section 317 (3b) HGB and in compliance with the draft of the IDW Auditing Standard: Audit of Electronic Reproductions of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3b) of the German Commercial Code (HGB) (Prüfung der für Zwecke der Offenlegung erstellten elektronischen Wiedergaben von Abschlüssen und Lageberichten nach § 317 Abs. 3b HGB (IDW EPS 410)) 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 audit 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 reproductions of the annual financial statements and management report in conformance with Section 328 (1) sentence 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 institution's legal representatives are also responsible for submitting the ESEF documents, together with the auditor's opinion and the attached audited annual financial statements and audited management report, as well as any other documents for disclosure, to the publisher of the Federal Gazette.

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

Auditor's responsibilities for the audit 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 audit. 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 audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of the internal controls relevant to the audit of the ESEF documents 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 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 reproduction 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 20 April 2020. We were engaged by the Supervisory Board on 30 November 2020. 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 opinions 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).

INDEPENDENT AUDITOR RESPONSIBLE

The German public auditor responsible for the engagement is Stefan Palm.

Stuttgart, 2 March 2021
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Stefan Palm	Peter Schüz
Public Auditor	Public Auditor