# Annual Report
# *2023*

L-BANK
Staatsbank für Baden-Württemberg

# L-Bank in Figures

OVERVIEW 2019 – 2023 in EUR millions

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Total assets | 77,622.56 | 86,759.63 | 89,597.02 | 93,226.58 | 95,118.26 |
| Equity | 3,013.96 | 3,064.38 | 3,101.72 | 3,144.31 | 3,194.62 |
| Net interest income [1] | 302.04 | 263.20 | 254.75 | 320.02 | 513.86 |
| Net income | 49.98 | 50.42 | 37.33 | 42.60 | 50.31 |

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| 'Hard' Tier 1 capital ratio (CET1 ratio) | 20.06% | 20.39% | 20.99% | 20.61% | 21.23% |
| Total capital ratio | 22.20% | 22.29% | 22.79% | 22.12% | 22.51% |
| Return on equity | 4.39% | 4.33% | 5.13% | 5.56% | 6.05% |
| Cost-income ratio | 53.45% | 57.90% | 64.11% | 59.48% | 61.31% |
| Leverage ratio | 4.86% | 4.56% | 7.82% | 7.05% | 7.00% |

| 2023 | Moody's | Standard & Poor's |
|---|---|---|
| Rating | Aaa | AA+ |

1 Based on business operations

# Contents

# A Letter to Our Business Partners

100 years of L-Bank: 100 years of state support for housing, businesses and families in Baden-Württemberg. As the current Chair of L-Bank's Board of Management, this fills me with admiration and pride. Admiration for the courage and foresight behind the Bank's founding in 1924 and its subsequent development over the following century. And pride in the work of the many individuals employed by L-Bank and its institutional predecessors over the same period. For decades, year after year, they implemented countless development programmes, helping to guide Baden-Württemberg into the future with their competence and courage. Baden-Württemberg is one of Europe's most attractive, economically powerful regions. Much of the credit for this is due to a strong, efficiently run state development bank.

To identify and plan the way ahead, it is important to know where you started. This also applies to L-Bank. So as this year's annual report marks the occasion of our 100th anniversary – our centenary –, we wanted to contribute to a better understanding of our origins. We asked some of my predecessors at the helm of L-Bank to share their thoughts; we enlisted former State Premier Erwin Teufel, father of Baden-Württemberg's bank merger, to write the introduction, and we outlined the past 100 years of L-Bank's history in words and pictures.

In economic terms, fiscal year 2023 was characterised by inflation and high energy prices, by rising interest rates and declining construction activity, by a weak economy and uncertain prospects for the future. It was a difficult year for all of us. Germany in particular has been unable to overcome these unfavourable conditions and find its way back to positive economic development. In the midst of all this, we must be careful not to lose touch with key priorities such as digitisation, infrastructure and innovation.

As a development bank, we play an important enabling role in all such areas. With our loans and grants, we facilitate investments that aim to establish, maintain and modernise, in spite of currently adverse conditions. These are the three main objectives of our development activities. Together with the state government and our partners – Kreditanstalt für Wiederaufbau (KfW), Landwirtschaftliche Rentenbank and Bürgschaftsbank Baden-Württemberg – as well as our customers' commercial banks, we work to secure Baden-Württemberg's long-term prosperity.

It is true to say that we are living in challenging and unsettling times. But we should not talk down Germany's business success, or make things look worse than they are. In terms of the acceptance and use of our development finance services, we see a whole range of positive signs. Thus, SMEs and smaller companies remain as keen as ever on innovation and investment. And in terms of one of the most important longer-term indicators, the number of innovative business start-ups, Baden-Württemberg has performed well compared to the rest of Germany. Overall, year-end 2023 in no way fell short of the previous year. We have also succeeded in making sustainability an even more important aspect of our programmes – a concern shared by our customers, as the past fiscal year clearly shows.

Our efforts were accompanied by much-needed internal bank modernisation and transformation processes, with the emphasis once again on digitisation and sustainability, but also on ensuring regulatory compliance with a challenging – and steadily growing – range of regulatory requirements and reporting obligations. This all made and continues to make significant demands on us as a company, and on you as our colleagues and co-workers. I and my fellow board members, Dr Iris Reinelt and Johannes Heinloth, are well aware of this.

I would therefore like to express my warmest thanks to you, my dear colleagues, for all your hard work over the past year. Your competence, commitment and willingness to go the extra mile are what make L-Bank exceptional; you have defined the organisation we have become. But this strong foundation also reflects our equally ambitious expectations of ourselves: as a modern development bank, we will continue to support and positively influence Baden-Württemberg's development in response to the great issues of our time – sustainability and digitisation. So in this very special year for L-Bank, we look back on our past achievements with great satisfaction, but even more importantly, look forward to the future with enthusiasm and motivation.

Edith Weymayr
Chief Executive Officer, L-Bank

# Greetings from the State Premier

We are currently living through a time of great change, characterised by explosive developments and global crises that pose major challenges to our economy and our society. Solidarity and joint action are vital factors in enabling us to respond with resilience to the various developments in today's world. Here, L-Bank is a reliable, trustworthy partner. In 2023, the Bank once again made a major contribution to strengthening the resilience of Baden-Württemberg's society and business community in the face of crises and upheavals. The Bank provided emergency assistance in many difficult situations, and also did excellent work on the development finance side.

Last year, for example, L-Bank managed a total volume of funding in excess of EUR 13 billion and approved nearly 185,000 funding applications. Altogether, the Bank approved somewhat more than EUR 3.7 billion in loans and grants for established and young businesses. That Baden-Württemberg continues to act as a stronghold for start-up businesses is another development that fills me with confidence for the future.

More than 700 companies made use of the Bank's Liquidity Loan Plus programme for mitigating the consequences of the war in Ukraine, representing a funding volume of some EUR 404 million. The programme has proved to be the right instrument for supporting small and medium-sized enterprises. Furthermore, L-Bank's enterprise development activities enabled the creation of 15,500 new jobs. Last year, L-Bank paid out over EUR 1.1 billion in parental and family allowances. This clearly shows that family allowances still play a popular and important role in family support.

We also face major challenges in the housing construction sector. So in 2022, we focused on reversing the trend. And to my great pleasure, our new, upward trend continued throughout 2023. In absolute terms, more social housing is now being created in the federal state than is being released from regulated tenancies. Baden-Württemberg is therefore one of the few federal states in which the stock of social housing is actually growing. Thus 2,602 new social housing units were built over the past year, representing a 20 per cent increase over 2022. A total of around EUR 525 million in funding was made available for the state housing development and 'Housing for the Young' programmes.

Baden-Württemberg aims to become a model region for climate action. This is why L-Bank's development programmes are increasingly driven by sustainability criteria. I welcome this development with all my heart. Because for me, sustainability means acting with foresight and with a full awareness of our joint responsibility, so that future generations will enjoy the same opportunities we have enjoyed. For me, sustainability is much more than just a theoretical concept; it represents a very real call to action for each and every one of us.

The challenges we face in the future offer more opportunities than risks. We just have to know how to make the most of them. In this spirit, I would like to thank L-Bank's management team, along with all L-Bank employees, for your hard work and commitment, and wish you all every success in fiscal year 2024. And this year, I would also like to warmly congratulate you – also on behalf of the state government – on the occasion of your centenary!

Winfried Kretschmann
State Premier of the State of Baden-Württemberg

# Statement by the Chair of the Supervisory Board and Minister of Finance for the State of Baden-Württemberg

**Ladies and Gentlemen,**
**my dear Colleagues at L-Bank,**

Last year, in very difficult circumstances, we once again succeeded in supporting Baden-Württemberg's businesses and young families with low-interest loans and grants, as well as enabling investments in infrastructure and housing construction. Over the past year, L-Bank issued even more loans intended to stabilise small and medium-sized enterprises.

At the same time, our annual balance sheet shows that our business community is continuing to invest in activities that show promise for the future. Such as climate-friendly, sustainable projects, as well as digitisation, state-of-the-art technologies and new business ideas. Excluding Covid-19-related aid, the total volume of funding approved across all development programmes came to more than EUR 13 billion – impressive proof of the importance of L-Bank's development activities for Baden-Württemberg.

This figure also reflects the exceptional work done by the 1,500 or so employees at L-Bank. For this, I thank you from the bottom of my heart.

Best wishes,

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

# How L-Bank came to be

**The post-1972 reform of the banking sector in Baden-Württemberg**

The 'Sixties were characterised by a reorganisation of the public-sector banking industry in the Federal Republic of Germany. The federal states set up Landesbanken – state banks – with an international remit; in some cases they also assimilated the respective state development banks. The aim of these newly established institutions was to support the economic policies of the respective state and thus make a positive contribution to the state's economic development. In particular, it was felt that the rapidly growing business sector should have access to competent financial partners capable of working with the local savings banks.

The state government of Baden-Württemberg chose a different path, although ideas for a Baden-Württemberg state bank had already been proposed in 1968–1969 by two members of the state parliament, Mr Späth (CDU) and Dr Röhm (SPD).

Underlying this proposal was the fact that Baden-Württemberg's public-sector banking industry was exceptionally diverse, with two state banks, two building societies, two insurance companies, three building fire insurance agencies, and two differently structured savings bank associations supporting savings banks in Baden and in Württemberg, respectively. This diversity was further complicated by the state government's majority shareholdings in Badische Bank AG and Württembergische Bank AG, as well as a minority shareholding in Südwestbank AG. The grouping also included Württembergische Bank's intercompany participation in Handels- und Gewerbebank Heilbronn, with Bosch as the majority shareholder. In view of such diversity, it is now clear that establishing a single, large state bank was not something that could be done in a single step, due to the variety of interests involved.

In 1972, instead of a large, international universal bank, the federal state set up a development bank, Landeskreditbank Baden-Württemberg, the sole objective of which was to provide the state's economic policies with unlimited support. The nucleus of the bank was formed by merging the two housing construction credit agencies (LAKRAs). All state development funding programmes for housing construction, agriculture and business were brought together in this bank. The federal development bank, Kreditanstalt für Wiederaufbau (KfW), served as the underlying model. At the same time, financial support for the manufacturing industry, hitherto delivered in the form of grants from the Ministry of the Interior's budget, was also folded into the new bank and for the most part transformed into development finance in the form of low-interest loans.

The newly established Landeskreditbank (LKB – only rebranded L-Bank in 1998) was very successful; the Bank's income provided tangible support for the state government's policies. The income was not distributed, however, but instead used for the ongoing funding of low-interest lending programmes for housing construction, rural development and the local business community. The liquidity assistance programmes set up in the wake of the oil crisis in the mid-1970s were one of the key factors in this development. The Bank thus became a respected financial partner in the federal state, resulting in a growing demand not only for low-interest loans, but also for loans on standard market terms, especially in the municipal and energy sectors.

Once LKB became a significant player in the financial sector, the state government attempted to merge the municipal state banks – which functioned as central savings-bank clearers – with the new development bank in order to create a single, strong state bank. The closed-door talks ultimately failed due to a veto by the top managers of the Baden Savings Bank Association. The state government then attempted to rationalise the Bank's holdings in private banks and lending institutions. Discussions with Deutsche Bank (which was also a shareholder in Badische Bank) and Bosch (which held a majority stake in Handels- und Gewerbebank) were by no means easy, but the federal state's tough negotiating stance with the private partners eventually succeeded, resulting in the founding of Baden-Württembergische Bank AG.

Even while I was serving as chair of the majority CDU parliamentary group in Baden-Württemberg's state parliament, I regarded the fragmented banking structure in Baden-Württemberg as unsatisfactory. It was simply not up to the task of covering the federal state's interests as well as those of the strong, internationally minded business sector. Knowing full well that I was embarking on a difficult journey, I endeavoured to establish a strong state bank that would be, at the very least, on a par with other German state banks in terms of its importance to the economy.

This is why, as parliamentary group chair, I wholeheartedly supported the 'four-way' solution proposed by State Premier Lothar Späth – the merger of Württembergische Kommunale Landesbank, Badische Kommunale Landesbank, Landesgirokasse and LAKRA – and continued to support it after I was appointed to Landesgirokasse's Supervisory Board. In 1987, our first attempt was voted down by the City of Stuttgart's representatives on Landesgirokasse's Supervisory Board (Lord Mayor Rommel). The following year, however, did at least see the formation of Südwest LB as a result of the merger of Württembergische Kommunale Landesbank with Badische Kommunale Landesbank. Südwest LB was launched on 1 January 1988, and saw very positive development over the next few years. It acquired equity interests in the respective state banks of Rhineland-Palatinate, Schleswig-Holstein and Saxony.

Even so, this did not amount to a full-scale reform of Baden-Württemberg's banking structure. As State Premier after the grand coalition with the SPD in 1992, I saw an opportunity to make a new attempt at creating a major publicly owned bank. Heinrich Haasis, my long-serving deputy in the parliamentary group, was president of the Württemberg savings bank association at the time. He worked to bring the savings banks and S-Finanzgruppe companies together to form a single entity in Baden-Württemberg – and ultimately, he succeeded. Inspired by the old four-way solution, we had confidently forged plans for a three-way solution, a merger of Südwest LB with Landesgirokasse and LAKRA. Ultimately, however, we were unable to realise this three-way solution because the chair of the SPD parliamentary group (who also sat on Landesgirokasse's Supervisory Board on behalf of the City of Stuttgart) wanted to push through the privatisation of Landesgirokasse, as did the latter's Supervisory Board chair, Dr Zügel.

After 1996, we made yet another attempt to reorganise the banking system under the new coalition with the FDP, and this time we succeeded. Here, we found an open-minded negotiating partner in the person of Lord Mayor Schuster. I was always aware that state-side pressure would not result in a solution. Instead, I always felt it was important that the future state bank should satisfy all partners concerned. For me, this meant that the ownership structure had to be 'balanced' – that neither the federal state nor the savings banks should hold a majority stake, and that the City of Stuttgart should be given a sizeable equity interest. Gratifyingly, all parties involved – federal state, savings bank associations and the City of Stuttgart – were able to reach an agreement in this respect. On this basis, independent experts calculated the respective company values. And in fact, the state would have had a slight advantage. But the cooperative associations, private banks and the EU all criticised the integration of development activities into a bank established under public law.

The solution was to split Landeskreditbank in two, separating its development activities and its market activities. The latter were incorporated into the new institution. To obtain the same equity interest as the savings banks, the federal state injected around DM 1 billion (via the state holding company). Consequently, the federal state and savings bank associations each have a 40-per cent interest in Landesbank Baden-Württemberg (LBBW) to this day; the City of Stuttgart has a 20-per cent stake. The Bank enjoyed such positive development that in 2001, it also acquired BW-Bank. In 2005, following a squeeze-out, BW-Bank as a whole was incorporated into LBBW as a wholly owned institution.

In LBBW, Baden-Württemberg has an institution that plays a significant role in the financial markets. In L-Bank, on the other hand, the state has an extremely effective development bank with an exclusive remit: to support state policy. For the state government, the Bank acts as a key instrument in all areas of structural policy and – thanks to its financial strength – as a major support in transitioning the state economy from a dependency on fossil fuels over to the use of green energy, with a concomitant improvement in energy efficiency.

From today's perspective, I can confirm that what was created 100 years ago by merging the housing construction credit agencies has had an exceptionally fruitful long-term outcome.

The institutions in Württemberg and Baden were the basis for the foundation of LKB; in turn, the latter was the key to establishing Landesbank Baden-Württemberg and L-Bank. With L-Bank as the federal state's development finance agency, and LBBW – in partnership with the savings banks – as a major international bank, a solid financial foundation for the ongoing prosperity of both state and citizens was created. We look forward to the next 100 years!

Erwin Teufel
Former State Premier

*L-Bank celebrates its centenary!*

# Interviews **with influencers**

**In the following interviews, three influential L-Bank leaders give their own personal insights into the challenges encountered during their times in office, and identify milestones in the development bank's history.**

Transcript

## An interview with **Hans Dietmar Sauer**

**Intro**
Hans Dietmar Sauer is a highly experienced bank manager. He headed Landeskreditbank Baden-Württemberg from 1992 to the end of 2000. At L-Bank, he was responsible for, among other things, the reform of Baden-Württemberg's banking sector. From 2001 to 2004, Mr Sauer chaired the Management Board of Landesbank Baden-Württemberg and served as President of the Federal Association of German Public-Sector Banks.

**Mr Sauer, what was it like to manage a state bank back in the early 1990s?**

We had very active State Premiers back then – especially Lothar Späth. He was constantly coming up with new ideas and wanted the banks over which he had influence to adopt them. And basically, we responded to this by going along with everything he wanted. We were always ready and willing to put the government's ideas into practice. And that's how we won a good reputation, so in return, we were left completely free to structure our programmes as we wished. We told the state how much money we were paying out to them, what else we were doing in terms of development finance and so on, and actually, the state was always happy to listen. By law, we were then tasked with the crucial enterprise development side, the almost equally important agricultural development side, and because we were so ready to tackle more or less anything, we also took over family allowances. At the time, this was a big and very labour-intensive area, but that's what we did.

**What would you say were the three outstanding events or projects of your time in office?**

Well, one of them was setting up what we described as a 'technology factory' in Karlsruhe. The second was building German Centres in Indonesia and South Korea, and after the fall of the Berlin Wall, we also set up – and this took precedence over everything – Saxony Development Bank. So basically, we prioritised Saxony as our first major financial aid project, along with the entire State of Baden-Württemberg. The State was sending judges and all kinds of things. So that was actually the biggest of our three undertakings.

**Looking ahead – where might L-Bank be most urgently challenged and needed in the coming years?**

There are still a few opportunities ripening somewhere even as we speak. After the technology factory, we had the idea of developing what we called industrial parks. And L-Bank has been running them very successfully right up to the present day. The Bank bought land, or was given land, and built developments on it that have had a positive impact in Tübingen, Reutlingen and all over the world. This kind of thing will undoubtedly continue to play an important role in the future. Otherwise, I believe that the Bank's traditional development funding activity is still important: housing construction is back at the top of the agenda; business development was always a major priority; agriculture is picking up steam again, and family allowances have never gone away. Actually, these are all areas of activity which will, I believe, continue to be important in the future.

**Sign-off:**
Im Interview: Hans Dietmar Sauer, Vorsitzender des Vorstands der Landeskreditbank Baden-Württemberg von 1992 bis Ende 2000.

'We built German Centres in Indonesia and South Korea, and – this took precedence over everything – ***we also set up Saxony Development Bank after the fall of the Berlin Wall.'***

Hans Dietmar Sauer

Transcript

# An interview with **Christian Brand**

**Intro:**
Christian Brand took the helm of L-Bank for 13 years, between 2001 and 2014. But he had been a member of the Board of Management for much longer, since 1993. During this time, he also headed the Federal Association of German Public-Sector Banks. After he retired, he was appointed Chair of the Supervisory Board of Landesbank Baden-Württemberg in 2015, an office he still holds today.

**Mr Brand – what was it like when you took office; what was special about L-Bank?**

In general, it's true to say that L-Bank has always been extremely well managed. Although I come from an investment banking background, joining the Bank didn't give me culture shock. It was creative, it was top-quality, it was very, very open to new ideas, and I felt very, very welcome. I started serving as head of the Bank in 2001, when Mr Sauer was appointed CEO of Landesbank Baden-Württemberg, and we'd just made it possible to set up LBBW by transferring over L-Bank's market business. This gave us the opportunity to re-establish a flawless development bank. It was very well funded and, most importantly, boasted first-class, talented L-Bankers who worked as a team.

'The financial crisis in 2008/2009 was, of course, a major upset, and we were very, very relieved that *we made it through this difficult time with top results.'*

Christian Brand

**What are the three main events or projects that defined or characterised your time in office?**

The financial crisis in 2008/2009 was, of course, a major upset, and we were very, very relieved to make it through this difficult time with top results. Indeed, we were even strong enough to help others. Another surprise was the sudden introduction of new family allowances, and the fact that we were asked to handle them. We could only do that with very powerful IT systems, which fortunately we had, and by pulling together as a single L-Bank team, we succeeded in setting something of an example in Germany. I'm still very, very happy about that, and perhaps also a little proud of what we achieved. As for the third project: as a development bank, you're also expected to manage and structure larger projects. So for example, we structured and financed the repurchase of Energie Baden-Württemberg shares from Électricité de France – an impressive feat that worked out really well. I'm also pleased that we managed to cater to such a broad range of needs.

**Where do you think L-Bank will be, and how – maybe not in 100 years, but in 10 or 20?**

Well, I believe that even in 100 years' time, we'll still need a development bank, even if we can't say right now exactly what we'll need it for. But if you think about the energy transition specifically, there are major projects to be financed, structures to be funded. But it's also important for us to help our citizens to make the transition. And I believe L-Bank definitely has a major role to play here. But it will be essential for us as a bank to attract top talent. And I believe that an institution like L-Bank, with its triple-A rating and clearly defined mandate, should have no difficulty doing so.

**What's on your wish list for L-Bank?**

Always keep looking to see where you can help the federal state and its citizens – and think laterally. Very best wishes on your birthday!

**Sign-off:**
Interviewed: Christian Brand, who chaired L-Bank's Board of Management from 2001 to 2014.

Transcript

# An interview with **Dr Axel Nawrath**

**Intro**
Dr Axel Nawrath headed L-Bank as CEO from 2014 to the end of 2019. Prior to this, as a highly qualified lawyer and financial expert, he made significant waves at federal level as Secretary of State for Taxation, and sat on the Executive Board of KfW. Today, he chairs the Administrative Board of Investitionsbank Berlin (IBB), the State of Berlin's development bank.

'We were able to defend our triple-A rating, and also became ***an influential innovator in the development banking sector.'***

Dr Axel Nawrath

**Dr Nawrath – looking back, what would you say were the main successes of your time in office?**

First, I believe – and this is very important, even for a development bank – that we proved our banking credentials in very difficult market conditions. We were able to uphold our triple-A rating and raise our 'hard' Tier I capital ratio from 14 to over 20 per cent. What's more, we continued to develop our funding instruments. In particular, we pushed ahead with the digitisation of our financial aid programmes, and assisted in the reassessment of our social housing construction instruments, so that we ultimately succeeded in funding more new regulated social housing for rental than the number of regulated tenancies that expired. We also further developed the Bank's major USP – that is, the technology parks – and in doing so, became an innovation leader in the development banking sector.

**During your time in office, you also had a high-profile dispute with the European Single Supervisory Mechanism about the status of development banks in the finance industry…**

When the ECB wanted to supervise us under the mechanism, we took legal action in the European courts – and promptly lost. But we made a big fuss when we lost, so we did achieve one thing: the legal proceedings made politicians more aware of all the issues surrounding development banks. Ultimately, this meant that European politicians developed a new perspective on development bank business models and, after a while, decided we should in fact be legally exempt from the ECB's supervision.

**What do you wish for L-Bank in the future?**

That the Bank should continue to be seen as an influential innovator in the development finance sector, and have the justified self-confidence to go on being successful.

**Sign-off:**
Interviewed: Dr Axel Nawrath, who chaired L-Bank's Board of Management from 2014 to the end of 2019.

# 100 years of Swabian development bank

‘For the love of our state’

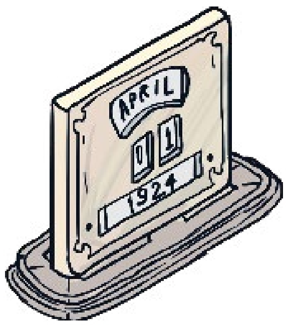
## Born of necessity: Two development banks for housing construction


For three years, the world was trapped in a state of emergency. The history of L-Bank began in the Weimar Republic, a few years after the First World War. One of the most urgent tasks facing the young democracy was to provide the general population with adequate, affordable housing.

The government was unable to fulfil this need on its own. So Eugen Bolz, who was appointed Württemberg’s Minister of the Interior in 1924, proposed a way out of the crisis – thereby becoming the progenitor of what would later become L-Bank:

> ‘Apart from a housing credit agency, I can see no other way ***to fund housing construction.’***
>
> **Eugen Bolz,** Württemberg’s Minister of the Interior, March 1924

On 1 April 1924, Württembergische Wohnungskreditanstalt, the first of L-Bank’s forebears, was founded as a non-profit, public-law institution. Initially, Württembergische Wohnungskreditanstalt was based in Stuttgart’s Friedrichstrasse, with a total of 18 employees headed by civil servants. The first – and at that time, still honorary – Chair of the Board of Management was administrative lawyer Alfred Neuschler.




The government in Baden was also granting loans in support of housing construction, albeit directly to housing associations or municipalities, which then passed the loans on to developers. Baden first set up a bank – Badische Landesfürsorgeanstalt, later renamed Badische Landeskreditanstalt – in 1934, with its office in Moltkestrasse in Karlsruhe.

## A typical working day in the early years

*In the pleasant little town of Wernau am Neckar, a locksmith hopes to realise his dream of owning his very own family home; he has already saved 25 per cent of the capital required. The savings bank in Esslingen grants part of the building loan. For the remainder, he turns to Württembergische Landeskreditanstalt – and to do so, must visit the town hall. A municipal committee discusses his application. Only after they have reached a positive decision is his application forwarded to Württembergische Landeskreditanstalt.*
*In many respects, this process is typical of the work done by the housing credit agencies. In most cases, they take on the somewhat riskier second mortgage, and thus support private building projects in particular. In Württemberg, almost 55 per cent of all loans granted in 1926 went to private builders.*

## This core remit remained important even after 1933

In Karlsruhe and Stuttgart, it remains so to this day. As does the prioritisation of funding for housing construction. Even the years of National Socialism and the Second World War did not disrupt this mission. Although, like all public-sector and government institutions between 1933 and 1945, both state lending banks had to align themselves with National Socialist ideology and were obliged to implement the NSDAP's ideal petty-bourgeois vision of a house complete with vegetable garden (for self-sufficiency). Changes were made to the organisational structure: government-affiliated organisations – including the state lending banks – were obliged to introduce what became known as the 'Führer' principle into their organisational processes, and the Nazi party exerted a direct influence on personnel policy, even if (according to personnel records of the time) neither institution was controlled by especially rigorous hardliners.[1]

**1** For more on the history of both housing construction development agencies under National Socialism, see Frederick Bacher: Eigenheim für alle? Die Landeskreditanstalten in Württemberg und Baden 1924 bis 1945 (Home ownership for all? The state finance agencies in Württemberg and Baden 1924-1945); Stuttgart 2018.

## A difficult post-war rebirth

In 1945, Germany lay more or less in ruins. In Stuttgart and Karlsruhe, respectively, 58 and 35 per cent of all buildings had been damaged or destroyed. But building materials were almost unobtainable, and what was available had to be used for makeshift repairs. Financial resources were also very limited in post-war Germany. In 1946, Württembergische Landeskreditanstalt was able to finance the reconstruction of just 36 residential units out of its own funds.

## Rebuilding the state finance agencies from the inside

*After the war, the two state finance agencies (Landeskreditanstalten) learned lessons from the forms of organisation imposed by the National Socialists. Departments and units previously structured according to the 'Führer' (Leader) principle were now democratised. In Württembergische Landeskreditanstalt, for instance, certain powers were shifted to lower decision-making levels, and double signatures replaced the former individual signing authority. Responsibility was distributed across multiple members of staff. The duties and remits of department heads and senior managers – previously often combined in a single role – were clearly defined. As supervisory bodies, the state finance agency also set up a Supervisory Board, and ultimately a Works Council.*

## Currency reform fuels the upswing

The introduction of the Deutschmark in June 1948 marked the start of the economic miracle. Almost overnight, goods reappeared in shop windows, and demand for building loans also began to grow. In the first half of 1948, Württembergische Kreditanstalt could only provide just under 1,832,500 Reichsmarks for the construction and repair of 544 residential units; but in the period between the currency reform and 31 December 1949, the bank was able to subsidise more than 22,000 residential units with a total of over DM 52 million.

> ***'After the currency reform, the fruit ripened overnight.*** Here too, business is booming, there's plenty of choice, service is friendly.'
>
> **Commentary** on the 1948 currency reform by a radio reporter

Special initiatives for the reconstruction of particularly badly damaged areas were now feasible – and projects proliferated, especially in Baden where, starting in 1949, several million Deutschmarks were made available for repair work in Kehl, Breisach and Neuenburg. The upturn created new companies and new jobs, so that employment figures in Baden more than doubled between 1950 and 1957.

As well as housing construction, both state finance agencies were involved in the reconstruction of the agricultural sector, which had also been severely damaged by the war.

## From accommodation to affluence – the upturn in figures

*During what became known as the economic miracle, the economy did nothing but soar. In some instances, the construction industry was barely able to keep up with the boom. Thanks to the work of the credit agencies, tens of thousands of citizens in south-western Germany were able to move into new homes.*
*By 1951, Württembergische Landeskreditanstalt's total assets had risen to DM 344.6 million; by the end of 1954, they already exceeded DM 1.14 billion. Over the same period, Badische Kreditanstalt's total assets climbed from DM 377 million to DM 837.1 million. By the mid-1960s, the total assets of both state finance agencies had broken through the DM 3 billion barrier.*

## Rapprochement between the federal state and its development banks

In both parts of the federal state, the problems were the same – and the solutions near-identical. So it was scarcely surprising that after the foundation of the south-western State of Baden-Württemberg in 1952, the two state finance agencies should also draw closer together.

In 1953, the articles of association of both institutions were aligned, their development finance programmes coordinated, and inter-agency meetings convened at short notice to discuss urgent issues. Indeed, to better coordinate the federal state's housing policy initiatives, the same Ministry officials were appointed to the Management Boards of both institutions. The first plan for a merger of the two development banks was drawn up at the end of the 1960s. But Baden in particular expressed major reservations.

'Both institutions coordinate their annual development funding programmes ***in close consultation with each other.'***

**President Dr Zimmerle** on the relationship between the state finance agencies

## A very angry letter

A furious missive from a woman in Neuburgweier was received by Baden-Württemberg's State Parliament in March 1972. She was 'appalled' to discover that Stuttgart was to be Landeskreditbank's future home. Karlsruhe had 'already made enough sacrifices for our beloved Swabia,' she insisted. Even though many people may have shared her opinion in the 1970s, the bank merger was consummated in 1972.

'If I had known that everything would be taken away from Karlsruhe, ***I would never have voted for Baden-Württemberg.'***

**Neuburgweier resident** writing in March 1972

In November 1971, the first draft of a law covering the merger of the two institutions was drawn up; parliamentary deliberations began in the spring of 1972. And after much vigorous debate, especially on the question of where in Baden-Württemberg the new Landeskreditbank should be located, agreement was reached. The head office was set up in Karlsruhe, with a branch office in Stuttgart.

## One Bank, two philosophies

For Rolf Schoeck, long-serving President of the merged Landeskreditbank, few issues so clearly define the new institution's early years, or better exemplify the different corporate cultures, as the story of the swimming pools.

'Contributing to the initial organisational problems were ***the very different mentalities of our employees from Baden and from Württemberg.'***

**Rolf Schoeck, President of Landeskreditbank,**
in an interview on the 20th anniversary of Landeskreditbank Baden-Württemberg

In the early 1970s, many hotels with the very latest facilities boasted their own swimming pools – and many hoteliers retrofitted their hostelries accordingly. Almost simultaneously, two applications landed on desks at Landeskreditbank, one from a hotelier in Baden, the other from a hotelier in Württemberg. The application from Baden was approved without much fuss. But the application from Württemberg triggered a profound debate about whether there was a need for expensive hotel swimming pools. The outcome: the approved development loan was lower in Württemberg than in Baden.

## A new Bank for a new era

After the merger, the remit and expectations of the new Bank also changed. Unlike its predecessors, it was no longer just a development agency – it had now become a universal bank, permitted by law and its own mandate to conduct all kinds of banking transactions.

On the development finance side, enterprise development became increasingly important.

By the 1970s, small and medium-sized companies were facing tougher competition in an increasingly networked global marketplace. Global shocks were felt, such as the first oil crisis in 1973 – and in Germany, they were enough to cause a recession. To support local companies, Landeskreditbank launched new programmes: in 1975, for example, the Bank set up an export guarantee programme, through which it guaranteed loans taken out by companies to finance their exports.

## A place for new ideas and new businesses

*Baden-Württemberg is still a technology leader in Germany today. Every year, almost a quarter of all patent applications made in Germany originate in Baden-Württemberg. Since the 1970s, L-Bank has played an increasingly important role as a supporter of innovation with, for example, development funding programmes for young business founders, or as facilitator and backer of large, complex projects. In 1983, the Karlsruhe Technology Park and Stuttgart-Pfaffenwald Technology Centre were created. Here, young companies were able to rent space at favourable conditions, take advantage of optimised infrastructure and enjoy an innovation-focused environment during their early years.*
*The concept of making buildings and infrastructure available to businesses was also implemented on an international level. In Indonesia, the German Centre was founded in Jakarta in the mid-1990s.*

In addition, the Bank launched its first family support initiatives, such as family loans. But finance for housing development remained L-Bank's core business. In 1977, L-Bank subsidised one in every three residential units built in Baden-Württemberg.

## Landeskreditbank goes blue


L-Bank grew rapidly as a result of these new activities: total assets doubled between 1972 and 1978, the scope of the Bank's activities moved beyond state borders and the number of employees grew. In 1982, the Bank moved into a prestigious new building in Karlsruhe; some ten years later, another modern building was also erected in Stuttgart.

The visible expression of L-Bank's revised self-image was a new brand identity with cool blue as the corporate colour, featuring a redesigned logo (introduced in 1990), and a new visual language reminiscent of the brand images projected by major banks. L-Bank had become a global player and, as one annual report put it, was now one of the most significant institutions on the international primary market.

'Many banks move with the times.
***We prefer to move a little ahead of them.'***

**L-Bank strapline** from the 1990s

## Eastern reconstruction: L-Bank does pioneering work in Saxony

The Berlin Wall fell in 1989; less than a year later, Germany was reunified. Now the new federal states had to be integrated into the Federal Republic on many different levels. In many sectors, including the banking sector, experienced staff were sent to the former East Germany so they could use their expertise to assist in setting up new structures.

To support and assist Saxony's economy following reunification, a fully functional development bank was to be established in Dresden, based on the successful example set by Baden-Württemberg. Initially, 14 L-Bank employees moved into a building formerly occupied by VEB Robotron, where they started working for Sächsische Aufbaubank (SAB), set up as a legally dependent branch of Landeskreditbank.


The demand for grants and subsidies in particular was overwhelming. Application forms were in such high demand that in some places, there was even a black market for them. Some young Saxon entrepreneurs, still unfamiliar with the new conditions, submitted their funding applications in handwriting and without detailed business plans – or asked for subsidies for hardware store purchases worth just DM 15. By 1995, the new bank had made funding commitments worth over DM 36 billion.

## A Stradivarius for Baden-Württemberg: culture as part of L-Bank's development mandate

Anne-Sophie Mutter, later to become one of the world's most successful violinists, was just 12 years old when L-Bank subsidised the purchase of her first Stradivarius violin. The child prodigy from Rheinfelden in Baden was the first musician to be provided with development funding by the Bank.

> 'Together, we decided that a violin like that was absolutely vital for Anne-Sophie Mutter's career as a violinist. [...] ***We subsidised it with a low-interest loan, just as we would support a small business start-up.'***
>
> **Rolf Schoeck** on funding culture and the arts

In an insight that took root during the 1980s, the Bank realised that a successful federal state needs more than just a booming economy – it also needs a vibrant artistic and cultural life. Starting in 1984, Landeskreditbank built up its own collection of top-quality musical instruments, so that it could loan them out to talented musicians and thereby help them to develop their skills.

L-Bank also funded studios and art materials for visual and fine artists, producing mini catalogues of their artwork for especially talented individuals so they could present themselves more effectively.

## A different kind of patronage: the Karlsruhe-Durlach State Winery

*Vines have been cultivated on the slopes of Durlach's Turmberg for millennia. The area's microclimate is ideal for viticulture. But cultivation is laborious – the steep slopes severely limit mechanisation. The slopes have been shaped into terraces, and their dry stone walls have become part of the cultural landscape. In 1993, L-Bank acquired both vineyard and buildings. By cultivating the terraced vineyard complex, the Bank helps to preserve it and keep the culture and tradition of Baden viticulture alive.*

## Pink L-Bank has a clear mandate: to provide services that benefit the state

L-Bank as we know it today came into existence at the end of the 1990s, as Landeskreditbank Baden-Württemberg – Förderbank. By 1999, when bright pink flags flew instead of blue ones in front of the L-Bank buildings on Schlossplatz in Karlsruhe and in Stuttgart's Friedrichsstrasse, the state's major banking reform was complete.

With the new L-Bank Act of 1998, the old Landeskreditbank transferred its market-focused activities to the newly founded Landesbank Baden-Württemberg (LBBW) – the central bank for Swabia's savings banks – and turned into a pure development bank.

**Since then, our mission has been enshrined in the L-Bank Act:**

*"The Bank is commissioned by the state to support the federal state in the performance of its public functions, in particular in the areas of structural, economic and social policies. [...] In fulfilling its mandate, due consideration should be given to both protecting the climate and adapting to the unavoidable consequences of climate change."*

Thus by the turn of the millennium, L-Bank had been given a clear service mandate and a clear regional focus on the State of Baden-Württemberg. Consequently, in 2002, ownership of Sächsische Aufbaubank was transferred in full to the Free State of Saxony. The broad range of our business activities involves providing development finance in support of family allowances and education, social projects and housing construction, and infrastructure and business enterprise.

## Development funding breaks new ground

In 1998, together with the state government, we announced the first State Prize for Young Companies. The award recognises entrepreneurs who have acted as inspiring entrepreneurial role models through their capacity to innovate, sustainable business practices and social commitment. In 2024, the State Prize will be awarded for the 15th time. It has long been regarded as a benchmark for successful young companies in Baden-Württemberg and is one of the most popular and reputable business competitions in the whole of Germany.

In 2006, we launched an exceptionally successful event format: the Economic Forum. This takes place annually in one of the state's subregions. The idea is to introduce the development bank and its programmes to the region, thereby opening up financing and related development opportunities for regional SMEs. This format is one of the ways in which we live up to our responsibility as the development bank for the whole of Baden-Württemberg, even though we do not have bank branches throughout the state. In 2024, we will be organising the Economic Forum for the 18th time.

After 1998, our technology park concept was also revitalised. Close collaboration between businesses, universities, and public and private research institutions can act as a powerful innovation engine. Offering companies the best structural conditions in which to develop and network is an efficient way to support business, extending beyond loans and grants. To support SMEs, we set up technology parks in the immediate vicinity of the universities in Tübingen-Reutlingen, Mannheim and – most recently – in Freiburg.

As well as enterprise development, we also expanded our financial support for art and culture after 1998. In part, we achieved this through sponsorship and partnership activities, such as the International Festival of Animated Film in Stuttgart, or the Art Karlsruhe festival. L-Bank also supports museums through targeted sponsorship, for example by funding free admission for young people.

In 2009, we launched something very special. Our 'Magical' competition combined educational support with creativity. The competition, based on a different theme each year, is aimed at special-needs education and counselling centres in Baden-Württemberg, and encourages pupils to develop creatively and artistically.

## L-Bank provides proactive, long-term support

Since 1998, our clear focus on our development finance mandate has resulted in a proactive, creative development funding policy that is not just about reacting to impending problems, but about stimulating development by establishing pioneering programmes to make companies fit for the future. Development programmes in support of digitisation, new business models and technologies, sustainable energy and resource utilisation, and climate action at the corporate, municipal and residential levels, all bear testament to our proactive development policies. This also applies very particularly to our business start-up programmes, by means of which we support and encourage innovative ideas, promising new businesses and courageous young entrepreneurs.

For many years, we have been making steadily growing amounts of venture capital available with the aim of providing business start-ups with financial security. Our LEA Mittelstandspartner and LEA Venturepartner funds were, and are, our main instruments for supporting high-tech start-ups at various stages of development.

In 2023, we further increased our investments in venture capital funds. As an anchor investor, we mobilise additional private investment in the three-figure million-euro range through our investments in venture capital funds, thereby supporting the modernisation and growth of new and established companies.

## The 2020s – the Covid-19 crisis and emergency aid programmes

The coronavirus pandemic that broke out in 2020 was a brutal ordeal for society as a whole. While most of Germany languished in lockdown, L-Bank employees had more to do than ever before – because the Bank had a key role to play in overcoming the severe economic consequences of the crisis in Baden-Württemberg. In the first year of the pandemic alone, we approved EUR 2.2 billion in Covid-19 emergency aid, thereby implementing the largest enterprise support programme in the state's history.

***'To overcome the coronavirus crisis and emerge even stronger than before,*** it is especially important to have solid, dependable partners like L-Bank on our side and at the side of our local businesses.'

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

The crisis continued through the following years right up to the present, characterised by billions of euros in aid for individuals and companies. L-Bank made a major contribution to stabilising the social situation without, however, losing sight of the future in the process. Both transformation and stabilisation are part of our mission, and both are objectives guiding our development activities.

## In a process of permanent dialogue, we adapt our strategic goals to the needs of the federal state

As the most modern development bank in Europe, we aim to be the best possible development services provider to the State of Baden-Württemberg by assisting the state government to turn it into one of the most attractive climate-neutral regions in the world. This is L-Bank's ambitious strategic objective in the here and now. So we must, above all, ensure that we reliably and sustainably fulfil our statutory public-service mandate as well as the short-term mandates required by the state government – in short, that we preserve our development finance capability. We will do this by, among other things, digitising our operating procedures and development business, and making them more cost-efficient and sustainable. This is a long-term process which we initiated back in 2022 as part of our modernisation strategy, and which we are now systematically pursuing.

It is equally important for us to regularly review our development programmes and adjust them when necessary. The perennial question is: are we achieving the desired effect with each of our funding instruments? And if not, will an adjustment be sufficient, or should we fundamentally restructure the programme concerned? To answer these questions, we subject our programmes to a 360-degree impact measurement process that is continuously evolving. This enables us to respond appropriately to unforeseen crises while aligning our development activities with the state government's goals.

## Sustainability and climate action are key issues of the 21st century

Sustainable action and sustainable development are top priorities in the 21st century. To create a stable society and preserve our resources and livelihoods, it is absolutely essential that we meet our environmental, economic and social objectives. Back in 2013, L-Bank formulated its Sustainability Code, committing the Bank to further developing Baden-Württemberg's economic, social and ecological infrastructure in close collaboration with the state government. We aim to play an active role in transforming the state, and to act as a role model in doing so.

## Active commitment to environment, climate and diversity

*Among other things, L-Bank was one of the first signatories of the federal state's WIN Charter and the Sustainable Business Initiative for SMEs, and is thus committed to compliance with key corporate sustainability principles. The Bank is a member of the Baden-Württemberg Climate Alliance and a signatory of the Diversity Charter – a commitment to greater diversity in the workplace. And while L-Bank exerts a positive influence primarily through its role as a development bank, sustainability also plays a major role within the organisation itself. Thus L-Bank's environmental management system has been EMAS-certified since 2016, meaning that it has been awarded the European Union's seal of approval under the Eco-Management and Audit Scheme.*

*L-Bank also contributed to the Sustainable Finance Strategy for Stuttgart as a financial centre and joined the United Nations Environment Programme (UNEP) Finance Initiative.*

*In 2023, we signed up to the Principles for Responsible Investment (PRI), thereby undertaking to adhere to the principles of responsible investment and sustainability as an investor, and to report annually on our strategies for, and progress in, implementing the PRI.*

In 2023, we carried out a regular update of our sustainability strategy as part of our business strategy. Among other things, we incorporated the state government's new Climate Protection and Climate Change Adaptation Act, which has also expanded L-Bank's development finance mandate. In the future, products and programmes for adapting to climate change will form part of our statutory mandate. The United Nations Sustainable Development Goals defined in 2015 provide the frame of reference and benchmark for the sustainable development of our funding programmes.

We have set ourselves the goal of achieving net greenhouse-gas neutrality – i.e. climate neutrality – by 2040. This includes our development finance business, our capital-market activities and our business operations.

## 100 years on, our mission remains unchanged: to develop and transform. For the love of our state.

From the early social housing construction projects of the Weimar era through to the reconstruction programmes of the 1950s and the challenges of globalisation in the 1980s and 1990s; from providing support for transformation, managing digitisation and sustainability programmes through to delivering emergency aid programmes for stabilising the federal state in times of crisis:

'100 years of L-Bank' describes an approach to development finance that is not about obtaining the highest possible returns, but about preserving quality of life and prosperity – about transforming Baden-Württemberg and making it fit for the future.

And so we will continue, ***for the love of our state.***

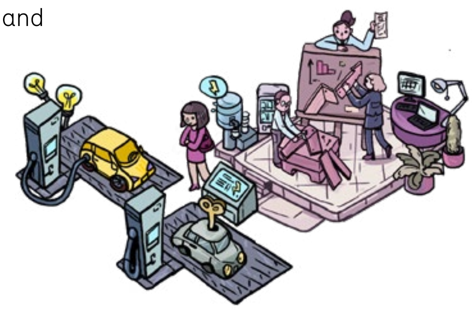
# **An anchor in troubled times:** L-Bank's enterprise development provides stability and opens up prospects

Pandemic and lockdown, war in Ukraine, energy price shock, shortage of skilled workers, supply-chain bottlenecks, inflation and high interest rates – for the past four years, we have been in a state of continuous crisis. The term 'polycrisis' has become commonplace: multiple crises blur into one – causing a state of permanent disruption. This ongoing situation is shaking the foundations of our sense of community and calling into question the very basis of our prosperity. During such a phase, the strengths and weaknesses of an economic area become apparent – the longer the crisis lasts, the clearer they become. We discover how robust and adaptable our businesses really are, and how broad-based we are as a business centre.

As the state development bank, we are active throughout the state – from Karlsruhe to Isny im Allgäu, from Wertheim to Bad Säckingen. With our programmes and financial aid, we serve the entire economic area, covering all sectors and industries. Whatever we do or do not do thus affects the whole of Baden-Württemberg. Consequently, the year-on-year evolution of our enterprise development business provides a very useful overview of the state of businesses – and especially SMEs – in south-western Germany.

## Baden-Württemberg defies the crisis

Our figures tell us that to date, Baden-Württemberg has held up well over the years of crisis. As a federal state, it is still characterised by innovation and research. It is a state of courageous entrepreneurs, where ideas and start-ups flourish. Despite the ongoing crisis, companies are investing in their transformation to enable their long-term survival. And despite the ongoing crisis, many young entrepreneurs are still venturing into the marketplace with their innovative business ideas and products.



However, the past year has also shown that we are approaching a breaking point. Negative economic growth in Germany over the year as a whole is one – but by no means the only – key indicator of this. The L-Bank/ifo business survey, our regular survey of business sentiment in the federal state, reflects the considerable uncertainty currently afflicting companies. Since August 2023, the business climate index has languished in the double-digit negative range. By the end of the year, companies in Baden-Württemberg rated their current situation as just as bad as it was in the Covid-19-impacted winter of 2020-2021. And for many months, their expectations for the future have been overwhelmingly pessimistic.

This is reflected by a shift in the demand for our development programmes: while demand for investment-related development programmes is trending lower, there has been a significant increase in demand for business-stabilising liquidity assistance. More optimistically, willingness to invest appears to have increased again in the last quarter of 2023. This also indicates that our development programmes are offering the expected and much-needed incentives.

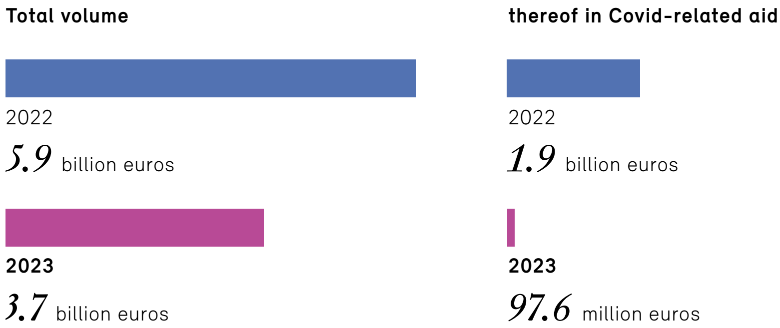
## A successful year for L-Bank's enterprise development activities

Looking at the year as a whole, L-Bank's development business in the commercial sector showed a decidedly positive trend, despite all fears, anxieties and generally unfavourable conditions. This trend gained momentum in the second half of 2023, following a rather subdued start to the year.

Taking all programme-related and non-programme-related development finance as a whole, L-Bank approved just over EUR 3.7 billion in loans and grants for established and fledgling companies. Covid-related aid programmes accounted for just under EUR 100 million of the approved funding, compared to over EUR 1.9 billion in the previous year. Excluding special Covid-related programmes, total approved funding fell by around 7.2 per cent compared to the previous year. In view of the economic situation as a whole and the negative growth of Germany's economy, as well as the pessimistic expectations of many companies with respect to the future, the decline was less pronounced than anticipated by the Bank in early 2023.

### Enterprise development

compared to previous year



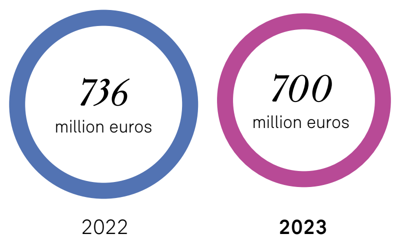

In total, L-Bank supported more than 14,400 companies with loans and grants. Of these, 2,380 were start-ups and young companies. For the first time since the outbreak of the coronavirus pandemic, the number of customers in programmes rose again, from 6,356 in 2022 to 6,552 last year. The development finance had a positive impact on the labour market in all urban and rural districts. Last year, thanks to this funding, some 511,500 jobs were successfully preserved in established SMEs and young companies – and the right conditions were also created for 15,550 new jobs.

## The high number of business start-ups remained unchanged, proving the viability of Baden-Württemberg's economy

There was also a very high demand for our business start-up programmes in 2023. The start-up scene turned out to be robust. Both the volume of development finance and the number of young companies in receipt of funding were roughly on a par with the previous year. Combined, all the business start-up programmes processed by L-Bank resulted in a substantial volume of approved funding– almost EUR 700 million for 2,380 companies. In 2022, the figure was a record EUR 736 million for 2,488 companies.

### Volume of start-up funding

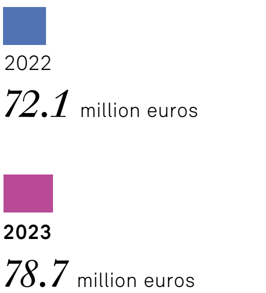
compared to previous year



The **Start Finance 80** programme, in which loans taken out by companies are also secured by an 80-per cent default guarantee provided by Bürgschaftsbank Baden-Württemberg, saw much higher demand during the year under review than in the previous year. The funding volume grew by at least 9 per cent to nearly EUR 79 million. There was also significantly stronger demand for the programme **BW Start-up and Growth Finance for young SMEs.** Compared to the previous year, however, total approved funding fell slightly to just under EUR 613 million.

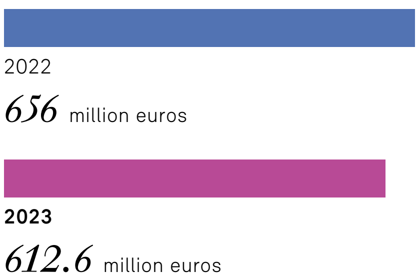
**Start Finance 80**

compared to previous year




**BW Start-up and Growth Finance for young SMEs**

compared to previous year




This programme also has a special feature: a young company that submits a corporate carbon footprint audit in phase one of the application procedure, plus a practical action plan for reducing carbon emissions in phase two, receives a **Sustainability Bonus** in the form of an additional interest-rate reduction. We also offer this **Sustainability Bonus** under the **BW Start-up and Growth Finance for established SMEs** programme, as well as the **Investment Finance** and **Tourism Finance Plus** programmes.

The third business start-up programme offered by L-Bank in conjunction with Baden-Württemberg's Ministry of Economic Affairs was utilised in 2023 to the same very high level as in the previous year. Under the **Start-up BW Pre-Seed** programme, which provides innovative young companies with seed capital in the amount of (as a rule) EUR 160,000 if a private investor takes a stake of at least EUR 40,000 in the start-up, 53 companies were provided with EUR 8.3 million to support the early phase of their business development.

**Start-up BW Pre-Seed funding volume**

2022

*8.3* million euros

**Companies in receipt of funding**

*53*

## Financial support for established companies remains stable

In 2023, development funding for established companies also remained at much the same level as in 2022. Across all programmes, there was only a slight decline of around 3.5 per cent, from just under EUR 2.5 billion down to EUR 2.4 billion. It is worth noting that the number of companies in receipt of development funding actually increased, from around 3,560 to over 4,000. This increase is primarily due to the change in companies' development funding requirements. Whereas overall demand for the traditional **BW Start-up and Growth Finance for established SMEs** programme and demand for L-Bank's major investment and transformation programmes **Innovation Finance 4.0** and **Investment Finance** remained stable, the need for liquidity assistance under the **Liquidity Loan (Plus)** programme increased significantly, from 285 companies in 2022 to 732 companies in 2023.

**Volume of development funding for established companies**
2023

*2.4* billion euros

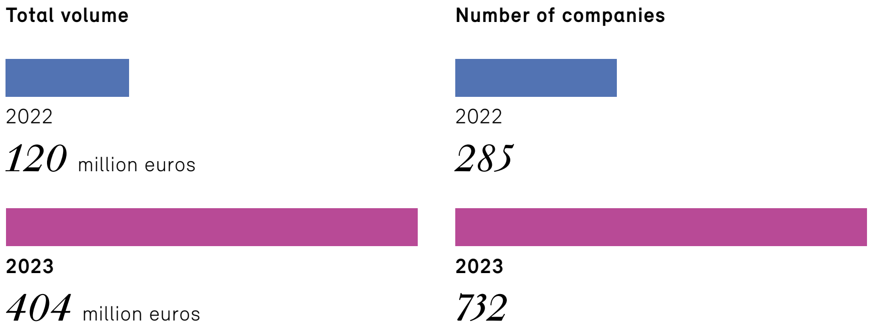
## Stabilisation comes before transformation

Unfortunately, one of our main tasks in recent years has been to help small and medium-sized enterprises out of acute liquidity bottlenecks. Here, 2023 was no exception. In a world of polycrisis, troubled times are not yet over. There is still an absence of economic dynamism and growth. The number of insolvencies increased in 2023, accompanied by a slight rise in unemployment. These trends have not yet reached alarming levels – and so far, our contribution to supporting businesses through low-interest loans and grants has undoubtedly helped to avoid a broad and deep recession. But the continuing high demand for stabilisation assistance shows that even an SME sector that has demonstrated its resilience, and even a strong economic area like Baden-Württemberg, cannot afford to relax.

This was most obviously reflected by L-Bank's **Liquidity Loan (Plus)** programme. Under this programme, we work with companies' commercial banks to swiftly provide companies in Baden-Württemberg with urgently needed capital to cushion payment risks due to unexpectedly high energy costs, or to cover increased capital requirements for materials procurement, or to invest in maintaining business operations. Last year, we approved liquidity loans totalling some EUR 404 million – a much higher volume of approvals than in any previous crisis. In 2022, we paid out EUR 120 million to 285 businesses.

**Liquidity Loan Plus development programme**

compared to previous year




Federal and state Covid-related aid programmes, on the other hand, only made up a very small part of our development finance business. In previous years, the Bank processed over 645,000 grant applications for preserving the existence of local businesses and approved some EUR 11 billion in aid. In 2023, the figure fell to just EUR 97.6 million for just 1,308 businesses.

## Ongoing focus on development and growth

L-Bank's traditional – and, as a rule, most popular – SME development programmes are the **BW Start-up and Growth Finance (GuW-BW) for established SMEs** and **Investment Finance** programmes. Both of them contribute to business stability whilst also supporting crucial developments that will make companies fit for the future. Under the GuW-BW programme, 1,384 companies were supported with over EUR 506 million in funding. In 2022, the figure was around EUR 490 million for 1,297 companies. While this only represents a modest increase in funding levels, it was not necessarily one that could be expected in a difficult year of polycrisis.

In 2023, 155 companies expanded or modernised their operations with around EUR 246 million in approved loans under the **Investment Finance** programme. This programme supports companies in rural areas. Compared to 2022, when 257 companies received development funding totalling some EUR 368 million, both demand and funding volume declined.

**Growth finance for established companies**

2023

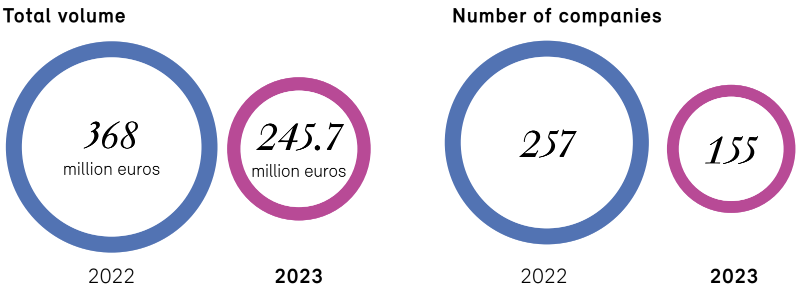
*506.4* million euros

**Number of companies in receipt of funding**

*1,384*

**Investment finance for established companies**

compared to previous year



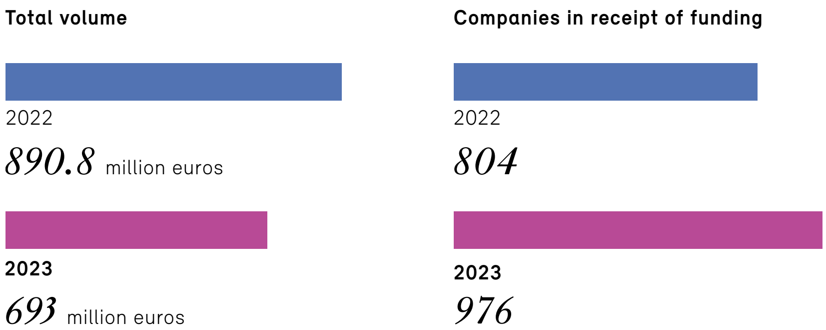

## Innovation and digitisation show the way ahead

Although many companies are finding it difficult to make investment decisions due to the economic situation and uncertainty regarding future prospects, in 2023 a large number of SMEs once again made the most of their niche market focus to invest in digitisation, innovation and sustainability. So while the volume of approvals under L-Bank's largest transformation programme **Innovation Finance 4.0** declined from EUR 891 million to EUR 693 million due to subdued demand from large companies, there was an increase in the number of small and medium-sized companies wishing to invest. In total, 976 companies applied for loans under the **Innovation Finance 4.0** programme, up from 804 in the previous year.

The **Digitisation Premium Plus** transformation programme was weaker in 2023 than in 2022, both in terms of the number of applications and the volume of approvals.

**Companies supported by Innovation Finance 4.0 programme**

compared to previous year



## L-Bank assumes venture partnerships

To further facilitate investment decisions and access to capital, L-Bank restructured its **Surety and Guarantee** programme at the end of 2022. Through this programme, we secure corporate loans from commercial banks and under L-Bank's main business development programmes by guaranteeing up to 50 per cent and a maximum of EUR 15 million. By doing so, we create additional security for companies investing in growth and modernisation or looking to consolidate after the start-up phase.

In 2023, we assumed 21 sureties and guarantees under this programme, representing a total volume of nearly EUR 40 million. More than half of them were in the manufacturing industry, but also in the service sector and skilled trades. In 2022, we assumed guarantees worth at least EUR 37 million for nine companies.

**Surety and Guarantee programme – total volume**
2023

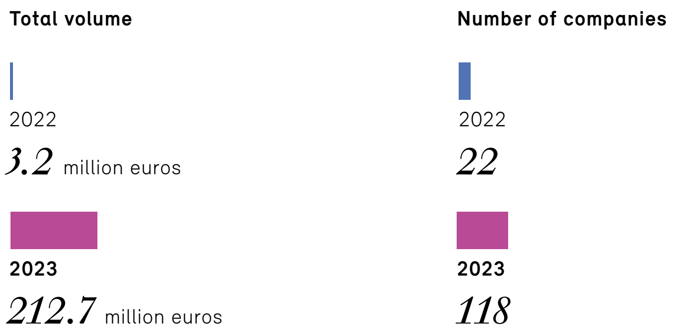
almost *39.7* million euros

## Growing importance of programmes with a climate action component

In 2023, our **Sustainability Bonus** programme and renewable energy programmes met with growing interest from SMEs in Baden-Württemberg.

Last year, 118 corporate investors took advantage of L-Bank's **Energy Finance** programme to fund systems for generating energy from renewable sources to the tune of almost EUR 213 million. This significantly exceeded our expectations for the programme. Following the launch of **Energy Finance** in autumn 2022, EUR 3.2 million had been paid out to 22 companies by the end of that year.

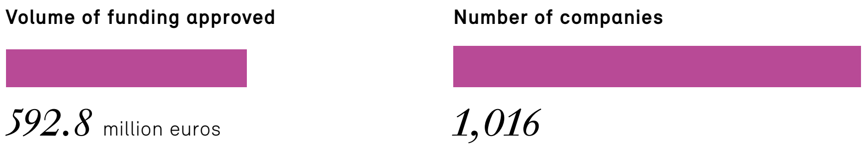
**Energy Finance development programme**
compared to previous year



There was also strong demand for L-Bank's special Sustainability Bonus in various development programmes. L-Bank uses the bonus as an attractive financial incentive to engage in sustainable business activities. In return for submitting a corporate carbon footprint audit and, as a second step, a plan detailing specific measures for achieving climate neutrality, businesses are awarded an additional interest-rate reduction. In 2023, the **Sustainability Bonus** was used to encourage over 1,000 companies to carry out a carbon footprint audit and draw up specific sustainability measures. Last year, the number of loans granted came to a total of around EUR 593 million. Especially worthy of note is the tripling of the funding volume under the **Tourism Finance Plus** programme, the conditions of which – including the **Sustainability Bonus** – were made even more attractive last year.

**Take-up of Sustainability Bonus in various development programmes**

2023




## L-Bank expands investments in venture capital funds

In recent years, strategic and credit-equivalent shareholdings have become an increasingly important development instrument for L-Bank.

In particular, these include shareholdings in venture capital funds that invest in promising companies in major industries of the future. Our **LEA Mittelstandspartner** and **LEA Venturepartner** funds were, and are, our main instruments for supporting high-tech start-ups at various stages of development. In 2023, we added further shareholdings, which we use to fund the development of future technologies, mobilise private capital for companies in Baden-Württemberg and contribute to the creation of highly skilled jobs.

**L-Bank's participation in 15 venture capital funds**

2023

*128* million euros

**Investments by these 15 funds in companies in Baden-Württemberg**

*209* million euros

By the end of 2023, L-Bank had a stake of around EUR 128 million in 15 funds. Of these, some 80 per cent were 'anchor investments', meaning a stake of more than 10 per cent in the fund's assets. Through these investments, we encourage new funding models and make a significant contribution to the development of a comprehensive venture capital resource in Baden-Württemberg.

In recent years, these 15 funds have together invested some EUR 209 million in companies in Baden-Württemberg; of this, more than half is invested in new technologies such as robotics and artificial intelligence, but also in environmental technologies and in the financial and insurance sectors.

With our fund shareholdings and the resulting investments, we were able to motivate other investors and increase the value of various companies. Total capital investments in 2023 amounted to more than EUR 550 million, generating additional shareholder value of around EUR 720 million. New jobs were also created. On average, the number of jobs in the companies involved rose by well over 50 per cent.

In addition, our development of business zones, such as the technology and business parks in Stuttgart, Tübingen-Reutlingen, Mannheim, Karlsruhe and Freiburg, continues to play an important role in L-Bank's investments. In these parks, we offer companies the infrastructure they need to develop themselves, and create opportunities for efficient knowledge and technology transfers from researchers to the business community. In 2023, we invested EUR 83.5 million in the technology parks, supporting 291 companies located there. Last year, a new building was completed in the Tübingen Technology Park; new construction projects were also started or continued in Reutlingen, Mannheim and Karlsruhe. The companies in these parks employ a total of around 12,250 people.

**Number of people employed in technology parks**

*12,250*

**Companies based in the parks**

*291*

**Total volume of business zone development**

compared to previous year

2022
*76.1* million euros

**2023**
*83.5* million euros

# The alpha and omega of L-Bank: funding for home ownership and social housing

At both ends of the great arc that leads from the founding of the first state development bank in Baden-Württemberg 100 years ago to today's L-Bank, you will find the pressing issue of suitable, affordable housing for families and the socially disadvantaged.

Then as now, one of Landeskreditbank's most important duties is to support housing construction. Both Württembergische Wohnungskreditanstalt and its Baden-based counterpart, Badische Landeskreditanstalt für Wohnungsbau, were founded – in 1924 and 1934, respectively – with this aim in mind. Today's housing deficit is in no way comparable to the acute housing shortage back in the 1920s. But the underlying principle – the need for state support to stimulate housing construction – remains much the same. One of the main priorities of development funding for rental housing construction is to create new social housing and/or maintain a readily available stock of existing social housing. This is where the housing deficit is particularly acute.

## The trend continues: more social rental housing than in the previous year

In 2023, the Bank succeeded in increasing the social rental housing stock in Baden-Württemberg for the second year in a row. In 2022, there were some 52,300 rental units with regulated tenancies in the state, but by the end of 2023, the number had risen to around 53,600 – a 2.5 per cent increase. After many years of declining housing stock, this is encouraging and shows that the state's decision to significantly increase development finance under the state housing development programme has been successful.

Thanks to development loans from the state and L-Bank, 2,074 new social housing units were constructed (completed) last year. Regulated tenancy commitments created 528 new social housing units from existing stock. At the same time, regulated tenancies expired on 1,289 residential units, so that by the end of 2023, 1,313 more social rental housing units were available on the market than in 2022.

**New social housing units created with L-Bank funding**

2,074

**Stock of social housing for rent in Baden-Württemberg**
compared to previous year

| 2022 | **2023** |
| --- | --- |
| 52,300 | 53,600 |

## In 2023, housing development showed an overall decline

In 2023, L-Bank paid out more than EUR 1.5 billion in development funding for the creation, acquisition and construction of rental and owner-occupied housing, as well as for improvements to housing quality. The volume of new business in home ownership assistance came to around EUR 768 million; the volume of new business in rental housing development reached a total of EUR 675 million. Additional expenditure included loans for **homeowners' associations (WEG)**, loans for the energy-efficient, barrier-free renovation of residential buildings (EUR 15 million) and financial aid under the **Housing for Refugees** programme (EUR 67 million).

### Housing development

compared to previous year

**Total volume**

2022
*2.1* billion euros

**2023**
*1.5* billion euros

This means that in 2023, the volume of funding for housing development fell by at least a quarter compared to 2022 (EUR 2.1 billion). Most affected were the more cost-intensive new-build projects in the rental housing sector, as well as new construction of owner-occupied housing.

Even so, by the end of the year, the Bank had very nearly achieved its 2023 target – to fund a total of 10,200 residential units – thanks to a surge in demand for finance in the final quarter, as well as very favourable funding conditions. In total, we funded 9,900 residential units in 2023.

### Residential units in receipt of funding

2022
*10,000*

**2023**
*9,900*

**Volume of home ownership funding**

*768* million euros

**Volume of rental accommodation funding**

*675* million euros

**Loans for modernisation of homeowner association units**

*15.1* million euros

**Financial aid for housing for refugees**

*66.8* million euros

## Current economic situation complicates large-scale funding decisions

The decline in the total amount of funding approved clearly shows how difficult it is to make major investment decisions with long-term implications in an economic situation characterised by long-standing tensions and uncertainties. In the construction sector, practically the whole of 2023 was characterised by bad news. High energy prices, shortage of materials, a decline in the number of building permits, inflation and interest-rate hikes not only slowed down current construction activity in Germany and Baden-Württemberg, but also left order books empty and resulted in poor long-term prospects for the future of the industry.

Last year, L-Bank's quarterly housing construction report also delivered consistently alarming findings: construction activity in the residential housing sector declined from one quarter to the next, and since June 2023, the index rating used to assess the current business situation has been negative – most recently standing at –53 points. Companies' business expectations also remained overwhelmingly pessimistic, reflected by an index rating of –70 points at the end of 2023. Overall, the business climate index for housing construction has plunged to its lowest level since 1996, at –62 points.

This means that the situation at the end of last year was worse than at any time in this millennium. And it will be very difficult to initiate an economic turnaround in the current fiscal year.

## Housing development is still a guarantee of social and economic equilibrium

Both the state government and L-Bank are resisting this trend through their housing development programmes. They have devised numerous programmes for constructing, acquiring and renovating residential property and rental accommodation. The largest of them is the **State Housing Development** programme set up by Baden-Württemberg's Ministry of State Development and Housing.

Under the **State Housing Development** programme for 2023, L-Bank approved loans totalling around EUR 703 million – some EUR 469 million for rental housing development and about EUR 218 million for home ownership assistance. The conditions for home ownership assistance proved to be so attractive that due to the very high number of applications, programme funds were already exhausted by mid-year. Consequently, many applications that were ready for a decision had to be carried over to 2024. This 'wave of applications', coupled with a higher state budget earmarked for social housing development, are a positive sign that funding volumes under the **State Housing Development** programme will rise yet again in the coming year.

**Total loans under the State Housing Development programme**

*703* million euros

**Thereof for rental accommodation**

*469* million euros

**and home ownership**

*218.4* million euros

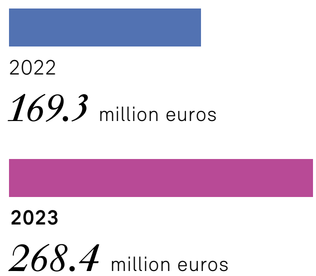
## Higher demand for L-Bank's own programmes in 2023

While the **State Housing Development** programme is the flagship of Baden-Württemberg's housing development programmes, it is supplemented by other significant development programmes that also help to create and maintain residential accommodation in the state. In 2023, the Bank's own programmes accounted for a volume of EUR 206 million in rental housing development, and around EUR 550 million in home ownership assistance.

Of special note are L-Bank's **Living with Children** and **Combined Home Loan** programmes. These programmes support sustainable home ownership for young families and are offered in collaboration with Baden-Württemberg's commercial banks and KfW. Under these programmes, loans totalling around EUR 498 million were approved via the commercial banks – some EUR 55 million more than in the previous year. The programmes showed varying trends.

**Volume of the Bank's own development programmes**
compared to previous year

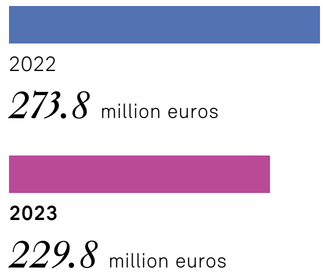
**Living with Children**



Demand for L-Bank's basic home ownership development programme **Living with Children**, which provides families with children with low-interest loans of up to EUR 100,000 for the construction or purchase of residential property, was significantly higher in 2023 than in the previous year. The total loan amount of at least EUR 268 million was almost 60 per cent higher than in 2022 (EUR 169 million).

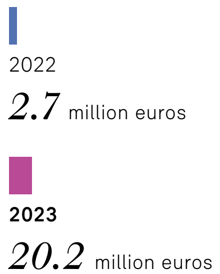
By contrast, the **Combined Home Loan** showed a decline. The prerequisite for this additional subsidy, which is intended to close funding gaps, is a development loan under the basic **Living with Children** programme, the **State Housing Development** programme, or a federal programme for the purchase or construction of residential property. After approvals totalling just under EUR 274 million in 2022, last year's demand fell to EUR 230 million.

**Combined Home Loan**




Another important housing construction programme is **Living with a Future – Photovoltaics**, which supports the energy-efficient modernisation of existing properties, such as the acquisition and installation of PV systems on private residences, as well as investments in battery storage systems that are at least partially used by owner-occupiers. In contrast to EUR 2.7 million in the previous year, the volume of approvals reached EUR 20 million, demonstrating the programme's appeal and the growing need for programmes that support renewable energy development and climate action.

**Living with a Future – Photovoltaics**




## Construction sector remains in crisis mode in 2024

To provide people in Baden-Württemberg with appropriate, affordable housing in 2024, we will continue to work with the state government as we make major efforts to fund and enable home ownership for young families, and to finance the construction of rental accommodation in the social housing sector in particular. How successful we are in achieving this will depend not just on the amount of funding available, but also – and crucially – on the overall economic situation, as well as bureaucratic and legal conditions. Uncertainty – and consequently risk – is currently high, whereas financial margins are often small. Interest rates are comparatively high, as are the prices of materials and commodities. These factors had a tangibly negative impact on housing construction in 2023, and we fear that this will also be the case over large parts of 2024.

There is a clear need for, and value in, ***the housing development programmes run by the federal state and L-Bank.***

# **Societal cohesion and social justice** are L-Bank's development priorities

In 2023, L-Bank once again helped to strengthen social cohesion in the federal state by providing financial support services. The Bank paid out almost EUR 305 million in financial assistance for language tuition and education, care services, addiction support and self-help groups, as well as children's day-care services and family centres. In these areas, L-Bank acts as a service provider for Baden-Württemberg's state government and ensures that the various subsidy programmes are implemented in a legally correct, customer-focused manner. In doing so, we directly and indirectly support financially and socially disadvantaged people in particular, many of whom are in difficult situations and dependent on some form of support. In times of crisis, this help and assistance is especially important, to obviate human isolation and build bridges over the various divides in our society.

**Total volume of financial assistance for families, education and social projects**

*1.5* billion euros

## L-Bank approves more **family allowances** in 2023 than ever before

The Bank's largest subsidy programme and most important form of family support was and still is the **family allowance**. Children are the future of our society. Helping to give them a good start in life forms a traditional part of our development mandate and our funding objectives.

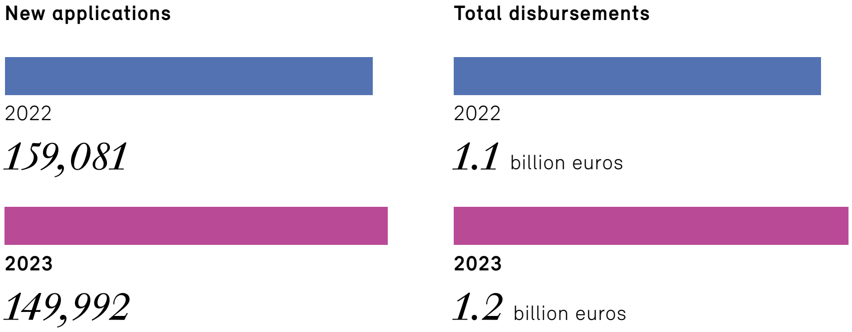
Children are the ***future of our society.***

In 2023, the **family allowance** was once again an extremely successful flagship product for L-Bank. Indeed, last year was one of the strongest years for funding family allowances in L-Bank's history: At least 152,000 applications were matched by development finance totalling nearly EUR 1.2 billion, representing a funding increase of almost 7 per cent over the previous year.

This figure also includes applications that were submitted at the end of 2022 but could only be approved in 2023. The number of new applications fell slightly compared to 2022.

**Volume of funding for family allowances in Baden-Württemberg**

compared to previous year



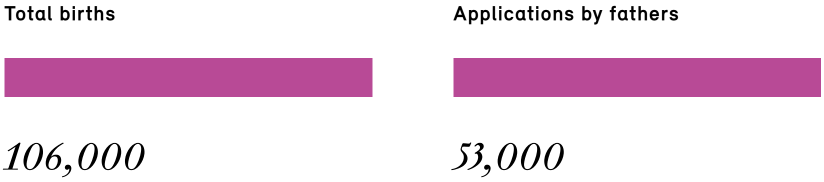

**Family allowances** help to safeguard the financial livelihood of families after the birth of a child, at a time when the demands of parenting interrupt or restrict parents' work and consequently reduce parental incomes. To meet varying family needs, the range of benefits is very flexible. Thus parents can choose between our **Standard Family Allowance**, our **Family Allowance Plus**, or a combination of the two. Parental allowances are also available to parents who live apart.

## Ongoing trends towards online applications and **paternity allowances**

In 2023, more and more fathers continued to apply for **family allowances**. Of the 106,000 or so births for which **family allowances** were approved, fathers either applied alone or together with another parent in almost 53,000 cases. This represents a male quota of almost 50 per cent. **Family allowances** thus reflect social developments, as traditional childcare and child-rearing roles begin to break down.

**Proportion of family allowances applied for by fathers**

in 2023




Family allowances are also following another social trend: digitisation. Nearly 64 per cent of applications are now submitted online. By offering the option of applying for **family allowances** digitally, Baden-Württemberg is acting as a pioneering role model for the nation. North Rhine-Westphalia started using L-Bank's online application system this year, and further digitisation initiatives are planned for the coming year. These include, for example, the sharing of digital data with other administrative bodies (always in compliance with data protection regulations). Plans include collecting data on maternity benefit payments directly from health insurance companies, with the consent of the mothers concerned. The aim is to further simplify and streamline processes. This does not just benefit L-Bank – above all, it helps applicants.

**Proportion of family allowances applied for online**

*64%*

## New federal family allowance regulations mean that funding levels are expected to fall in 2024

In the Budget Financing Act, the Federal Parliament has amended the regulations governing **family allowances**. Newly defined income ceilings reduce the group of beneficiaries. In addition, the option for both parents to draw standard family allowances simultaneously is now generally limited to one month. These regulations will be reflected in L-Bank's family allowance figures for 2024. We are assuming that there will be fewer applications, and that parents will need even more advice. There is already heavy demand for L-Bank's family benefit consultations. Last year, L-Bank conducted more than 250,000 service interviews on **family allowances**, at least 47,000 prior to the submission of applications.

**Family benefit consultations**

more than

*250,000*

**thereof prior to application**

*47,000*

# Development finance by business segment: 1 January to 31 December 2023

| DEVELOPMENT FINANCE ACROSS ALL LINES OF BUSINESS | VOLUME OF COMMITMENTS | COMMITMENTS | |
|---|---|---|---|
| | **4,818,803,773.31** | **16,355** | |
| | VOLUME OF COMMITMENTS | COMMITMENTS | RESIDENTIAL UNITS* |
| HOUSING DEVELOPMENT | **1,524,928,422.80** | **6,833** | **10,512** |
| **Home Ownership Assistance** | **767,898,963.89** | **6,364** | **5,442** |
| Home Ownership Finance – BW including Finance for Growing Families – Structured Loans (State Housing Development) | 218,365,548.09 | 1,090 | 792 |
| Top-up and Miscellaneous Loans | 31,088,717.00 | 262 | 11 |
| Living with Children | 268,405,400.00 | 2,807 | 3,272 |
| Living with a Future | 20,197,756.80 | 731 | 974 |
| Combined Home Loan | 229,841,542.00 | 1,474 | 393 |
| **Rental Accommodation Assistance** | **675,153,130.09** | **405** | **3,924** |
| Rental Accommodation Finance – BW – New builds – MW15/MW25 (State Housing Development) | 441,529,500.00 | 151 | 2,465 |
| Rental Accommodation Finance – BW – Approval of Regulated Tenancies (State Housing Development) | 13,133,400.00 | 121 | 249 |
| Rental Accommodation Finance – BW – Modernisation (State Housing Development) | 14,509,400.00 | 5 | 194 |
| Rental Accommodation Finance – L-Bank – New builds | 34,215,700.00 | 30 | 111 |
| Rental Accommodation Finance – L-Bank – Modernisation | 69,773,024.00 | 43 | 905 |
| Top-up Loans (New builds/Modernisation) | 101,992,106.09 | 55 | X |
| **Support for Homeowners' Associations (State Housing Development)** | **15,104,800.00** | **64** | **1,146** |
| **Housing for Refugees** | **66,771,528.82** | **209** | |

| | VOLUME OF COMMITMENTS | COMMITMENTS | |
|---|---|---|---|
| INFRASTRUCTURE DEVELOPMENT | **133,327,800.00** | **110** | |
| Municipal Investment Loan, direct | 130,344,800.00 | 97 | 83 |
| New Energy – Community Wind Farms | 2,983,000.00 | 13 | 13 |

| | VOLUME OF COMMITMENTS | COMMITMENTS | COMPANIES |
|---|---|---|---|
| ENTERPRISE DEVELOPMENT | **3,160,547,550.51** | **9,412** | **8,785** |
| **Business Start-up Finance** | **699,584,717.04** | **2,626** | **2,380** |
| Start Finance 80 | 78,693,763.00 | 910 | 903 |
| BW Start-up and Growth Finance (GuW-BW) for Young SMEs | 612,568,954.04 | 1,661 | 1,424 |
| Pre-Seed Finance Grant | 8,322,000.00 | 55 | 53 |
| **Finance for SMEs** | **2,408,841,313.47** | **6,606** | **6,237** |
| Energy Finance | 212,672,084.95 | 123 | 118 |
| BW Start-up and Growth Finance (GuW-BW) for Established SMEs | 506,435,623.53 | 1,530 | 1,384 |
| Tourism Finance | 67,026,100.00 | 115 | 104 |
| Liquidity Loan | 403,962,206.00 | 755 | 732 |
| Investment Finance | 245,661,974.50 | 237 | 155 |
| Rural Area Development programme | 20,516,990.00 | 37 | 36 |
| Combined SME Loan | 74,265,445.00 | 36 | 32 |
| Other Financing Instruments | 109,050,000.00 | 9 | 6 |
| Guarantees/Sureties | 39,667,000.00 | 21 | 16 |
| Innovation Finance | 692,979,078.41 | 1,065 | 976 |
| Digitisation Premium | 36,604,811.08 | 2,678 | 2,678 |
| **Agricultural Development Finance** | **52,121,520.00** | **180** | **168** |
| Agricultural Growth | 24,712,680.00 | 121 | 116 |
| Loans for Environmental and Consumer Protection, Sustainability, New Energy Sources | 21,848,840.00 | 44 | 38 |
| Working Capital Loans – growth in the Agri-food Industry | 5,560,000.00 | 15 | 14 |

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

# Corporate Governance Report 2023

L-Bank, in its capacity as the State of Baden-Württemberg's development bank, has a statutory remit to support the federal state in the performance of its public duties and, in doing so, to implement and manage various development initiatives. A sound and responsible attitude to corporate governance is a self-evident component of the Bank's approach to these non-commercial, public-service activities. L-Bank has incorporated the Public Corporate Governance Code of the State of Baden-Württemberg into the Bank's standard operating procedures by resolutions of both the Board of Management and Supervisory Board, and observes all the provisions of the latest version of the Code. This Corporate Governance Report covers fiscal year 2023, and the following declaration applies in full as at the reporting date, 31 December 2023.

## 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 2023, two women were represented on the three-strong Board of Management. As at the reporting date, six of the 18 members of the Supervisory Board (33.3%) and 68 of the 193 employees in executive management positions (35.2%) 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 2023

## Background

Landeskreditbank Baden-Württemberg – Förderbank (L-Bank) is the development bank of the German federal state of Baden-Württemberg. It 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 customer segments and development priorities – are influenced by the state government's political priorities and defined by L-Bank together with the state government, always in accordance with the L-Bank Act. Specific details are usually set out in the programme guidelines for individual development programmes.

## Economic Report

### Basic parameters

Since the beginning of 2020, the German economy has been in an almost permanent state of crisis as a result of the coronavirus pandemic and Russia's attack on Ukraine. By the end of 2023, the economy had still not returned to a sustainable path to growth, due partly to sluggish investment activity on the part of companies, and partly to the slowdown in spending by private households as a result of high inflation. The restrictive monetary policy pursued by the European Central Bank in response to high inflation, which has resulted in a significant rise in interest rates since mid-2022, also had an inhibiting effect on growth. Overall, Germany's gross domestic product saw a 0.3% decline in 2023.

This economic malaise continues to have a comparatively modest impact on the labour market. Thus the average unemployment rate in Germany only showed a moderate increase, from 5.3% in 2022 to 5.7% in 2023. This minimal increase is primarily due to the shortage of skilled labour as a result of demographic trends, which is deterring companies from making significant job cuts.

In the course of 2023, inflation fell significantly from almost 9% at the start of the year to around 4% in December, as a result of lower price increases in the energy and food sectors; the average rate of inflation for the year was 5.9%.

In 2023, Baden-Württemberg's economy suffered in particular from a general slowdown in international business. Thus in the period from January to September 2023, companies in the state exported goods worth a total of around EUR 187 billion, representing a year-on-year decline of 5.6%. The pharmaceutical and chemical industries in Baden-Württemberg experienced particularly sharp falls in export volumes – almost 30% in each case. Furthermore, as in the rest of the Federal Republic, Baden-Württemberg's construction industry was plunged ever deeper into crisis by the steady rise in interest rates throughout 2023. At the same time, the manufacturing industry – Baden-Württemberg's crown jewel – suffered from sluggish growth in incoming orders and production. Overall, the economic slowdown in Baden-Württemberg was perhaps even more pronounced than in the rest of Germany, with GDP forecast to decline by 0.4%. On the other hand, the situation on Baden-Württemberg's labour market remained relatively stable. While last year's average unemployment rate of 3.9% slightly exceeded the previous year's figure of 3.5%, it remained below the 4% mark, hence at a very low level.

## Business performance

While demand for development funding from SMEs in Baden-Württemberg rose in the course of the year, the business trend in the housing development sector showed an increasing decline. Following the expiry of the relevant programmes, Covid-related aid played a significantly less important role in 2023 than in the previous two years.

As a service provider, L-Bank pursues the vision of providing the State of Baden-Württemberg with the best possible support as it strives to become one of the world's most attractive, climate-neutral regions for research and business by 2040. Based on this vision, the primary focus of the Bank's development activities over the past reporting year remained unchanged, with SMEs, business start-ups and housing development programmes as the main priorities. Despite the challenging economic conditions, new business figures for SME and business start-up funding remained at the high level achieved in previous years. Business development in the housing development sector, on the other hand, was strongly affected by the slump in construction activity and the significant increase in financing costs. Infrastructure development reflected the robust demand in the public sector. Looking at all development activities as a whole, L-Bank succeeded in achieving its target for the year: consistently high development funding performance.

### Enterprise development

To support the structural transformation of Baden-Württemberg's economy and safeguard jobs, L-Bank works with commercial banks to finance investment projects by business start-ups and established SMEs, and to provide financial assistance for projects in rural areas. The Bank grants low-interest loans and subsidies, and also systematically assumes risks. In the year under review, the volume of new enterprise development business was impacted by the war in Ukraine and its consequences, by the rise in interest rates and by the general economic slowdown. Even so, despite these unfavourable conditions, the volume of new enterprise development business came to a total of EUR 6,186.4 million (2022: EUR 5,874.1 million)

As expected, the level of Covid-related aid declined substantially to EUR 97.6 million (2022: EUR 1,929.9 million).

L-Bank's enterprise development programmes (excluding Covid-related aid programmes) aim to support the sustainable, climate-friendly transformation of Baden-Württemberg's businesses. In the process, the Bank counteracts the difficult economic situation by providing development finance on attractive terms, providing important stimuli for investment. Despite persistently high inflation and the ongoing – and compared to 2022, very marked – rise in interest rates, development funding performance remained relatively consistent over the reporting period. Excluding the special Covid-related aid programmes, the total volume of new enterprise development business came to EUR 3,628.8 million (2022: EUR 3,879.6 million). In addition, L-Bank purchased bearer bonds totalling EUR 2,460.0 million (2022: EUR 64.6 million) as part of special financing arrangements for other development banks and agencies.

Development funding for business start-ups also remained at a high level over the reporting period. The volume of new business totalled EUR 699.6 million (2022: EUR 728.1 million). Through programmes such as Start Finance 80, with approvals worth EUR 78.8 million (2022: EUR 72.1 million), as well as the Baden-Württemberg Start-up and Growth Finance programme, with approvals totalling EUR 612.6 million (2022: EUR 656.0 million), L-Bank helps business start-ups on their way to independence, or when they wish to acquire and expand existing businesses. For businesses in the early stages, these lending programmes are supplemented by the Start-up BW Pre-Seed subsidy programme, which the Bank implements on behalf of the state. The programme provides young, innovative companies with seed capital in the amount of – as a rule – EUR 160,000 if a private investor also takes a stake of at least EUR 40,000 in the start-up. Over the reporting period, EUR 8.3 million (2022: EUR 8.0 million) was disbursed under the Start-up BW Pre-Seed programme.

The amount of finance committed to the development of established enterprises during the reporting period totalled EUR 2,400.1 million (2022: EUR 2,486.2 million). The volume of funding approved under the new Energy Finance programme, which supports companies that generate, store or distribute electricity or heat from renewable energy sources and invest in corresponding systems, exceeded all expectations. A total of EUR 212.7 million was approved under the Energy Finance programme. By contrast, the volume of funding approved under the Innovation Finance programme fell to EUR 693.0 million (2022: EUR 890.8 million) due to subdued demand from large companies. The Innovation Finance programme supports companies that are introducing innovative business models or wish to finance innovative projects; the programme also supports any investment projects by innovative companies. The Investment Finance programme, under which loans are issued for business investments in rural areas, showed a similar trend. Here, the volume of new business fell to EUR 245.7 million (2022: EUR 368.0 million). There was strong demand for funding under the Baden-Württemberg Start-up and Growth Finance programme, which helps established companies to finance investments of all kinds. New business climbed to EUR 506.4 million (2022: EUR 492.7 million). In the first quarter of 2023, the Bank offered a variant of the Liquidity Loan programme that included an additional repayment subsidy, with the aim of alleviating short-term liquidity bottlenecks resulting from – in some cases significant – energy price increases over the winter months. The volume of approved Liquidity Loan funding rose by EUR 284.0 million over the year as a whole to reach a record total of EUR 404.0 million (2022: EUR 120.0 million).

Due to more moderate terms, on the other hand, the Digitisation Premium programme showed a decline; the programme provides companies with loans in conjunction with a repayment subsidy so they can digitise their processes, products and services. The volume of funding approved came to EUR 27.8 million (2022: EUR 35.1 million). Under the Tourism Finance Plus programme, businesses in the tourism sector are granted low-interest loans for the construction, refurbishment and modernisation of their infrastructure. In 2023, the Bank introduced a Sustainability Bonus to the Tourism Finance Plus programme, as an additional interest subsidy for companies that have carried out a carbon footprint audit and developed their own climate strategy; the repayment subsidies on offer were also increased. As a result, the approved funding volume rose to EUR 67.0 million (2022: EUR 19.3 million).

The volume of new business in the agricultural development segment fell to EUR 52.1 million (2022: EUR 91.0 million). The decline in demand for finance is due to a continuing, industry-wide reluctance to invest. Under the Agriculture – Growth development programme, which provides funding for investments that reduce production costs or improve production and working conditions, the lending volume fell to EUR 24.7 million (2022: EUR 45.7 million). New business figures for the Agri-Food Industry – Environmental and Consumer Protection programme fell to EUR 21.8 million (2022: EUR 38.2 million). This development programme supports investment projects aiming to improve energy efficiency, reduce emissions and improve consumer protections.

## Housing development

L-Bank uses low-interest loans and grants to help businesses and private individuals in Baden-Württemberg to build, purchase and modernise both rental and owner-occupied housing. In addition, the Bank helps to improve the energy efficiency of and physical access to existing properties. As expected, the overall volume of new business fell to EUR 1,524.9 million (2022: EUR 2,067.7 million). The reasons for this may be seen in the slump in construction activity, combined with the sharp rise in financing costs. Because the funds available under the state's attractively low-interest housing development programme were depleted by mid-year, the high demand for the programme was only partially reflected by the number of approvals. A large number of applications for a substantial amount of funding were carried forward to fiscal year 2024.

The various rental housing development programmes provide funding for the construction and renovation of rental accommodation in Baden-Württemberg. During the reporting period, the negative impact of economic conditions as a whole began to affect Baden-Württemberg's housing companies. Thus new business figures totalled EUR 675.2 million, well below the previous year's record level of EUR 1,193.3 million. However, thanks to attractive funding conditions, the volume of approvals under the State Housing Development programme only showed a slight decline to EUR 469.2 million (2022: EUR 494.2 million). The early depletion of subsidy funds limited the overall number of approvals. Demand for the Bank's own development programmes, which supplement the state's social rental accommodation programmes, subsequently fell sharply; the volume of approved funding declined to EUR 206.0 million (2022: EUR 699.1 million).

This was also due to more stringent programme conditions imposed by KfW as the refinancing partner for these programmes.

Over the reporting period, development funding for homeowners' associations in support of the energy-efficient refurbishment or barrier-free modernisation of residential buildings also showed a decline. The approved lending volume fell to EUR 15.1 million (2022: EUR 27.1 million).

The Housing for Refugees programme provides grants for the municipal accommodation of refugees on behalf of the federal state. Over the reporting period, the Bank approved financial aid totalling EUR 66.8 million.

New business under the Bank's various home ownership development programmes declined to EUR 767.9 million (2022: EUR 847.3 million). The main reason for this anticipated moderate decline was the trend under the State Housing Development programme: the approved lending volume fell to EUR 218.4 million (2022: EUR 321.7 million). However, this was not due to a lack of demand. At the start of the year, the State Housing Development programme was adjusted on a regular basis, making it even more attractive in view of the market's high interest rates. The resulting surge in applications meant that most of the subsidy funding available had been utilised by mid-year, which restricted new approval activity. The Living with Children programme, which helps families with children to buy or build their own homes, showed positive development. Contrary to the negative market trend, the volume of approved loans rose to EUR 268.4 million (2022: EUR 169.3 million). The figure for new business under the Combined Home Loan programme fell below the previous year's level, at EUR 229.8 million (EUR 273.8 million). This programme is used to supplement existing development programmes by covering additional financing needs for the construction, purchase or renovation of owner-occupied housing. Demand for top-up finance also showed a decline. New approvals fell to EUR 29.6 million (2022: EUR 77.1 million).

## Other developments

L-Bank strengthens Baden-Württemberg's position as a business hub by providing financial solutions for municipal and social infrastructure projects, and supports the public-sector implementation of infrastructure projects in the federal state by issuing loans or using other financing instruments. Demand in the public sector remained at a high level in 2023. In the year under review, new business levels came to a total of EUR 3,974.9 million; the previous year's figure of EUR 6,079.0 million was affected by one-off, high-volume investments.

As a service provider to the State of Baden-Württemberg, L-Bank is responsible for awarding and managing a wide range of financial aid and assistance solutions. The funding is provided by state, federal and European Union resources. In 2023, excluding Covid-related aid, the Bank processed a total of 18,502 new approvals (2022: 32,271), representing a funding total of EUR 2,565.3 million (2022: EUR 3,193.7 million). The decline is due in particular to weaker demand for the School Construction programme, which was disproportionately strong in 2022. The approved lending volume under this programme fell to EUR 156.7 million (2022: EUR 813.5 million). Approved funding for hospitals, on the other hand, continued to rise (from EUR 1,366.6 million in 2022 to EUR 1,471.2 million). A total of EUR 187.8 million (2022: EUR 183.5 million) was approved for investments in water, wastewater, flood protection, site decontamination and hydropower projects.

The Bank paid out EUR 163.4 million (2022: EUR 160.3 million) for technology and enterprise development, and another EUR 125.7 million (2022: EUR 105.3 million) for urban development. EUR 87.1 million was approved under the European Regional Development Fund (ERDF) programme (2022: EUR 214.7 million). L-Bank also supported families on behalf of the federal and state governments, in particular by awarding family and parental allowances. At EUR 1,158.4 million, the volume of funding approved for family allowances exceeded the already high level achieved in 2022 (EUR 1,078.5 million).

L-Bank's investment portfolio comprises strategic and credit-equivalent shareholdings in Baden-Württemberg companies, as well as shareholdings in subsidiaries involved in the regional development of business zones in Baden-Württemberg. As at the balance sheet date, the book value of the portfolio as a whole amounted to EUR 463.8 million (2022: EUR 288.4 million).

By year-end 2023, the book value of strategic investments held by L-Bank on behalf of the State of Baden-Württemberg had risen to EUR 328.0 million (2022: EUR 186.0 million). The increase is due to the addition of a stake in SWK Beteiligungs GmbH & Co. geschlossene Investment KG. A 'south-west consortium' composed of a large number of financial and insurance institutions in Baden-Württemberg used this vehicle to indirectly acquire a 24.95% stake in transmission system operator TransnetBW.

As part of its statutory mandate to provide venture capital for companies in Baden-Württemberg, L-Bank's business policies aim to leverage public finances while simultaneously diversifying risk within L-Bank by investing in funds. As before, SME fund LEA Mittelstandspartner and venture-capital fund LEA Venturepartner both play key roles in this investment strategy. The Bank also has other shareholdings in funds that focus on key Baden-Württemberg industries, primarily in the venture capital segment. Funds focusing on established companies (in which L-Bank has a total stake of around EUR 160.0 million) help established companies to tackle the upcoming challenges associated with the digital transformation of products and value chains (Industry 4.0). The external venture-capital funds (in which L-Bank has a total stake of around EUR 73.0 million) provide venture capital to high-tech companies with growth potential. In the reporting year, the Bank further developed its venture capital activities as planned by making additional investments in fund participations. The total book value of the Bank's credit-equivalent shareholdings at the balance sheet date came to EUR 128.0 million (2022: EUR 95.5 million).

Through subsidiaries, L-Bank operates technology and business parks on sites close to universities and research institutions. By doing so, the Bank aims to provide real-estate hubs for supporting the transfer of technology from academia to industry. What most clearly differentiates the parks from other commercial leasehold premises is their building facilities, the way they are managed and the additional services on offer, including conference and training rooms, as well as nursery and primary schools. As planned, the Bank continued to expand its scheduled site development activities. During the reporting period, a building in Tübingen was completed and handed over to tenants, and new construction projects were started or completed in Reutlingen, Mannheim and Karlsruhe. By 31 December 2023, L-Bank had provided companies involved in business zone development with a total of EUR 83.5 million in funding (2022: EUR 76.1 million).

## Assets, financial performance and financial position

### Financial performance

The following breakdown of operating income helps to clarify L-Bank's financial performance. Additions to the development fund, which under commercial law should be treated as interest 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, was significantly up on the previous year – and the previous year's forecast – at EUR 513.9 million (2022: EUR 320.0 million). Interest-rate trends in the reporting year, as well as changes in the ECB's investment and open market policy and a general widening of credit spreads, made a significant contribution to this.

As in previous years, net commission income consisted primarily of cost reimbursements by the State of Baden-Württemberg for services provided by L-Bank. These included, in particular, the granting of financial aid and the distribution of family benefits (especially family allowances). Net commission income fell from EUR 119.4 million to EUR 56.1 million, due primarily to a decline in the State's reimbursements for the cost of processing Covid-related aid programmes.

Administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, were up on the previous year as well as the previous year's forecast, totalling EUR 344.3 million (2022: EUR 269.9 million). Personnel expenses declined slightly. By contrast, general expenses rose significantly due to the formation of a provision for costs incurred by the final processing of Covid-related aid programmes. The Bank's modernisation strategy, together with measures taken to meet regulatory requirements, incurred expenses for consulting services. Expenditure for necessary structural work on bank buildings also increased.

The net result from other operating income and expenses came to EUR –2.4 million (2022: EUR –0.8 million).

The operating result before risk provisioning/valuations was significantly higher at EUR 223.3 million (2022: EUR 168.7 million).

The net result from asset revaluation came to EUR –31.9 million (2022: EUR +4.4 million), primarily due to an allocation to contingency reserves. The Bank essentially retained risk provisioning adjustments that took account of current and ongoing crises.

The Bank's operating result increased to EUR 191.4 million (2022: EUR 173.1 million). L-Bank's distributable income came to EUR 190.3 million (2022: EUR 172.6 million).

Due to the development fund system, L-Bank's current development contributions had no impact on earnings in 2023. Of the total development fund (provision) of EUR 111.5 million set aside for the year under review, EUR 94.3 million was utilised. The appropriation to the development fund from the Bank's earnings for 2023 was increased to EUR 120.0 million (2022: EUR 80.0 million). Of this, EUR 20.0 million was set aside for development funding contributions in 2024, and EUR 100.0 million for 2025. In total, a development fund of EUR 117.2 million is available for 2024. EUR 20.0 million was added to the fund for general banking risks (2022: EUR 50.0 million).

Net income for the year totalled EUR 50.3 million (2022: EUR 42.6 million). Taking account of the profit carried forward from the preceding year, the distributable net profit totalled EUR 50.6 million.

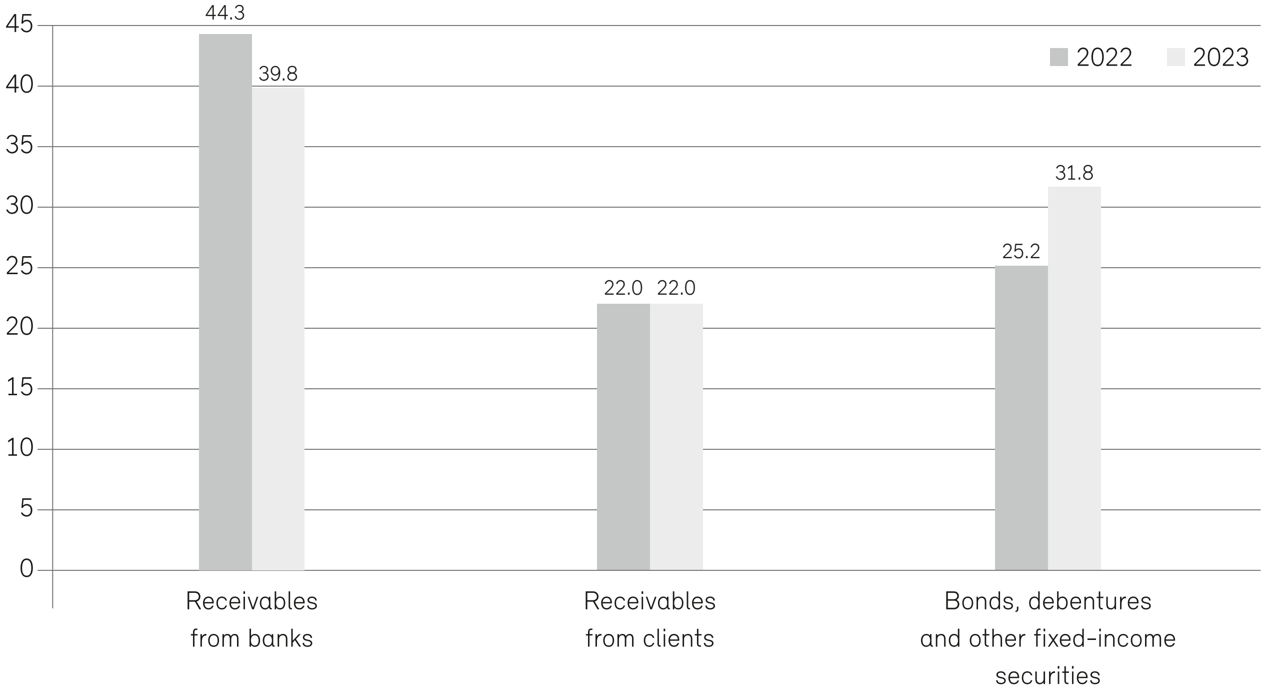
The Board is planning to transfer EUR 50.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 0.6 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

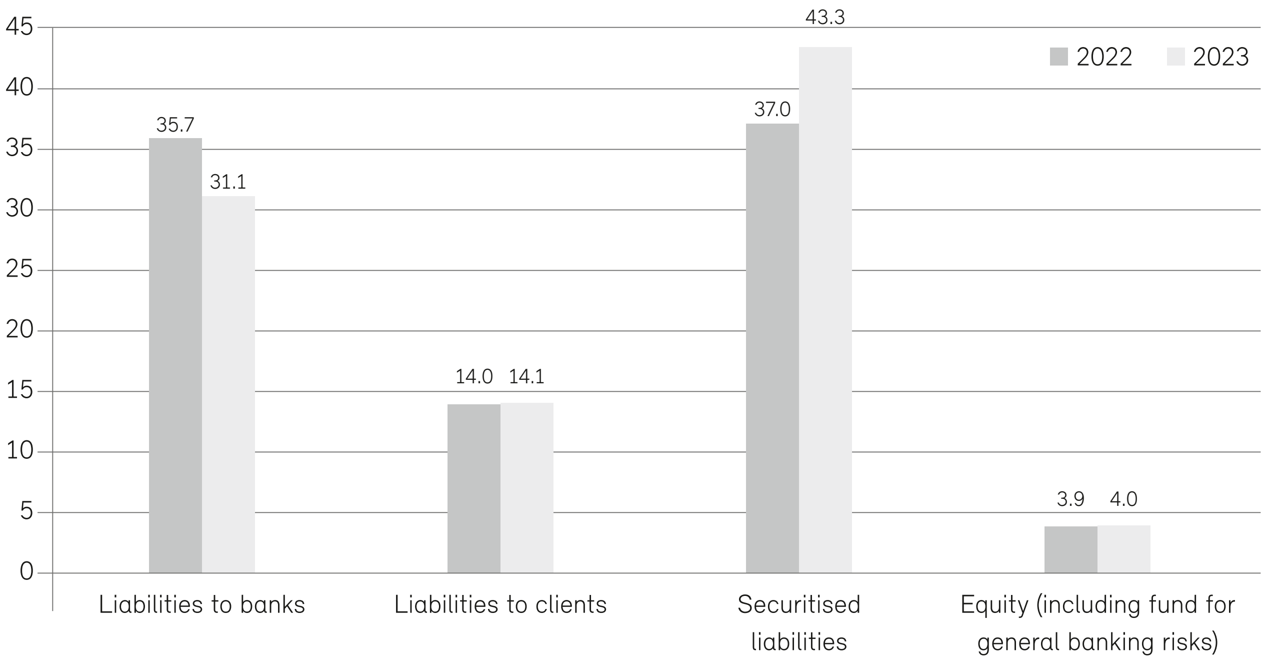
| | 01.01.2023 to 31.12.2023 | 01.01.2022 to 31.12.2022 | Change | Change in % |
|---|---|---|---|---|
| Net interest income | 513.9 | 320.0 | 193.9 | 60.6 |
| Net commission income | 56.1 | 119.4 | –63.3 | –53.0 |
| Administrative expenses | 344.3 | 269.9 | 74.4 | 27.6 |
| Net result from other income/expenses | –2.4 | –0.8 | –1.6 | >100.0 |
| **Operating result before risk provisioning/valuations** | **223.3** | **168.7** | **54.6** | **32.4** |
| Net income from asset revaluation | –31.9 | 4.4 | –36.3 | <–100.0 |
| **Operating result** | **191.4** | **173.1** | **18.3** | **10.6** |
| Taxes on income | 1.1 | 0.5 | 0.6 | >100.0 |
| **Distributable income** | **190.3** | **172.6** | **17.7** | **10.3** |
| Addition to development funds (provision) | 120.0 | 80.0 | 40.0 | 50.0 |
| Addition to fund for general banking risks | 20.0 | 50.0 | –30.0 | –60.0 |
| **Net income** | **50.3** | **42.6** | **7.7** | **18.1** |

## Assets and liabilities

**SELECTED ITEMS UNDER ASSETS** in EUR billions




**SELECTED ITEMS UNDER LIABILITIES** in EUR billions



L-Bank's total assets rose slightly by 2.0% to EUR 95,118.3 million (2022: EUR 93,226.6 million). On the assets side, the decline in receivables from banks was more than offset by higher receivables from securities. On the liabilities side, maturities of liabilities to banks (primarily the ECB's targeted longer-term refinancing operations – TLTRO-III) were more than offset by an increase in securitised liabilities.

The business volume, which also encompasses contingent liabilities and irrevocable lending commitments, rose by 1.0% to EUR 99,732.5 million as at the balance sheet date (2022: EUR 98,760.8 million).

## Financial position

As the State Bank of Baden-Württemberg, L-Bank benefits from the federal state's maintenance and public (statutory) guarantee obligations, as well as an explicit state guarantee. The latter means that L-Bank's de facto credit rating is identical to that of the State of Baden-Württemberg. Consequently, credit-rating agencies Moody's Investors Service (Aaa), Fitch Ratings (AAA) and Scope (AAA) continue to give L-Bank their top ratings. As in the previous year, rating agency Standard & Poor's gave both the State of Baden-Württemberg and L-Bank its second-best AA+ rating, but upgraded the outlook from neutral to positive in the course of the year. Banks can continue to count L-Bank bonds towards their short-term liquidity coverage ratios (LCR) as assets with the highest liquidity standing. Furthermore, in accordance with the Capital Requirements Regulation (CRR, Regulation [EU] 575/2013), a risk weighting of 0% can be applied to receivables from (exposures to) L-Bank.

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 three-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 20,663.5 million was utilised as at 31 December 2023 (2022: EUR 20,064.8 million). The total volume of medium- and long-term refinancing on the capital markets amounted to EUR 5,412.7 million (2022: EUR 7,514.0 million). As at 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 19,315.9 million (2022: EUR 12,631.5 million). Over the reporting period, the Bank's portfolio of targeted longer-term refinancing operations (TLTRO-III) from the ECB and Deutsche Bundesbank was reduced to a residual amount of EUR 313.5 million (2022: EUR 3,733.5 million).

For certain development programmes, L-Bank also made use of refinancing products available from other development agencies 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 2023, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

| EQUITY in EUR millions | |
|---|---|
| 'Hard' Tier I capital after deductions | 3,932.8 |
| Additional Tier I capital after deductions | 0.0 |
| Supplementary capital after deductions | 237.3 |
| Total equity | 4,170.1 |

## Summary of the Bank's business development and position

In terms of business development, financial performance, net assets and financial position, L-Bank had a successful reporting year.

## Financial and non-financial performance indicators

### Financial performance indicators

The operating result before risk provisioning/valuations came to EUR 223.3 million for the reporting period, significantly higher than the previous year's result of EUR 168.7 million. Net interest income was 60.6% up on the previous year.

From the Bank's distributable income of EUR 190.3 million (2022: EUR 172.6 million), an amount of EUR 120.0 million (2022: EUR 80.0 million) was appropriated to the development fund. Taking into account the planned appropriation to retained earnings, the Bank's Tier I capital ratio came to 21.61% as at 31 December 2023 (2022: 21.12%).

Development finance business across all development funding activities came to a total of EUR 13.1 billion for the reporting period (2022: EUR 16.1 billion). The volume of funding totalled EUR 6.2 billion (2022: EUR 5.9 billion) for enterprise development, EUR 1.5 billion (2022: EUR 2.1 billion) for housing development and EUR 4.0 billion (2022: EUR 6.1 billion) for infrastructure development. A total of EUR 1.5 billion (2022: EUR 2.1 billion) was disbursed in development funding for families, education and social projects. During the year, development aid business – in respect of which L-Bank conducts most transactions with capital-market participants – came to a total of EUR 5.6 billion (2022: EUR 3.8 billion).

### Non-financial performance indicators

For L-Bank, the ecological added value of its development activities is crucially important. In 2023, for example, the Sustainability Bonus – in the form of an additional interest-rate reduction – was extended to yet another development programme, and Energy Finance was set up as a dedicated lending programme for climate-friendly commercial investments.

As a responsible employer, L-Bank regards safe, healthy working conditions, as well as long-term staff development, personnel planning and recruitment, together with a well-balanced work and family life, as key instruments in its corporate activities. In the year under review, the Bank focused on developing an even stronger culture of cooperation; in addition to adopting an updated personnel strategy, this was reflected in the training of transformation coaches drawn from the ranks of the workforce, as well as other initiatives.

In particular, L-Bank fulfils its social responsibilities by supporting entrepreneurship and the social added value of its development activities. During the reporting year, L-Bank continued to provide comprehensive support for young and medium-sized companies at various stages of development and in all kinds of business circumstances by using appropriate instruments, such as lending programmes (Innovation Finance 4.0), grants (Start-up BW Pre-Seed) and venture capital (via the external LEA Venturepartner funds). The Bank also used sponsorship to provide systematic support for education, art and culture, with a strong focus on accessibility and the facilitation of social inclusion.

L-Bank treats international human rights as a top priority in everything it does, and with respect to its business activities, ensures that the personal data of clients, partners and employees is protected; it also guarantees compliance with its employees' labour rights.

Because L-Bank is responsible for combating bribery and corruption, the Bank takes appropriate organisational steps to ensure that money laundering, terrorism financing and other criminal acts are pre-empted or obviated. For example, training courses in the prevention of money laundering and fraud, securities compliance and data protection, as well as information security (infosec), were once again mandatory for new and existing employees during the year under review.

## Personnel

In early 2023, L-Bank finalised its personnel strategy – revised in 2022 on the basis of the business strategy – and initiated the implementation process. The Bank is actively supporting the other sub-strategies and funding the ongoing professional development of its managers and employees.

The personnel strategy's four action areas include leadership, employee experience, transformation, and structures and processes. The Bank's attractiveness as an employer remains a key aspect.

During the coronavirus pandemic, the Bank gained positive experience of remote working and home offices. Now it still provides employees with opportunities to work flexibly in both time and space. For L-Bank's 1,528 active employees (2022: 1,495), this flexibility is important. It is also one of the key factors behind the Bank's ability to attract skilled workers in an increasingly competitive labour market.

When organising individual working hours, L-Bank offers employees multiple options, ranging from personalised part-time models through to a flexitime model. By doing so, L-Bank supports a good work-life balance and enables employees to adjust their working lives to their personal circumstances. A total of 478 employees were working part-time as at the reporting date (2022: 441).

For L-Bank, the provision of in-house training for junior staff is an important recruitment pathway. Junior staff include apprentices, trainees and students on work-study programmes, but also recruits who have previously worked for the Bank as interns, work-experience trainees or legal interns. In fiscal year 2023, L-Bank hired 74 junior staff (2022: 104). As well as teaching specialist skills, the Bank's continuing education programme also gives high priority to personal development.

L-Bank's staff development strategy encompasses all the instruments and initiatives for developing employees, executives and indeed, the Bank's corporate culture as a whole, based on outcome-focused, sustainable learning, development and change processes. As well as designing and implementing tailor-made staff development programmes, L-Bank's in-house continuing education catalogue offers a comprehensive range of training courses on interdisciplinary topics involving communication, digitisation, change and the Bank's development mandate, as well as self-management and work organisation.

In addition, the Bank's forward-looking staff development strategy includes a significant sustainability and transformation component. To strengthen occupational health management (OHM), the 'Evermood' platform was added to the range. The platform offers a wide range of options, including support for mental and physical health.

When filling executive management positions, L-Bank strives to achieve an appropriate gender balance while always taking suitability, skills and professional performance into consideration. As a rule, this means that male and female candidates are considered in equal proportions. As at the reporting date, 35.2% of all the Bank's executive managers were women (2022: 33.8%). Overall, L-Bank employs more women than men: female employees account for 56.8% of the workforce (2022: 57.6%).

L-Bank continues to offer employees a phased retirement programme for helping them manage the transition to retirement. As at the reporting date, 68 people (2022: 59) were taking part in the retirement programme's active phase. The programme helps the Bank to make plans for filling strategically important positions over the long term. This is especially important in view of the fact that members of the 'baby boomer' generation will be retiring over the next few years. The last three years have seen significantly more retirement-related departures from L-Bank than in previous years. The average employee age has dropped from 46.1 in 2020 to 45.0 in 2021, then from 44.1 in 2022 to 44.0 in 2023. The Bank is able to offset age-related departures by recruiting significantly younger employees. The staff turnover rate is 8.1% (2022: 6.7%).

## Sustainability Report

The sustainability of business operations, development business and capital-market activities is one of L-Bank's top strategic objectives. 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 and has steadily developed its sustainability organisation. The resulting structures, including increased staffing levels, ensure that the management and implementation of sustainability measures are consistently focused on achieving the strategic sustainability goals enshrined in the Bank's business and sustainability strategies. In 2023, L-Bank adopted a separate sustainability strategy that both supplements and further defines the Bank's business strategy; this separate strategy has been revised in response to external and internal developments, as part of the Bank's annual strategy process. The Bank's Sustainability Code, which serves as the overarching framework for a bank-wide approach to sustainable development, was also revised in 2023 so that it aligns more closely with the underlying principles and key concepts that guide L-Bank's activities, such as the United Nations Sustainable Development Goals (SDGs), national and international climate targets, and Baden-Württemberg's ambitious goal of becoming climate-neutral by 2040.

Climate action has been enshrined in Baden-Württemberg's legislation since 2013. On 1 February 2023, Baden-Württemberg's state parliament passed the updated Climate Protection and Climate Change Adaptation Act. Key elements include climate targets for 2030 and 2040, which form the basis of the federal state's climate policy.

The Climate Protection and Climate Change Adaptation Act also extended L-Bank's statutory development mandate. The Baden-Württemberg Act on Sustainable Financial Investments adopted by the state parliament on 1 March 2023 develops and expands existing approaches to sustainability in the federal state's asset management practices. The Act covers the investment of L-Bank's equity capital.

In 2023, the Bank signed up – with supporter status – to the Task Force on Climate-related Financial Disclosures (TCFD), as well as the Principles for Responsible Investment (PRI), an investor initiative supported by the United Nations. Both measures aim to fulfil stakeholders' increasingly exacting requirements concerning the transparency of climate-related financial information, and to embed climate change and other sustainability aspects even more firmly in the Bank's risk management and in its investment decisions. It was subsequently announced that the TCFD would be disbanded at the end of 2023. However, L-Bank will be able to use the groundwork done to date to steadily expand its climate reporting, especially with the help of the bank-wide project to integrate ESG data.

Launched at the end of 2022, the ESG data integration project aims to make a significant contribution to the Bank's compliance with the sustainability reporting required by regulators and various groups of stakeholders, as well as operationalising the Bank's strategic sustainability goals and strengthening the focus of the Bank's development finance activities on sustainable development. In 2023, the project prioritised the conceptualisation of ESG data requirements, as well as the definition of reporting and other technical requirements.

We fulfil our statutory reporting obligations under the CSR Implementation Directive (CSR-RUG) 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

In early 2024, it is likely that Germany's economic development will still be hampered by higher interest rates and the generally pessimistic mood of both businesses and private households. The fact that the Federal Constitutional Court's judgement will probably result in cuts to the federal budget and further uncertainty regarding economic policies could also have a negative impact. Inflation should continue to ease in 2024, unless the geopolitical situation produces further cost shocks. The pace of easing will probably slow, however, because significant wage increases are expected, and these in turn will drive up inflation. Even so, due to falling inflation and the higher wage settlements anticipated, real incomes and consequently private consumption should gradually recover in the course of 2024. In the construction sector, the decline in construction activity may also level out in the course of the year as the industry steadily becomes more willing to invest, in the expectation that lower inflation will encourage central banks to gradually unwind their restrictive approach to monetary policy. Overall, the economic upturn should increasingly outweigh the various downside influences, hence we anticipate an increase of between 0.4% and 0.7% in Germany's gross domestic product in 2024.

Due to its economic structure, Baden-Württemberg is disproportionately dependent on export business developments. Because the global economy has recently showed signs of becoming more robust, there is now a justified hope that, despite the still sluggish performance of China's economy, developments in 2024 will be somewhat more dynamic.

However, any deterioration in the geopolitical situation could result in further supply-chain issues and thus a renewed export slump. The results of the L-Bank/ifo survey indicated that the general mood of companies in Baden-Württemberg had not yet recovered by the end of 2023, and that pessimism still characterised business and export expectations. In addition, the ever-weightier challenges associated with the macroeconomic transformation are – generally speaking – impacting the industrial sector in Baden-Württemberg rather more than in other federal states. Overall, taking the above-mentioned factors into account, we anticipate that the growth of Baden-Württemberg's GDP in 2024 will fall slightly below the federal level to somewhere between 0.1% to 0.4%. Because companies in Baden-Württemberg also need to retain skilled workers, it is unlikely that the rate of unemployment will rise significantly in 2024. It is, in fact, unlikely to significantly exceed the 4% threshold.

The various geopolitical conflicts pose potential downside risks to economic development; any escalations could result in, among other things, renewed turmoil on the energy markets. The consumer behaviour of private households also represents an uncertainty factor. The higher level of interest rates, plus the generally uncertain situation, could prompt people to focus on savings; this in turn could have a negative impact on consumer behaviour, hence also on economic recovery.

In 2024, L-Bank will continue to focus its business activities on providing enterprise development support for small and medium-sized businesses in Baden-Württemberg, prioritising liquidity assurance, start-ups, transformation and sustainability, as well as social housing development. Essentially, the Bank plans to continue its development funding activities through its existing programmes, while at the same time, enhancing condition-related incentives in specific development segments. Following the very strong development achieved in recent years, and based on economic forecasts, L-Bank anticipates a slight decline in new business figures compared to the previous year.

In view of the gloomy economic outlook, the Bank predicts a slight decline in the overall volume of new start-up and SME finance business. The reluctance to invest due to general economic considerations means that there will probably be less demand for loans for funding traditional investments. With respect to support for transformative projects, on the other hand, approval activity for Innovation Finance should pick up again thanks to improved financing terms. The process of transforming businesses in Baden-Württemberg by focusing on key priorities such as sustainability, digitisation and structural changes in business models will continue to play a vital role in L-Bank's development finance activities. With respect to programme-related business, the Bank is planning further additions to, and optimisation of, individual development programmes in 2024 as they are adapted to meet impact-related, SDG-aligned priorities. With respect to venture capital activities, the Bank is expecting to make further investments in fund shareholdings in line with current business and risk policies. L-Bank also intends to progress its business zone development activities, in particular by adding new sites for technology parks; the expansion of existing sites and the sale of technology park properties remain part of the Bank's overall strategy.

In view of the challenging conditions in the construction and housing industry in 2024, the Bank is anticipating an overall decline in new business figures for housing development.

Due to the situation in the marketplace, demand for development assistance for private home ownership is expected to remain moderate; business development is likely to remain subdued, especially in new building construction. Demand for rental housing development programmes is also likely to fall slightly below the 2023 level. In view of the build-up of applications, new business development in the social housing segment in 2024 will essentially depend on the provision of funds by the federal and state governments. The volume of approvals for homeowners' association funding should stabilise at a comparable level.

L-Bank predicts that in 2024, income will remain more or less unchanged and costs will fall significantly compared to the year under review, so the operating result before risk provisioning/valuations should be substantially higher. According to current estimates, net income from asset revaluation will remain at a similar level to the reporting year. In 2024, total assets are expected to remain more or less the same as in 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 2024 will decline slightly compared to 2023. No significant changes in the Bank's financial performance, financial position or net assets are anticipated.

## Opportunities and Risk Report

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

→ Ensure the Bank's risk-bearing capacity and solvency at all times.
→ Assess the Bank's overall risk exposure at all times
→ Identify, assess, communicate and manage material individual and concentration risks at an early stage.
→ Identify risk-related developments, together 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 explicitly excluded from the scope of the CRD with effect from 27 June 2019. However, as CRR regulations apply to all German lending institutions pursuant to Section 1a of the German Banking Act (KWG), L-Bank must continue to comply with these regulations.

## How risk management is organised

The core elements of the Bank's risk management approach are defined by the Board of Management in the form of internal guidelines (policies). In particular, the Board of Management regulates the implementation of risk inventories, methods for determining the materiality of risks, risk quantification methods, minimum criteria for validation, 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 managing and monitoring risks. The Board of Management has delegated the implementation of internal guidelines to various risk managers, as well as the Risk Controlling function, the Compliance function, the head of Internal Audit and the Corporate Security unit in the Governance and Compliance department. 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, a Risk Management Working Group and an Information Risk Management Committee.

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 Management Board level. In 2023, Divisions I and III were front-office areas, and the back-office and Risk Controlling functions were part of Division II. The Head of Division II (the Chief Risk Officer) bears bank-wide responsibility for assessing and monitoring all counterparty, market price, liquidity and operational risks, and as head of the Risk Controlling function, reports exclusively on these risks.

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

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

The Audit Committee is primarily responsible for discussing the audit report with the auditor, and for preparing the Supervisory Board's adoption of the annual financial statements and the resolution on the appropriation of profits. It also discusses the Internal Audit department'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 perform 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 refinancing 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 client-related limits approved by the Board of Management; these may be determined 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. These include projects and risks arising from the procurement of external services.

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

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

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

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

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

The Governance and Compliance department's Corporate Security unit assists the Board of Management in all matters of corporate security, and in addition to the information security (infosec) guidelines, is responsible for the resulting security policies and for managing emergencies. This includes coordinating information security and all associated measures, monitoring the effectiveness of security measures, ensuring the continuous improvement and further development of security and emergency procedures (especially for countering cyber risks) and providing regular reports as appropriate.

## Business and risk strategies

In the Bank's business strategy, the Board of Management sets down policies and other guidelines that must be applied when devising risk strategies based on the Bank's overall business strategy. The Bank's statutory public-service mandate results in concentrations of counterparty risks (cluster risks) in particular industries, types of collateral and regions. To achieve a balanced aggregate risk profile, the Board of Management defines quality requirements for the portfolio structure as a whole in the Bank's business strategy. These include policies that define the credit rating criteria (risk categories, a.k.a. 'exposure classes') for new business which 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 amount 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 general volatility, these transactions are intensively monitored on a daily basis, with ongoing reviews being conducted at least weekly by the Board of Management. In view of the long-term investment of equity capital, a market price risk is shown for maturity bands exceeding 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 while 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 refinancing risk, and nominal minimum and maximum limits for insolvency risk. As part of establishing these limits, a deliberate decision is made regarding the scope of potential future risks. Because planned new business activities can only be implemented if the resulting risks are covered by risk coverage capital or potential liquid resources, the analysis of risk-bearing capacity effectively determines the maximum scope of potential new business (especially development aid business), providing a timely indication of any capital increase or liquidity measures that may be required. The review of the Bank's risk-bearing capacity is supplemented by analyses of the expected shortfall, adverse scenarios across multiple risk types, sensitivity analyses and an inverse stress test. This is supplemented by long-term projections extending beyond the regular risk analysis horizon.

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

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

## Risk inventory

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

Risk management takes account of all relevant risks either by means of risk quantification or by applying other risk management policies. During reviews of the Bank's risk-bearing capacity, potential losses are calculated and management limits specified for all material risks as a matter of course. Potential losses are calculated on the basis of a 99.9% confidence level and a 12-month reference period. Where these potential losses cannot be meaningfully assessed against the value at risk (VaR), the risks are limited using other management instruments.

The 2023 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 refinancing 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. An explicit ESG scenario is also used to analyse the possible economic consequences of regulatory action as part of the economy's ongoing transformation process. In addition, ESG-related sensitivity analyses are performed for each risk type.

## Potential risks and risk coverage capability

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

The Bank implemented three normal scenarios. In the baseline scenario, net interest income and risk provisioning expenses in particular were projected on the basis of parameters derived from the parameters existing on the balance sheet date (e.g. forward rates for interest, multi-year default rates calculated from current transition matrices).

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).

Pursuant to Article 7 (2) of the Bank's articles of association, L-Bank is required to draw up an economic plan. The scenario in the economic plan should be used to analyse the extent to which the Bank is able to transfer an appropriation from its income to the development fund. Funds transferred to the development fund are used to plan future development programmes. The amount of the annual development fund provision is determined by the state budget. To provide a high degree of political planning certainty, the economic plan scenario is based on conservative – but not adverse – conditions. Consequently, the Board of Management decides which yield curve should be used to project net interest income (e.g. forward curve, fixed yield curve at the budgeting date, expert opinion) and what valuation adjustments – under the rules of applied accounting practice – should be expected.

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 based on empirical observations, and the various scenarios each target different geographical 'event spaces': a severe global economic downturn, inflation in the eurozone, the impact on Germany of a liability union, a structural crisis in Baden-Württemberg, plus an adverse empirical economic forecast model and ESG scenario.

In these adverse scenarios, due to the Bank's business model, only implausible events are capable of generating significant stress effects on the Bank's capital ratios. 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**

From 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 I capital ratio and leverage ratio on a quarterly basis.

From the normative perspective, the Bank's risk coverage capability corresponds to the total or Tier I capital calculated in accordance with CRR. Under the normative perspective, CRR requires that counterparty risk (credit risk), market price risks in the trading book, foreign-exchange (FX) risks in the investment book, operational risk and credit valuation adjustment (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 using the Standardised Approach for Measuring Counterparty Credit Risk (SA-CCR) set out in Articles 274-280f CRR.
- Market price risk: the Bank has no trading books. For the investment book, the total risk exposure to foreign-exchange risk (Articles 351-354 CRR), commodities risk (Articles 355-361 CRR) and settlement risk (Articles 378-380 CRR) is calculated in accordance with the standardised methods.
- Operational risk: the Bank's total risk exposure to operational risk is calculated using the basic indicator approach described in Articles 315-316 CRR.
- CVA risk: The Bank's total exposure to the risk of adjusted credit valuations of OTC derivatives is calculated using the standardised method set out in Article 384 CRR.

When projecting future capital adequacy, scenario-dependent assumptions are made regarding the future development of, in particular, net interest income (taking possible interest-rate movements into account), personnel expenses, general expenses and risk provisioning expenses (in each case taking planned new business and interest-rate adjustment operations 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 (PEs) using the methodology applied in standard accounting practice.

Under the normative perspective, normal scenarios must comply with all relevant capital requirements, that is to say, the regulatory capital requirement, the Bank-specific SREP capital requirement (P2R), the individual capital supplement, the combined buffer requirements (capital conservation buffer, countercyclical capital buffer, capital buffer for systemic risks) and the own funds recommendation (P2G). To ensure compliance with capital requirements, an appropriate early-warning threshold has been defined in the form of a 'management buffer' (a decision-making window).

The buffer means that management can take action in good time even in the event of unforeseen developments. An additional internal markup can be specified to provide for possible future regulatory demands.

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 I capital, total risk exposure and resulting capital ratios.

| FISCAL YEAR 2023 | 31.03.2023 | 30.06.2023 | 30.09.2023 | 31.12.2023 |
|---|---|---|---|---|
| Total risk exposure in EUR millions | 18,749.9 | 18,928.8 | 18,772.7 | 18,527.1 |
| Tier I capital in EUR millions | 3,838.9 | 3,933.2 | 3,933.0 | 3,932.8 |
| Equity in EUR millions | 4,109.2 | 4,195.6 | 4,181.8 | 4,170.1 |
| Tier I capital ratio in % | 20.47 | 20.78 | 20.95 | 21.23 |
| Total capital ratio in % | 21.92 | 22.17 | 22.28 | 22.51 |
| Leverage ratio in % | 5.72 | 6.38 | 7.26 | 7.00 |

As at 31 December 2023, the Bank was able to comply with the mandatory minimum ratios over the projected period in all normal and adverse scenarios, both under the current CRR II regulations and under Basel IV regulations (projections for 2025–2027).

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 lines of business and takes account of new business planning and the associated risk concentrations.

The following table shows the RWA limits as at 31 December 2023 and in 2024, as well as their respective maximum utilisation in fiscal year 2023. The maximum utilisation of RWA limits per line of business and in total is based on monthly calculations.

| In EUR millions | RWA LIMIT 2023 | MAXIMUM UTILISATION 2023 | RWA LIMIT 2024 |
|---|---|---|---|
| Total credit risk (CRSA) | 22,500 | 17,630.5 | 21,500 |
| Thereof for: | | | |
| Private clients | 4,000 | 3,337.0 | 3,750 |
| Companies | 9,250 | 6,939.1 | 8,500 |
| Financial institutions | 8,000 | 7,541.3 | 8,000 |
| Public sector | 750 | 468.1 | 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 hence reduce internal capital, irrespective of any capital adequacy requirements set out in the CRR. 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 6,130.7 million. This is offset by NPV administrative expenses totalling EUR 392.7 million, plus imputed NPV risk provisioning costs of EUR 205.1 million, resulting in an NPV-based risk coverage capability of EUR 5,533.0 million. As at the reporting date, 42.63% of this was taken up by values at risk (VaR) totalling EUR 2,358.5 million. Even in adverse scenarios, the Bank's risk coverage capability exceeds the additional losses foreseen in all scenarios. The Bank complied with the specified aggregate loss ceiling (ALC: upper limit of all value-at-risk sub-limits) of EUR 4,300.0 million on all key reference dates in the last fiscal year. On all reporting dates, the maximum share of the ALC in the Bank's internal capital remained below the internally defined limit of 92%. For risk management purposes, an ALC of EUR 4,300.0 million has again been specified for 2024. This corresponds to 77.71% of the Bank's internal capital at the budgeting date (30 June 2023), totalling EUR 5,533.1 million.

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

VALUE-AT-RISK LIMIT 2023

| | in EUR millions |
|---|---|
| Aggregate loss ceiling | 4,300.0 |
| Thereof for: | |
| Counterparty risks | 1,600.0 |
| Credit-spread risks | 900.0 |
| Interest-rate and FX risks (IRRBB) | 900.0 |
| Embedded options | 35.0 |
| Refinancing risks | 600.0 |
| Operational risks | 60.0 |
| Biometric pension risk | 20.0 |
| Real-estate risk | 10.0 |

### Adequacy of Bank's liquidity

The Bank manages insolvency risk by means of liquidity coverage ratios (LCR), net stable funding ratios (NSFR) and survival timeframe 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 maximum liquidity requirements per month, as well as the cumulative liquidity requirement over the three-month, six-month and 12-month periods following the review date, 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 current fiscal year, and for the following fiscal year. Annual analyses are produced for subsequent years. When producing this liquidity forecast, the Bank assumes that contractual maturities will apply.

In fiscal year 2023, neither the LCR, NSFR nor the survival timeframe ratios ever fell below the internally specified minimum thresholds. The projections performed on 31 December 2023 confirmed the Bank's future liquidity adequacy.

Because the internally specified survival timeframe 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 timeframe.

All risk management policies were complied with at all times during fiscal year 2023.

## 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 validity of the value-at-risk figures. The annual validation procedures are carried out by an office 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 explicitly defined for each type of risk. For all types of risk, standardised report templates are used to summarise the key findings of the validation processes for the Board of Management. If the findings of these validation exercises result in adjustments to measurement procedures or their underlying assumptions for internal risk management purposes, 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. The 2023 validation cycle reconfirmed the appropriateness of the methods and procedures used.

Under the economic perspective on the Bank's risk-bearing capacity, the actuarial models used to measure risk showed the limitations of their predictive 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 to review the Bank's risk-bearing capacity.

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

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

The definition of the scenario for the 2023 inverse stress test takes account of effects impacting the entire capital market, as well as idiosyncratic effects. The stresses focus on significant loan losses plus the Bank's assumption of liability for borrowers' bank claims on end-clients in the overriding interests of economic policy. The stress test also assumes that the European economy experiences severe production shortfalls due to energy shortages, resulting in more insolvencies among commercial clients. Pressure on politicians to act with the aim of safeguarding energy supplies while, at the same time, meeting $CO_2$ reduction targets wherever possible results in stringent legal policies. Increasingly, companies move their production facilities to locations with secure, low-cost energy supplies. Companies that cannot afford the cost of relocation cease production. This results in substantial job losses and further insolvencies among commercial clients. In short, while the occurrence of this hypothetical scenario appears possible in principle, it only 'succeeds' in breaking the stipulated minimum capital ratios if the circumstances are as intense as those in the scenario and the timeframe is without historical precedent.

## 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 controlling 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 loan amount is sufficiently high.

## Assessment of counterparty risk

The qualitative assessment of default and migration risk – which also includes issuer, counterparty and performance 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 (a.k.a. 'exposure class'). 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 making use of 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 – independently 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 grade to which each client is assigned during the Bank's qualitative assessment. The classification of borrowers into rating grades happens in strict rotation. Due to the current crisis-ridden geopolitical situation, the Bank has also been carrying out portfolio analyses on an ad-hoc basis. To date, there has been no negative impact on borrowers' ability to service their debt. The Bank continues to monitor borrowers' creditworthiness very closely. Where analyses show any deterioration in borrowers' credit ratings, their rating grades are adjusted accordingly.

In the case of private and corporate clients in the rental housing segment, 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. 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 history of losses in the two excluded business segments, the regulatory recovery rate is applied directly in both cases. To calculate the regulatory recovery rate for exposed positions in the retail sector collateralised against residential real estate without a central government guarantee ('Private clients in Baden-Württemberg' and 'Private clients in Saxony'), 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 2023, 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 exposure claims for which the regulatory residual debt servicing capability is 25%. In the case of shareholdings, the Bank applies a conservative recovery rate of 0%.

The following table shows the default probabilities for individual risk categories (a.k.a. 'exposure classes') and shows internal risk categories against the corresponding external risk categories.

RISK CATEGORIES AND CORRESPONDING DEFAULT PROBABILITIES

| Risk category (exposure class) | 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 grade/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. The inventory of sensitivity analyses is regularly reviewed and expanded as necessary. For example, in response to the various global crises and their impacts, additional risk type-specific stress tests were incorporated to address the possible effects of steep interest-rate rises on the debt-servicing capability of borrowers in receipt of home development finance, as well as the negative effects of a possible gas shortage on borrowers in energy-intensive industries.

## 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 which borrowers in each of the individual business segments must normally satisfy at the time the loan is granted. Any exceptions to these requirements must be decided by the Board of Management.

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

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

Furthermore, loans may only be granted if appropriate individual limits have been set for issuer, counterparty and borrower risks. For development aid business, appropriate limits should always be set before loans are granted, whereas for 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 an '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 divisions 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 borrowers' credit ratings.

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 (VaR) 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. Residential property prices in Baden-Württemberg have been falling since mid-2022; they are now close to the – still high – level seen at the end of 2021. So as things stand, the risk of loss has not (yet) increased. Nevertheless, the Bank is already preparing appropriate sensitivity analyses due to the particular significance of price trends on Baden-Württemberg's residential property market. Guarantees are subject to another collateral-related concentration risk. Of the guarantees received (without public guarantee or maintenance obligation) worth around EUR 8,395.1 million, the State of Baden-Württemberg accounts for some EUR 7,030.6 million. Due to the State of Baden-Württemberg's credit standing, L-Bank regards this risk as negligible.

L-Bank's business model also shows a low concentration risk associated with industry sectors. At EUR 56,768.7 million, the highest volume of receivables is due from companies in the financial sector. Also included in this amount are receivables from central banks and other public bodies that need not be taken into consideration when determining the degree of interdependency between an institution and the financial system pursuant to Commission Delegated Regulation (EU) 1222/2014 of 8 October 2014. However, the contagion risk to which L-Bank is exposed through receivables from companies in the financial sector is classed as moderate. L-Bank extends loans for enterprise development purposes via borrowers' commercial banks. The Bank's exposure to these borrowers' bank loans amounted to EUR 21,876.7 million as at 31 December 2023. These loans to banks are secured by the assignment to L-Bank of claims on end-clients. Alongside these loans to borrowers' banks, L-Bank engaged in other development business with companies in the financial sector totalling EUR 8,587.8 million, of which EUR 4,577.4 million is secured by public guarantee/maintenance obligation. EUR 26,304.2 million of the Bank's total lending commitment to companies in the financial sector relates to transactions associated with development aid business and risk management, whereby the Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of the above-mentioned EUR 26,304.2 million, an unsecured amount of EUR 8,440.4 million remains after deducting receivables from central banks (EUR 17,863.8 million). Roughly 93.9% of this is assigned to risk categories 1 to 4 and only around 6.1% to risk category 5. Consequently, the concentration in the financial sector does not currently represent any particular risk of loss for the Bank.

In regional terms, the Bank's public-service mandate means that it is exposed to a very high concentration risk for the region 'Germany'. A total of 83.7% of the risk-relevant portfolio is assignable to Germany, of which 60.8% relates to the State of Baden-Württemberg. Some 11.4% of the risk-relevant portfolio is located in the eurozone (primarily in France, the Netherlands and Austria) or with international organisations (such as the European Union and the World Bank). A total of 4.9% 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 ad-hoc (incident-related) creditworthiness and collateral classifications are intended, above all, to ensure that the Bank can take early risk-response measures at the level of individual transactions (e.g. by increasing the collateral requirement) in the event that a client's credit standing should deteriorate. But the classification also enables the Bank to carry out real-time assessments of the entire portfolio's risk structure.

The following table shows the loan portfolio's risk structure as at 31 December 2023.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2023 in EUR millions

| Risk category (exposure class) | Private clients | Companies and self-employed persons | Companies in the financial sector | Public sector | L-Bank total | Allocation in % |
|---|---|---|---|---|---|---|
| 1 | 128.3 | 182.6 | 23,442.6 | 18,292.1 | 42,045.6 | 41.4 |
| 2 | 0.8 | 778.7 | 3,004.7 | 10,503.8 | 14,288.1 | 14.1 |
| 3 | 7.4 | 2,483.3 | 23,919.1 | 113.5 | 26,523.4 | 26.1 |
| 4 | 13.3 | 3,006.6 | 3,787.9 | 68.9 | 6,876.6 | 6.8 |
| 5 | 4,943.9 | 2,858.3 | 2,058.5 | 0.6 | 9,861.3 | 9.7 |
| 6 | 95.9 | 367.7 | 53.7 | 1.1 | 518.3 | 0.5 |
| 7 | 17.8 | 461.1 | 246.8 | 9.4 | 735.0 | 0.7 |
| 8 | 1.0 | 130.3 | 37.9 | | 169.1 | 0.2 |
| 9 | | 64.3 | 7.7 | | 72.0 | 0.1 |
| 10 | | 29.0 | 0.2 | | 29.2 | 0.0 |
| 11 | | 1.3 | 109.3 | | 110.7 | 0.1 |
| 12 | | 65.8 | 100.1 | | 166.0 | 0.2 |
| 13 | 12.5 | 84.5 | | | 97.0 | 0.1 |
| 14 | 9.3 | 21.0 | 0.2 | 0.0 | 30.5 | 0.0 |
| **Total** | **5,230.3** | **10,534.4** | **56,768.7** | **28,989.4** | **101,522.8** | **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 VaR 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 2023.

VALUE AT RISK FOR COUNTERPARTY RISKS IN 2023 in EUR millions

| | 31.12.2022 | | 31.03.2023 | | 30.06.2023 | | 30.09.2023 | | 31.12.2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised |
| Aggregate loss ceiling | 4,300.0 | 1,738.5 | 4,300.0 | 1,838.4 | 4,300.0 | 1,933.5 | 4,300.0 | 1,930.7 | 4,300.0 | 2,358.5 |
| Share of counterparty risks in % | 37.2 | 37.7 | 37.2 | 38.1 | 37.2 | 34.7 | 37.2 | 34.3 | 37.2 | 32.3 |
| Counterparty risks | 1,600.0 | 656.1 | 1,600.0 | 700.6 | 1,600.0 | 670.3 | 1,600.0 | 662.7 | 1,600.0 | 762.9 |

The increase in potential losses in 2023 is primarily due to the general increase in NPV exposures (declining interest rates result in a lower discount rate) and the greater exposure to individual companies in the financial sector due to new business.

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

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

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

The following table shows the NPE portfolio at the end of 2023. When classifying NPEs, the Bank distinguishes between restructuring exposure (risk category 13) and workout exposure (risk category 14).

NPE PORTFOLIO AS AT 31.12.2023 in EUR millions

| | Total risk portfolio | NPE portfolio | | Restructuring portfolio | | Workout portfolio | |
|---|---|---|---|---|---|---|---|
| | | total | in % | total | in % | total | in % |
| Private clients | 5,230.3 | 21.8 | 0.42% | 12.5 | 0.24% | 9.3 | 0.18% |
| Rental housing construction clients | 7,566.6 | 6.2 | 0.08% | 2.2 | 0.03% | 4.0 | 0.05% |
| Companies in the financial sector | 56,768.7 | 0.2 | **0.00%** | 0.0 | 0.00% | 0.2 | 0.00% |
| Other companies | 2,967.9 | 99.4 | 3.35% | 82.3 | 2.77% | 17.0 | 0.57% |
| Public sector | 28,989.4 | 0.0 | 0.00% | 0.0 | 0.00% | 0.0 | 0.00% |
| **Total** | **101,522.8** | **127.5** | **0.13%** | **97.0** | **0.10%** | **30.5** | **0.03%** |

The total NPE portfolio as at 31 December 2023 includes forborne loans in the amount of EUR 29.9 million. Another EUR 3.0 million in forborne loans is 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. These include: deteriorating credit ratings (number and volume) over the portfolio as a whole, as well as for a selection of ten specific 'indicator companies' that play a significant role in multiple business segments and/or industries (including, for example, regionally important employers); trending NPE and NPL ratios; trending collateral values; changes in the proportion of NPEs for which the Bank has already made risk provisions; the proportion of NPEs in financial difficulties which can no longer be rectified by restructuring measures. The fact that residential property prices have been declining since mid-2022 does not yet indicate that losses will increase significantly, because price levels are still high. As at the reporting date, and indeed over the whole of fiscal 2023, 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 stringent processes for forming specific and general risk provisions, and issued corresponding guidelines.

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

## Market price risk

Market price risk refers to potential losses caused by unfavourable price movements on the money and capital markets. Market price risk mainly exists in the form of interest-rate risks and, to a negligible extent, foreign-exchange (FX) risks. As the Bank does not maintain trading books, interest-rate risks essentially apply to the long-term investment of equity capital. As well as interest-rate and FX risks, lending and refinancing transactions in the bank book also give rise to market price risks in the form of option risks, because some of the transactions include option-linked features (such as call rights). Market price risks are also posed by credit-spread risks associated with securities in the investment book.

### Assessing market price risks

The interest-rate and foreign-exchange risks in the investment book are quantitatively assessed based on the value at risk and 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.

To monitor risk-bearing capacity, interest-rate and foreign-exchange risk are assessed from the economic perspective on the Bank's risk-bearing capacity, based on a historical simulation over a reference 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 a 10-day holding period.

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 exposure 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 market price 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 2023, there was no need to adjust the model on the grounds of incorrect calculation of the stated 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 reference period applied. These scenarios are also used to determine the risk of loss due to interest-rate changes that did not occur over the last 2,500 trading days but may occur in the future. The sensitivity analyses confirm the suitability of the risk factors applied.

The credit-spread risk is quantitatively assessed by analysing the value at risk, based on a historical simulation covering tradable securities in the investment book. Because the Bank generally holds securities from issue to term, this risk only needs to be considered from the normative perspective if a trading option is assumed to result in sales of securities. As at 31 December 2023, this was not the case in projections in either the normal or adverse scenarios.

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

## Managing, monitoring and controlling market price risk

The management of interest-rate and foreign-exchange risks for the investment book as a whole is essentially based on the risk strategy laid down by the Board of Management, which specifies that only longer-term equity investments may give rise to exposures in maturity bands above 24 months. 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 operations is hedged primarily by means of interest-rate swaps and cross-currency interest-rate swaps. As at 31 December 2023, the portfolio of interest-rate swaps had a nominal value of EUR 82.7 billion. Cross-currency interest-rate swaps had a nominal value of EUR 17.6 billion; currency swaps had a nominal value of EUR 12.0 billion.

Furthermore, the Board of Management has resolved that, at the level of individual transactions, all explicit non-behaviour-dependent options in lending and refinancing transactions must be hedged by an identical offsetting transaction as a matter of course. In the Bank's programme-related development business, it is exposed to implicit options under Section 489 of the German Civil Code (BGB). Any potential losses arising from this exposure are offset by the structure of the various development programme mechanisms. Risks associated with behaviour-dependent or embedded options that cannot be hedged are assigned separate limits. As at 31 December 2023, embedded option-related risks were assessed at EUR 7.9 million.

As part of the process of safeguarding the Bank's risk-bearing capacity, the Board of Management also sets a VaR limit for interest-rate and foreign-exchange risk (including explicit non-behaviour-dependent options).

The following table provides an overview of the proportion of the aggregate loss ceiling taken up by these market price risks in the course of 2023.

VALUE AT RISK FOR INTEREST-RATE AND FX RISKS IN 2023 in EUR millions

| | 31.12.2022 | | 31.03.2023 | | 30.06.2023 | | 30.09.2023 | | 31.12.2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised |
| Aggregate loss ceiling | 4,300.0 | 1,738.5 | 4,300.0 | 1,838.4 | 4,300.0 | 1,933.5 | 4,300.0 | 1,930.7 | 4,300.0 | 2,358.5 |
| Share of interest-rate and exchange-rate risks in % | 14.0 | 25.5 | 16.3 | 24.3 | 16.3 | 27.3 | 20.9 | 28.9 | 20.9 | 29.3 |
| Interest-rate and exchange-rate risks | 600.0 | 443.6 | 700.0 | 447.5 | 700.0 | 527.8 | 900.0 | 558.8 | 900.0 | 690.0 |

The increase in potential losses associated with interest-rate and exchange-rate risks in the course of the year is mainly due to interest-rate swaps concluded with the aim of reducing the interest-income risk. As a result of the major interest-rate changes, the VaR limit was raised from EUR 600 million to EUR 700 million on 1 January 2023, and then, in the third quarter, further increased from EUR 700 million to EUR 900 million, at the expense of the VaR limit for credit-spread risks.

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, the loss of NPV relative to Tier I capital is calculated in six scenarios specified by the supervisory authority pursuant to Article 25 CRR, with the aim of determining supervisory early-warning indicators (BaFin Circular 06/2019 (BA) – Interest-rate risks in the investment book). Consequently, L-Bank has set a limit of 15% for the supervisory threshold, and an internal early-warning threshold of 14%. These key indicators are calculated and reported to the Board of Management on a daily basis.

EBA guidelines on the management of interest-rate exposure 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 basis of two assumptions: that the interest-rate exposure is retained, and that it is fully closed out. These figures are calculated and reported to the Board of Management every month.

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

As part of safeguarding the Bank's risk-bearing capacity, the Board of Management also sets a VaR limit for the credit-spread risk. The increase in credit-spread risks in the course of the year was primarily due to new securities business. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by this risk in the course of 2023.

VALUE AT RISK FOR CREDIT-SPREAD RISK IN 2023 in EUR millions

| | 31.12.2022 | | 31.03.2023 | | 30.06.2023 | | 30.09.2023 | | 31.12.2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised |
| Aggregate loss ceiling | 4,300.0 | 1,738.5 | 4,300.0 | 1,838.4 | 4,300.0 | 1,933.5 | 4,300.0 | 1,930.7 | 4,300.0 | 2,358.5 |
| Share of credit-spread risks in % | 25.6 | 26.3 | 25.6 | 27.4 | 25.6 | 28.1 | 20.9 | 27.9 | 20.9 | 26.1 |
| Market-wide spread risks | 1,100.0 | 457.7 | 1,100.0 | 504.1 | 1,100.0 | 543.0 | 900.0 | 539.6 | 900.0 | 615.1 |

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

The Bank uses what is known as the loss-free valuation of interest-rate derivatives to determine a possible provision for impending losses. This is because the bank book derivatives are in a 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 hedging relationship, a so-called commitment surplus was to result from the valuation of the interest-rate book as a whole, after a comparison of its book value with its NPV. As at 31 December 2023, these calculations show significant hidden reserves on which even a negative change in the yield curve, determined on the basis of the value-at-risk calculation, would only have a very limited impact.

## Refinancing risk

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

### Assessing the refinancing risk

The refinancing risk for existing transactions (i.e. without taking account of new and interest-rate adjustment transactions) is measured quantitatively by calculating a value at risk with a 250-day holding period and a 99.9% confidence level. This value at risk is calculated on the basis of credit-spread changes observed on the market 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 refinancing risk

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

The Bank complied with the VaR limit granted under the economic perspective on risk-bearing capacity throughout fiscal year 2023.

VALUE AT RISK FOR REFINANCING RISK IN 2023 in EUR millions

| | 31.12.2022 | | 31.03.2023 | | 30.06.2023 | | 30.09.2023 | | 31.12.2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised |
| Aggregate loss ceiling | 4,300.0 | 1,738.5 | 4,300.0 | 1,838.4 | 4,300.0 | 1,933.5 | 4,300.0 | 1,930.7 | 4,300.0 | 2,358.5 |
| Share of refinancing risks in % | 14.0 | 6.5 | 14.0 | 7.3 | 14.0 | 7.1 | 14.0 | 5.9 | 14.0 | 9.6 |
| Refinancing risks | 600.0 | 113.8 | 600.0 | 134.4 | 600.0 | 136.4 | 600.0 | 113.9 | 600.0 | 225.4 |

Refinancing risks are up on the previous year's figure. The decline in interest rates since 1 January 2023 means that the market values of derivatives have fallen, and consequently more cash collateral is required and must be refinanced.

The Controlling department is responsible for monitoring the refinancing risk by comparing the value-at-risk figures calculated each month with the specified limits. The risk of possible future price increases due to higher expenses for follow-up (rollover) refinancing 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 refinancing risk in a monthly aggregated report, which is distributed to the Risk Committee/Supervisory Board on a quarterly basis.

## Operational risk

Operational risk represents the risk of losses due to the inadequacy or failure of internal processes, individuals or systems, or as a result of external events. This definition includes information risks, process and workflow-related risks, legal risks and environmental 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 specialist departments, who may also delegate specific tasks to their staff as part of their organisational remit.

### Assessment procedures and management

The size and scope of operational risks are identified and assessed across specialist departments and projects with the aid of structured interviews. 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 if it was to materialise, as well as the anticipated frequency of such an occurrence. The Bank is obliged to resort to estimates simply because, to date, the Bank has only experienced a minimal number of loss events associated with operational risks, and the consequential damages have been negligible. Hence it is not possible to calculate the value at risk on the basis of historical loss events alone. A loss distribution is derived from expert estimates with the help of a Monte Carlo simulation, and an aggregated value at risk for operational risks is calculated for the Bank as a whole.

VALUE AT RISK FOR OPERATIONAL RISK IN 2023 in EUR millions

| | 31.12.2022 | | 31.03.2023 | | 30.06.2023 | | 30.09.2023 | | 31.12.2023 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised | Limit | Utilised |
| Aggregate loss ceiling | 4,300.0 | 1,738.5 | 4,300.0 | 1,838.4 | 4,300.0 | 1,933.5 | 4,300.0 | 1,930.7 | 4,300.0 | 2,358.5 |
| Share of operational risks in % | 1.2 | 2.3 | 1.4 | 2.2 | 1.4 | 2.4 | 1.4 | 2.4 | 1.4 | 2.3 |
| Operational risk | 50.0 | 40.6 | 60.0 | 40.7 | 60.0 | 45.5 | 60.0 | 45.7 | 60.0 | 54.3 |

The Controlling department is responsible for monitoring operational risk by comparing the value-at-risk 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.

On 1 January 2023, the value-at-risk limit for operational risk was raised from EUR 50 million to EUR 60 million. Over the year, extensive modernisation projects for upgrading the Bank's information technology caused project risks to increase. The increasing use of Internet technologies, some of which run in the cloud, generally increases the likelihood of information risks. Here it is important to note that because of the rapid evolution of information technology, the history of loss events has very little to say about future developments. The risk managers account for this by taking great care in assessing the risks. Consequently, the operational value at risk rose from EUR 40.6 million to EUR 54.3 million in the course of the year.

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 processes and workflows. Typically, these 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 structures and workflows.

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 treat the new type of business. The Bank then develops a processing model which is used to depict all HR, organisational, IT, accounting and fiscal consequences associated with the new business. Test cases are used to check the assumptions underlying this model, as well as the adequacy of the processes put in place.

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

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

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

With respect to workflow organisation, the Bank makes a distinction between policies representing binding prescriptions for action, on the one hand, and process diagrams and knowledge documentation, on the other. Policies always apply, regardless of the underlying workflows or IT systems used, whereas knowledge documentation/process diagrams and IT user manuals describe specific workflows. L-Bank has broken down the loan administration process into multiple stages: granting of loans, further processing of loans and processing of problem loans (restructuring and workout). Criteria have been established for each stage in the process and must be complied with when a loan is being processed. These processing criteria constitute the master lending process. A master process has also been established for trading transactions. This sets down the processing criteria for reviewing opportunities for trades, and for agreeing, recording, forwarding and changing closing dates. It also regulates, in clear, unambiguous terms, the updating of the trading transactions portfolio; the legal form of contracts; the closing of trades outside the Bank's own trading rooms and normal working hours (late trades); the recording and monitoring of telephone calls, and any ongoing supervisory activities relating to settlement and controls.

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

## Outlook for risk situation

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

The Bank's market price risk is primarily due to longer-term equity investments. In the reporting year, the slight decline in interest rates caused hidden reserves to rise and hidden charges on securities to fall. The interest-induced hidden charges on securities held as fixed assets are offset by interest-induced hidden reserves in derivative transactions.

The rise in interest-rate levels since mid-2022 continues to bring in higher investment income despite the decline in interest rates towards the end of 2023. Any risk to earnings lies in the possibility that interest rates will continue to decline.

The German economy is currently experiencing a slump. Economic stresses on the country's export-oriented economy caused by the very challenging conditions worldwide are being exacerbated by structural weaknesses in the national business environment and low domestic consumer demand. The fragile political situation is threatening security in the Near and Middle East, but also in North-East Asia, resulting in downside risks. Domestic labour disputes and street demonstrations and protests against government policies by certain segments of the population pose further risks to the country's economic development. Adequate risk provisions are in place.

### Opportunities

Because of the Bank's business model – as development bank of the State of Baden-Württemberg – the opportunities for improving the Bank's net assets, financial performance and financial position are limited. With respect to programme-related development business, the Bank works on behalf of the federal state and receives appropriate cost reimbursements for these services. The transformation of maturities does offer certain opportunities to earn more income, because the refinancing of the investment portfolio (loans and securities) is not entirely based on matching maturities. However, the opportunity to generate income using this method is associated with the assumption of corresponding risks, which are strictly limited. All else being equal, it may be possible to increase income if L-Bank's borrowing margin (spread of refinancing transactions over the risk-free yield curve) improves compared to 2023. Income from new development aid business could rise if the termination of the ECB's bond purchase programme results in further differentiation of credit spreads. Income may also increase if interest rates rise in 2024, because the Bank invests equity in longer-term, risk-free positions. In general, opportunities exist wherever risks fail to materialise, and existing provisions can be reversed at a later date.

## 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 refined. 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 operation 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 department 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 (GAAP). The practical interpretation of these regulations is set out in internal manuals and operating procedures 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 statutory or regulatory changes.

The comprehensive in-house 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.

The documentation of the accounting process is carefully organised so that it is easy to understand. All relevant documents are stored and archived in compliance with the statutory timeframes.

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 administering the financial accounting system.

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

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

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

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

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

Karlsruhe, 27 February 2024

Edith Weymayr Dr Iris Reinelt

Johannes Heinloth

# Separate Non-financial Report – Report of the Board of Management of L-Bank for fiscal year 2023

In its role as the federal state's development bank, and as both employer and financial institution, L-Bank has been engaged with social and ecological issues for many years. We document our engagement in this separate non-financial report (henceforth referred to as the 'Non-financial Report'), in accordance with the requirements of the CSR Directive Implementation Act. The Act requires companies to provide information on environmental, employee-related and social matters, respect for human rights, and prevention of bribery and corruption. L-Bank also reports on client matters as another material non-financial aspect, because L-Bank's activities are non-commercial and thus focused on the public interest. As the state's major development services provider, L-Bank is a hub of development expertise, offering suitable support to the people and businesses of Baden-Württemberg. The 'About this report' section explains the reporting framework in greater detail. L-Bank's business model and the way it has been implemented in each area of the Bank's development activities, together with the relevant key indicators, are described in the 'Background' and 'Economic Report' sections of the management report.

In consultation with internal stakeholders, multiple non-financial criteria or 'aspects' (environmental matters; employee-related matters; social matters and client matters; respect for human rights; prevention of bribery and corruption) were assessed for their relevance to L-Bank in a multi-stage, interdisciplinary process, and the materiality of the individual components was then reassessed in accordance with Section 289c (3) HGB. The results are shown in the following overview.

| NON-FINANCIAL ASPECT | COMPONENTS DEFINED AS MATERIAL PURSUANT TO SECTION 289C (3) HGB |
|---|---|
| Environmental matters | Ecological value added by development activities |
| Employee-related matters | Working conditions, staff development, personnel planning and recruitment, balancing of work and family life |
| Social matters | Support for entrepreneurship; social value added by development activities |
| 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, terrorist financing and other criminal acts |
| Client matters (additional aspect) | Corporate security, digitisation, product portfolio/services offered, management of complaints |

# Our Interpretation of Sustainability

L-Bank's business policies and all its entrepreneurial activities are focused on the sustainable development of the Bank and the State of Baden-Württemberg. This commitment springs directly from the Bank's founding purpose and corporate mission. L-Bank's actions are based on its statutory public-service mandate. The state government defines the basic objectives underlying the Bank's development activities. This is reflected in L-Bank's business strategy and orientation.

In view of its state mandate and non-commercial, public-service activities, good corporate governance is one of L-Bank's fundamental premises. 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.

As a public-law institution, L-Bank has an exceptional obligation to act in a legally impeccable manner as well as in the public interest. Its credibility and success are directly related to the integrity and honesty of all individuals acting on behalf of the Bank. The Bank's Board of Management and employees adhere to a common set of values that are set out in a binding Code of Ethics and Conduct.

As a state-owned company, L-Bank is guided by the sustainability strategy of the State of Baden-Württemberg and the twelve guiding principles of the WIN Charter. The latter formulate a set of common core values and cover the three pillars of sustainability – economy, ecology and social responsibility.

L-Bank's Sustainability Code expresses this fundamental interpretation and reflects the underlying principles and precepts that guide L-Bank's actions in relation to sustainability. In the year under review, the Bank's Sustainability Code was subjected to a fundamental revision, so that it now focuses even more firmly on achieving sustainability and climate targets. As the state development bank, L-Bank has assumed responsibility for transforming Baden-Württemberg into a climate-neutral region by 2040 by providing the state government with appropriate support in the form of development services. The Bank's business strategy and sustainability strategy both explicitly describe this strategic vision.

L-Bank's sustainability strategy is the practical expression of the Bank's business strategy, with a focus on sustainability as a key strategic objective. Six strategic sustainability goals have been defined across multiple key areas – 'Strategy/embedding', 'Reporting/disclosure', 'Development finance', 'ESG risks', 'ESG treasury', 'ESG ratings', 'Corporate culture' and 'Climate neutrality' – and the Bank's progress towards achieving them is measured on the basis of selected key indicators. The six strategic sustainability goals are presented below:

**(1) Making sustainability the cornerstone of the Bank's corporate culture:** the Bank's awareness and knowledge of ecological, social and economic concerns must be strengthened and refined. Based on this, sustainable action is becoming part of the Bank's everyday life and established as a core element in our corporate culture, making it the driving force behind L-Bank's sustainable development efforts.

**(2) Aligning development finance products with sustainable development:** in addition to new development finance incentives for embedding sustainable development in Baden-Württemberg's economy, we are gradually putting together a comprehensive reporting and management system based on the United Nations Sustainable Development Goals (SDGs).

**(3) Making the Bank's ESG impact fully transparent:** the key factor here is the impact achieved by L-Bank as Baden-Württemberg's development bank. By measuring the effects of the Bank's efforts initially on the basis of output, but ultimately on the basis of actual impact, it will be possible to depict the full impact of the Bank's development activities and the contribution they make to sustainable development. This depiction is steadily improving as the Bank builds up its ESG database, in turn making it possible to measure the Bank's impact by reference to overarching sociopolitical impact areas.

**(4) Strengthening L-Bank as a sustainable capital-market player:** transparent communication of ESG aspects and a commitment to industry standards are key prerequisites. The results of ESG ratings act as both indicators of, and benchmarks for, L-Bank's sustainability performance. With respect to the securities held in the Bank's financial investment portfolio, the aim is to operationalise both the 1.5-degree target set by the Paris Climate Accord and compliance with Baden-Württemberg's Climate Protection and Climate Change Adaptation Act by establishing appropriate policies and guidelines. L-Bank aims to systematically increase the number of sustainable investors involved in the Bank's refinancing.

**(5) Making L-Bank as a whole climate-neutral:** in order to achieve climate-neutral business operations by 2030, followed by net greenhouse-gas neutrality across all areas of activity (business operations, development finance activities, capital market) by 2040, the Bank is defining reliable, manageable pathways backed up by appropriate measures. By doing so, the Bank is supporting the State of Baden-Württemberg's ambitious objectives throughout its business operations and banking business.

**(6) Integrating ESG risks:** the holistic integration of ESG risks, or rather, ESG risk factors into the Bank's risk management approach is gaining impetus as the Bank continues to refine its risk management systems. The 'ESG data integration' project launched at the end of 2022 is intended to create the IT platform and structures necessary for achieving the Bank's strategic sustainability goals. The multi-year project is a vital prerequisite for the kind of sustainability reporting and disclosures required by industry regulators and the Bank's various stakeholders. At the same time, it will enable the Bank to align its development finance products even more closely with its sustainable development priorities. In 2023, the conceptualisation of the ESG data requirements, as well as the reporting and technical requirements, was implemented on schedule. This preliminary work is the basis for the project's ongoing implementation.

## Our Contribution to Sustainable Finance

As the state development bank, L-Bank is playing an active role in enabling the transition to a sustainable, inclusive economic and financial system. Development finance is based on the fundamental principle of subsidiarity. L-Bank does not compete, but works in partnership, with commercial banks. One of the core competencies of development banks is to provide start-up finance for companies and projects by leveraging development products. On behalf of the state, L-Bank puts together investment incentives targeting economic and social transformation, in the form of high-volume financing programmes. By supporting start-ups, new companies, self-employed entrepreneurs and small and medium-sized enterprises, L-Bank creates a breeding ground for new and innovative ideas – for the future of Baden-Württemberg. Within the scope of its own operational discretion, and in constant dialogue with the state ministries responsible for the individual development programmes, L-Bank systematically aligns its development activities with the key priorities of current development policy: sustainability, and structural transformation driven by digitisation and climate action.

Setting sustainable development as an objective is a key criterion for formulating L-Bank's development offerings. The 17 Sustainable Development Goals (SDGs) set down in the United Nations 2030 Agenda provide a comprehensive frame of reference and an ambitious list of targets for ecologically, economically and socially sustainable development. An SDG analysis was used to assess the extent to which L-Bank's development programmes align with the 17 SDGs. The main emphasis of the SDG analysis was on the positive contributions made by each year's newly approved development loans. As a development agency with a regional focus on the State of Baden-Württemberg, the issues of climate and environmental action (measured against SDGs 7 and 13), transformation and digitisation (measured against SDG 9) and equal opportunities (measured against SDG 10) are especially important to L-Bank. In line with the objective of making the Bank's ESG impact fully transparent, as set down in the Bank's sustainability strategy, impact management was further expanded in the reporting year. Impact management is based on impact indicators that are both measurable and comparable. Developed in the year under review, they are used to make the contribution of L-Bank's development funding to sustainable development visible and measurable. As well as closer correlation with the Bank's existing SDG analysis, the primary goal of this development was to move from an output-based to an impact-based approach. The analysis extends beyond the products and services financed and focuses on long-term changes at societal level.

In the year under review, the Bank made further progress towards the strategic goal of strengthening L-Bank as a sustainable capital-market player by signing the Principles for Responsible Investment (PRI). By signing the PRI, L-Bank has undertaken to adhere to the principles of responsible investment and sustainability as an investor, and to report annually on the Bank's strategies and progress in implementing the PRI.

## Our Responsibility for 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 action has been enshrined in Baden-Württemberg's legislation since 2013. On 1 February 2023, Baden-Württemberg's state parliament passed the updated Climate Protection and Climate Change Adaptation Act. This measure represents a further refinement of the prior 2013 Act, which was previously amended in 2020 and 2021. Key elements of the new Act are the goals set for 2030 and 2040, upon which the federal state's climate policies are now based. Over the next few years, the state government intends to turn Baden-Württemberg into one of the leading climate-action states. By steadily reducing emissions, Baden-Württemberg aims to achieve its goal of net climate (greenhouse-gas) neutrality by 2040. In addition, the fact that the old Act has now become a Climate Protection and Climate Change Adaptation Act underscores the need to supplement ambitious efforts to protect the climate with initiatives for adapting to the unavoidable consequences of ongoing climate change. The Climate Protection and Climate Change Adaptation Act also extended L-Bank's statutory development mandate. This extended mandate now needs to be underpinned by appropriate offerings and programmes.

By becoming a member of the United Nations Environment Programme Finance Initiative (UNEP FI), L-Bank has reaffirmed its commitment to incorporating environmental and sustainability aspects at all levels of the organisation.

L-Bank regards itself as having a dual duty to protect the environment and the climate; first, as a development bank providing suitable incentives for private individuals, municipalities and businesses, and second, by acting as a role model for other companies and society as a whole. To fulfil this remit, in 2016 L-Bank implemented a holistic environmental management system validated under the EU's Eco-Management and Audit Scheme (EMAS) and certified under the 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 autumn 2023 the Bank successfully passed its first supervisory audit. Thanks to the structures that have been put in place, L-Bank has laid the foundations for systematic environmental and climate action.

In October 2020, L-Bank signed a climate protection agreement with the State of Baden-Württemberg and, by doing so, became a member of the Baden-Württemberg Climate Alliance. By becoming a member, L-Bank re-emphasised its commitment to the federal state's sustainability and climate targets and the goal of achieving net climate (GHG) neutrality by 2040, which is enshrined in the Bank's sustainability strategy. In the reporting year, L-Bank also joined the Karlsruhe Climate Alliance (Klimaallianz Karlsruhe). In addition to encouraging the sharing of experience, these voluntary commitments support and encourage knowledge transfers and collaboration.

Each year, and in the first instance retroactively for fiscal year 2020, L-Bank uses (Gold Standard) GHG emissions certificates to offset aggregated emissions from its business operations – that is, L-Bank's carbon footprint – through the Baden-Württemberg Climate Protection Foundation. With the offset payment for fiscal year 2022, the Bank for the first time also supported two regional climate action projects in Baden-Württemberg on the basis of a new partnership offer – representing a voluntary contribution to the funding of regional climate action.

L-Bank's carbon footprint, which serves as a primary benchmark for measuring progress towards the goal of overall climate neutrality, amounted to 952 tons of $CO_2$ equivalents ($CO_{2e}$) in 2023, breaking down as follows:

| | |
|---|---|
| Direct greenhouse-gas emissions (GHG emissions) (Scope 1) | 112 tonnes $CO_{2e}$ |
| Indirect GHG emissions from energy supply (Scope 2)* | 581 tonnes $CO_{2e}$ |
| Other indirect GHG emissions (Scope 3) | 259 tonnes $CO_{2e}$ |
| **Total*** | **952 tonnes $CO_{2e}$** |

* L-Bank purchases 100% certified green electricity, which is offset with an emission factor of 0 g CO2e/kWh when calculating the carbon footprint. Any emissions that occur during energy production or due to grid losses in the upstream energy supply are not included, because no relevant details are currently available from the supplier/utility concerned.

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 set out in the 2022 version of update 1.1. This system of key performance indicators tracks the material and energy flows that occur in a financial services provider's day-to-day operations in the course of a single year. The analysis covers L-Bank's offices in Karlsruhe and Stuttgart; extrapolations were used to cover leased premises, and it does not take account of resource consumption attributable to lessees. Scope 3 includes, for example, GHG emissions from business travel and outsourced activities such as water treatment and waste treatment, as well as GHG emissions associated with consumables. Since 2020, the energy consumption associated with the rise in mobile and remote working has also been included in the analysis, based on extrapolated figures. The scope of remote working, which will continue to play an important role even after the coronavirus pandemic, is a preliminary yardstick for the benefits and staff acceptance of the Digital Workplace. In addition to various energy-saving measures adopted voluntarily by the Bank, the prescribed measures enacted by law between September 2022 and April 2023, such as the requirement to lower room temperatures to 19 degrees Celsius, resulted in energy savings in fiscal years 2022 and 2023.

The groundwork for further expanding the Bank's climate reporting was completed in fiscal year 2023. In addition to signing up as a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) – one of the objectives specified in the sustainability strategy – the Bank determined which data would be required to calculate financed emissions using the methodology provided by the Partnership for Carbon Accounting Financials (PCAF) initiative, and tested a model for calculating financed emissions. Following the disbanding of the TCFD and the transfer of its duties to the International Sustainability Standards Board (ISSB), as well as the replacement of TCFD disclosure recommendations by the new International Financial Reporting Standards (IFRS), the Bank's first priority is to implement CSRD requirements for climate reporting. The Bank will no longer produce a separate TCFD report.

### Ecological value added by development activities – boosting environment and climate protection

In line with the goals of the State of Baden-Württemberg, L-Bank is assisting companies on the way to climate neutrality by 2040. To do so, the Bank is enabling companies to gain insights into environmental impacts and transform them into meaningful business decisions. Thus in mid-2022, the Bank added a Sustainability Bonus to the two development programmes that are most in demand across the SME sector: the Baden-Württemberg Start-up and Growth Finance (GuW-BW) and Investment Finance programmes. Companies that have carried out a carbon footprint audit and developed their own climate strategy are awarded an additional interest-rate rebate on loans made under the two programmes. In 2023, the Sustainability Bonus was further expanded to include the Tourism Finance Plus programme, and the development incentive was further enhanced by increasing the interest-rate rebate. This expansion also contributed to the strategic objective of aligning development finance products even more closely with sustainable development priorities (see also the 'Economic Report' section of the management report). In addition to this incentive to develop entrepreneurial skills, L-Bank's favourable funding options ensure that companies are able to invest in implementing various environmental and climate protection measures. Under the Energy Finance programme, for example, L-Bank provides support to, for example, companies or organisations that aim to generate, distribute or store renewable energy. L-Bank's housing development products also include incentives for energy-efficient construction and eco-friendly refurbishment projects.

In addition, in 2023 the Bank launched a new development finance programme for start-ups in the shape of InnoGrowth BW, with the aim of strengthening corporate equity and enabling growth-focused investment. As part of this development programme, L-Bank is introducing an 'ESG Premium' in support of social and/or ecological business models.

## Our Responsibility for Employee-related Matters

L-Bank's long-term success depends on the hard work of its employees. The Code of Ethics and Conduct forms the basis of teamwork and respectful interaction at L-Bank. The code formulates binding principles, values and standards of conduct for all Bank employees. L-Bank ensures that they enjoy an appreciative, 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, as well as instruments for strategic and operational staff development. The personnel strategy defines four action areas: Leadership, Employee Experience, Transformation/ Change and Processes/Structures; a slew of measures was elaborated from these action areas in a series of strategy workshops. Remuneration systems represent another corporate management instrument; at the same time, remuneration that aligns with performance expectations is also an important factor in motivating employees and attracting highly qualified personnel. L-Bank's remuneration strategy takes equal account of the interests of the Bank and of its employees.

In the year under review, the Bank prioritised cultural transformation in the sense of holistic development of the entire organisation. By training transformation coaches, the Bank made an important step towards implementing a new culture of cooperation that will make it possible to achieve L-Bank's strategic goals in a more systematic and efficient manner.

## Personnel planning and recruitment – the basis for corporate success

Personnel planning involves analysing how many employees L-Bank needs to fulfil its corporate remit and achieve its corporate goals, and which skillsets and abilities they 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 available to current L-Bank employees. Working conditions and employee benefits are designed to optimise L-Bank's attractiveness as an employer, serving to both attract and retain highly qualified employees. Important aspects of this approach include a flexible working environment that supports a good work-life balance.

As an important part of business planning, personnel planning and recruitment policies are approved by the Board of Management. These policies aim to strengthen the recruitment – and ideally, long-term retention – of junior staff (such as apprentices, students on work-study programmes, working students and trainees). 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.

## Good work-life balance – family-friendly by conviction

Through the Bank's partnership with pme Familienservice GmbH, L-Bank makes it easier for employees to balance their personal and professional lives by taking advantage of a modular support programme. Among other things, L-Bank offers a variety of part-time working models, which are used by around one quarter of the workforce. The Bank also pays a childcare allowance and, in the event of childcare shortfalls, provides the option of a parent-and-child office, as well as flexible working hours (flexitime) and remote-working options. A work agreement on remote working gives employees the opportunity to respond flexibly to personal family matters. Under the remote-working arrangement, employees are paid an allowance for buying additional IT accessories over and above the basic IT equipment (laptop and mouse) to which they are already entitled.

The various support services offered by pme Familienservice GmbH cover childcare (including, for example, a holiday programme, childcare counselling, virtual support, after-school tuition, childminders), homecare and care for the elderly (eldercare, including respite for family carers, and housekeeping assistance), as well as various events featuring presentations by specialists on topics such as health-based powers of attorney, living wills, parenting before birth, inheritance law, etc.; L-Bank covers the costs of counselling and mediation.

## Staff development – promotion, training and continuing education help to build fitness for the future

L-Bank's employee competencies are managed and further developed by systematic staff development courses based on the 360-degree staff 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 continuing education catalogue offers a comprehensive range of interdisciplinary topics in five key areas, including Cooperation & Collaboration, Transformation, IT Applications, L-Bank's Development Mandate and Workplace Practices. The Bank is continuously expanding and updating the range of courses on offer. In the reporting year, the Board of Management introduced a bank-wide training course on Sustainability, comprising various modules. This reflects the Bank's strategic goal of making sustainability the cornerstone of its corporate culture.

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 the Baden-Württemberg Cooperative State University (DHBW) and the Chamber of Industry and Commerce (IHK) in Karlsruhe. L-Bank offers high-school graduates work-study places as students specialising in Business Administration for Banks, Computer Science and Business IT. In addition, L-Bank offers a wide range of training opportunities: a trainee programme and specialist IT training, as well as work experience and internships. In 2023, three apprentices and 11 students on work-study courses started training at L-Bank. As at the reporting date, a total of nine apprentices and 29 students on work-study courses were in training at L-Bank. In-house talent management is a key element in employees' continuing professional development (CPD). Based on L-Bank's skills profile, the programme opens up a wide variety of CPD options for employees by focusing on their strengths. Employees are given every opportunity to participate in the staff development programme and thus develop new career prospects. The design of the talent management programme is discussed and approved by the interdepartmental Personnel Development committee. The committee is a decision-making body that meets as required.

## Working conditions – creating a positive working environment

L-Bank fulfils its duty of care by protecting its employees from health hazards arising at work or through work. 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. As an employer, it is therefore our aim to create healthy, safe workplaces in a positive working environment. 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. 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 mitigated by taking the necessary steps. Of particular importance to L-Bank is occupational health management focusing on prevention. Further information on employee-related matters can be found in the 'Personnel' section of the management report.

# Our Responsibility for Social Matters

In times of major – and often unexpected – challenges, whether geopolitical, social or economic, L-Bank's primary duty as a development bank is to provide businesses, families and municipalities with urgent, short-term assistance in overcoming the crisis, and with longer-term support during the ensuing transformation. The Bank's development finance figures highlight the challenges that characterised 2023: L-Bank provided businesses in Baden-Württemberg with around EUR 6.2 billion in funding, focused primarily on stabilising and transforming the economy. But L-Bank's importance is also apparent in other areas of activity: family benefits such as parental allowances often play a key role in supporting the economic livelihoods of families by helping mothers and fathers to better balance the demands of family and career.

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

The starting point for all development projects is the provision of development funding. To safeguard its development business in the long term – not least from a regulatory perspective – L-Bank set up the development fund (the development contribution system) described in the 'Financial performance' section of the management report.

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

## Social value added by development activities – compensating for structural funding gaps creates equal opportunities

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

Providing everyone with access to affordable housing is a cornerstone of our welfare state. And one of its key components is finance for social rental accommodation, which gives households who cannot afford suitable housing through their own efforts some prospect of obtaining suitable accommodation. Finance for social rental accommodation benefits them indirectly – it is paid out to investors prepared to provide low-income households with rental accommodation. In return for subsidised development funding, the recipients assume certain obligations involving regulated tenancy and rent undertakings in particular. Social property lets are thus bound to predefined income and rent ceilings.

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

## Support for entrepreneurship – building a sustainable future

In the economic system favoured by social market economies, companies are the initiators and facilitators of change and progress. Their entrepreneurial spirit makes a major contribution to the preservation of our society's economic prosperity. By using their initiative, they create jobs while, at the same, time taking responsibility for their employees, and more broadly, for social development. By providing financial and other support for entrepreneurship, L-Bank encourages a willingness to take responsibility and creates the conditions required for improving equal opportunities in society. L-Bank supports entrepreneurship by providing advice and training, by raising awareness, and through its development funding programmes. The Bank aims to work with the State of Baden-Württemberg to create attractive conditions for entrepreneurship and thus create and safeguard jobs in Baden-Württemberg. L-Bank supports fledgling companies and SMEs at different stages of development and in various business situations by using suitable instruments. These extend from debt financing to quasi-equity financing; from equity and sureties through to grants awarded on behalf of the federal state. Furthermore, by building technology parks, the Bank helps to create 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, as well as the Innovation Finance 4.0 programme.

The Bank also prioritises support for companies seeking sustainable transformation. L-Bank further expanded the Sustainability Bonus in 2023, to enable companies to make the transition to climate neutrality.

To identify companies' changing needs as early as possible, L-Bank procures or provides funding for empirical studies. These enable the Bank to further refine its existing development finance products to meet real-world needs, thereby ensuring that the public funding provided adds the desired social value. L-Bank also runs promotional campaigns to raise public awareness of the importance of entrepreneurship. Competitions such as the state-wide Start-up BW Elevator Pitch and the State Prize for Young Companies play an important role here.

# Our Responsibility for Respecting Human Rights

Human rights are fundamental rights that protect the freedom and autonomy of every single human being. Respect for human rights is a central standard in all L-Bank's business activities and part of its DNA as a publicly owned company. L-Bank's compliance with statutory and regulatory provisions, coupled with the fact that the Bank's development business is limited to Baden-Württemberg, minimises the risk that the Bank could violate the rights of indigenous peoples or provide development funding that inadvertently enables or facilitates forced or child labour. 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.

## Protection of personal data – informational self-determination

The legal basis for the protection of personal data is the European Union's General Data Protection Regulation (EU GDPR). This embodies the basic right to informational self-determination: each individual has the right to decide for themselves who collects, processes or uses which parts of their 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 the IT systems it uses, clearly defined processes, and the conduct of its employees. Each year, every employee is given a mandatory online training course in data protection and information security. 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 reports regularly to the Board of Management. In 2023, there were no data protection incidents that needed to be reported to Baden-Württemberg's State Commissioner for Data Protection, as required by law.

## Freedom of assembly and freedom to bargain collectively – workers' rights as a binding basis

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 governs the representation of employee interests at L-Bank, hence also employees' operational participation (co-determination). 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 conformance 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.

# Our Responsibility for Combating Bribery and Corruption

L-Bank tolerates neither corruption nor bribery. This attitude is also reflected in the Bank's Code of Ethics and Conduct. Whenever further regulations and process descriptions are required over and above this set of values, they are supplemented and defined by internal guidelines (policies). No new guidelines were issued in the year under review.

## Prevention of money laundering, terrorist financing and other criminal acts – preventing abuse of the financial system

The fight against bribery and corruption has many facets. As a financial institution, the prevention of money laundering, fraud and the financing of terrorism is especially important to L-Bank. Because of the extensive government support available during the coronavirus pandemic, the risk of abuse actually increased. While Covid-related emergency aid was being disbursed, it proved impossible to wholly prevent acts of fraud by third parties. In certain cases, criminal charges were filed. The Bank also submitted reports of suspected money laundering. All Covid-related aid programmes are monitored by the Money Laundering unit as part of the Fraud Prevention Working Group.

Our management approach is based on compliance with legal and regulatory requirements. In organisational and technical terms, the Governance and Compliance department and Money Laundering unit, as well as the supervisory functions represented by the Compliance Officer and Money Laundering Officer, together with their deputies, all report directly to the Board of Management. As process-dependent supervisory and control bodies within the Bank, they support the specialist departments with advice on process implementation and, as one of several 'second lines of defence', establish the controls required for all such processes. The Governance and Compliance department ensures conformance with internal, statutory and regulatory policies and provisions by monitoring compliance with policies. The central office set up within the Bank to prevent money laundering, terrorist financing and other criminal acts, which forms part of the Money Laundering unit, enjoys the full support of the Board of Management. 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 applying 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 to prevent money laundering, terrorist financing and other criminal acts, 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 the relevant internal operating procedures (written policies).

When new recruits join L-Bank, they are given mandatory in-house training on the prevention of money laundering and fraud, securities compliance, data protection and information security. In departments to which money laundering is relevant, staff are required to take a supplementary online training course every two years. They are reminded to take this online course by the Money Laundering unit, and their participation is tracked. To prevent other criminal acts, staff are given an extended online training course every two years. The course provides them with a broad grounding in fraud prevention and examines common cases of corporate fraud in great detail.

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. L-Bank's business model as a development bank that does not accept deposits from the general public and has neither branches nor cash operations is considered to mitigate the risks associated with the prevention of money laundering and terrorist financing.

The multiple-control principle applied by L-Bank ensures that important decisions which must be made when, for example, onboarding new clients or engaging in critical activities, are neither made nor implemented by a single individual. In addition to the multiple-control principle, powers of authorisation are clearly defined and regulated in an internal policy. A comprehensive reporting system ensures that the Board of Management is continuously involved in these processes. 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 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 requisite 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. The Bank's procedures for preventing money laundering essentially consist of performing a risk analysis involving the identification and assessment of existing risks to current business operations (Section 5 GwG), as well as the formulation of internal security measures in accordance with Section 6 GwG, such as the initial and ongoing briefing of employees on the typologies and current methods of money laundering and terrorist financing, as well as the relevant regulations and obligations (including data protection provisions).

## Our Responsibility for Client Matters

### Portfolio of products and services – as the state's main development finance provider, we offer broad-based support

As the State of Baden-Württemberg's development bank, L-Bank uses a wide variety of development instruments to fulfil the tasks assigned to it by the federal state. These instruments include financial instruments such as development loans issued directly, development loans issued using the 'pass-through' principle (that is, provided through the borrower's bank or other development banks such as KfW), as well as financial aid and assistance, family allowances, sureties and guarantees, and equity assistance. L-Bank is also actively involved in business zone development through the construction and management of technology parks.

### Digitisation – the basis for fast decision-making and settlement processes

The steady progress of L-Bank's digitisation, in line with the needs of both development clients and partners, is enabling the Bank to process their requests rapidly, cost-effectively and with a suitably high degree of security.

With this in mind, L-Bank's business strategy gives high priority to strategic digitisation targets such as 'consistent focus on client needs', 'ability to react to changes', 'cost-effective service provision' and 'state-of-the-art working environment'. For L-Bank, digitisation is a key strategic principle. The focus of the Bank's strategic digitisation objectives has hitherto been described in a separate digitisation strategy supplementing L-Bank's business strategy. Because the scope of digitisation is steadily growing, it has now been incorporated into L-Bank's existing IT strategy.

The Bank's development finance instruments vary in terms of content, processes and scope. This means that in view of the various options for digitising development activities, the Bank must determine the precisely feasible, necessary and (economically) sensible degree of digitisation required in each case and take a suitably differentiated approach to digitisation in each area of development activity. L-Bank's digitisation efforts also depend on developments at client level, as well as digital developments affecting business and joint-venture partners.

The Bank continued to develop the development finance portal first introduced in 2022. Here, as part of the feedback process on Covid-related emergency aid, clients can use an online application to calculate and register their reimbursement needs. The Digital Filing system, also introduced in 2022, was rolled out to more specialist departments in the course of 2023. Both the development finance portal and Digital Filing system are enabling the Bank to process development funding applications faster and more efficiently. The introduction of a low-code platform in 2023 also laid the foundations for digital signatures, and further work was done on the provision of digital authentication for clients. As part of its development mandate, L-Bank provides information on various aspects of development assistance and finance. To do so, the Bank steadily and continuously develops its online presence and expert portal, while at the same time not neglecting more traditional access and communication channels.

To systematically implement fit-for-purpose digitisation, the Bank has set up various management tools:

- → A portfolio management system based on close collaboration between the key roles in specialist departments, IT, and organisational development.
- → The 'Development' initiative steering committee, which manages Bank-wide coordination and advises the Board of Management on how best to prioritise and adapt individual digitisation projects.

## Corporate security – proactive, full-spectrum analysis of all risks and dangers makes L-Bank secure

Wherever digitisation projects are being implemented, the operational risks are managed, relevant experiences evaluated and end goals adjusted if required. IT application development follows an agile approach based on the Scrum method, supported by information security policies drawn from the BSI's baseline protection concept. This enables the Bank to protect clients, partners and information in general from third-party interventions or attack. Top-level information security policies are defined by the Corporate Security unit, which works independently of the operational IT units. In particular, Corporate Security is responsible for assisting the Board of Management in all matters relating to internal security. To do so, it uses a 360-degree management system that, in addition to managing information security, also handles emergency prevention and physical security, as well as the continuous improvement of the processes involved. Corporate Security reports to the full Board of Management on an ad-hoc or quarterly basis.

### Complaints management – a combined early warning system and starting point for further development

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

## About this Report

Sections 289b to 289e HGB impose statutory requirements for documenting and reporting on the impacts of L-Bank's business activities. These requirements are discussed in a separate Non-financial Report, which appears as a section of the annual report.

On the basis of the FAQs published by the European Commission on 2 February 2022 (OJ C 385/1 of 6 October 2022), L-Bank, as a public-law institution, did not fall within the scope of the 'EU Taxonomy Regulation' in reporting year 2023 (Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, which amends Regulation (EU) 2019/2088). This status is regularly reviewed due to ongoing changes in the regulatory environment.

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 fiscal year 2023 and up until the reporting date, L-Bank's business activities did not give rise to any material non-financial risks that are having, or are very likely to have, severely negative impacts on the reportable aspects. In accordance with the Minimum Requirements for Risk Management (MaRisk) in banking institutions, L-Bank has installed a risk management system in order to adequately control any risks incurred by the Bank. L-Bank reports on this in the 'Opportunities and Risk Report' section of the management report. No references to issues associated with the data 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 area of the Bank's development activities, as well as the relevant key indicators, are described in the 'Background' and 'Economic Report' sections of the management report. References outside the management report do not form part of this separate Non-financial Report.

Karlsruhe, 27 February 2024

Edith Weymayr Dr Iris Reinelt

Johannes Heinloth

# Independent Auditor's Report on a Limited-assurance Engagement relating to the Bank's Non-Financial Reporting

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

We have performed a limited-assurance engagement on the separate Non-financial Report for the period from 1 January to 31 December 2023 (hereinafter the 'separate 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 for the period from 1 January to 31 December 2023 in accordance with Section 340a (1a) in conjunction with Sections 289c to 289e HGB.

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

## Assuring audit firm independence and quality control

In performing the engagement, we complied with the independence and quality management requirements of the national statutory regulations and German professional code, and in particular with the professional statutes for German public auditors and sworn auditors (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer) as well as the IDW Quality Assurance Standard: Requirements for Quality Management in Auditing Practice (Anforderungen an das Qualitätsmanagement in der Wirtschaftsprüferpraxis (IDW QMS 1 [09.2022])).

## Independent auditor's responsibilities

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

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

This standard requires that we plan and perform the assurance engagement in order to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the institution's separate Non-financial Report has not been prepared, in all material respects, in accordance with Section 340a (1a) in conjunction 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 and stakeholder engagement.
→ Making inquiries of the legal representatives and relevant personnel involved in the preparation of the separate Non-financial Report concerning the preparation process, the internal control system relating to this process, and disclosures in the separate Non-financial Report.
→ Interviews with personnel responsible for the materiality analysis in order to gain an understanding of the institution's procedures for identifying material issues and corresponding reporting boundaries.
→ Identifying likely risks of material misstatement in the separate Non-financial Report.
→ A risk assessment, including a media analysis, of relevant information on the institution's sustainability performance over the reporting period.
→ Assessing the design and implementation of systems and processes for collecting, processing and monitoring disclosures, including the compilation of disclosures on environmental, employee-related and social matters, respect for human rights, prevention of bribery and corruption, and client matters.
→ Interviews with personnel responsible for preparing disclosures on concepts, due diligence processes, outcomes and risks, the performance of internal controls and the compilation of disclosures.
→ Performing an analytical evaluation of selected disclosures in the separate Non-financial Report.
→ Comparing selected disclosures with corresponding information in the management report.
→ Evaluating the presentation of the separate Non-financial Report.

## Assurance conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the separate Non-financial Report of Landeskreditbank Baden-Württemberg – Förderbank – independent public-law institution, for the period from 1 January to 31 December 2023, has not been prepared, in all material respects, in accordance with Section 340a (1a) in conjunction with Sections 289c to 289e HGB.

## Restriction of use/clause on general terms of engagement

This assurance report is addressed to Landeskreditbank Baden-Württemberg – Förderbank – independent public-law institution, Karlsruhe, and is intended solely for this institution.

The engagement under which we provided the aforementioned services to the institution was based on the General Engagement Terms for Public Auditors and Public Audit Firms (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften – AAB) dated 1 January 2017. By taking note of, and making use of, the information contained in this assurance report, each recipient confirms that s/he has taken note of the provisions set down therein (including the limitation of liability to EUR 4 million for negligence stipulated in Clause 9 AAB) and recognises their validity in relation to us.

Berlin, 27 February 2024
KPMG AG
Wirtschaftsprüfungsgesellschaft

Protze ppa. Maier
Public Auditor

# Report of the Supervisory Board

During fiscal year 2023, 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. A number of meetings of the Supervisory Board and its committees were conducted digitally.

**The Supervisory Board** held five meetings during calendar year 2023. The Board members monitored the orderly conduct of the Bank's business in three Ordinary and two Extraordinary Meetings. For this purpose, pursuant to the relevant statutory provisions, and to the policies set down in the Bank's articles of association and standard operating procedures, 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 2023. The members of the Supervisory Board were informed of current developments and progress in meeting strategic objectives in the quarterly strategy report, and regularly informed of the status of the audit on the use of information technology at L-Bank conducted by the German Federal Financial Supervisory Authority (BaFin) in accordance with Section 44 of the German Banking Act (KWG).

Among other issues, the Supervisory Board's online Spring Meeting focused on the adoption of the 2022 financial statements, the appointment of an auditor for the annual audits of the financial statements for 2023 through to 2027, the continuation of L-Bank's modernisation programme and the intensification of the strategy process initiated in 2020.

The Bank's business, sustainability and IT strategies were adopted by the Supervisory Board at the Summer Meeting.

The Supervisory Board approved the Bank's risk strategy at the Autumn Meeting. The Supervisory Board also took note of the Bank's development contribution plan, approved the economic plan for 2024, and discussed the results of the suitability assessment of key function holders and the questionnaire used for the annual evaluation of the Board of Management pursuant to Section 25d (11) KWG. Furthermore, to ensure that the business organisation is properly set up and organised following the entry into force of the 7th amendment to MaRisk, the Supervisory Board adopted a new allocation of responsibilities to Management Board members with effect from 1 May 2024, as well as the Supervisory Board's proposal to the Bank's guarantor that the remuneration structure for the Supervisory Board and consequently the levels of remuneration for Supervisory Board members should be redefined with effect from 1 January 2024.

The Supervisory Board's Extraordinary Spring Meeting was concerned with the resolution concerning L-Bank's strategic acquisition of an equity interest. In the constituent Extraordinary Meeting in early December, the Supervisory Board resolved the composition of its committees for the term of office commencing on 1 December 2023.

Between meetings, urgent decisions were taken by written circular.

**The Risk Committee** held five meetings in calendar year 2023. In four Ordinary Meetings, the committee discussed the quarterly risk reports, as well as the annual reports submitted by the Data Protection Officer and Security Office (Corporate Security unit). The committee also discussed the Bank's strategies and played a close advisory role in the strategy process.

The members of the Risk Committee also received monthly status reports on the progress of L-Bank's IT compliance programme. The programme was launched in mid-2021 to strengthen IT compliance and ensure conformity with the relevant regulatory requirements.

**The Audit Committee** met four times in calendar year 2023. Three Ordinary Meetings were held to discuss the reports submitted by Internal Audit, Corporate and Securities Compliance, the Money Laundering and Fraud Prevention Officer, and the auditor's follow-up review of audit findings.

The Audit Committee consulted with the auditor at the start of the audit process. The auditor provided the Audit Committee with progress reports on the audit, and also took part in discussions of the 2022 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. The committee also discussed the appointment of an auditor for the 2023–2027 annual audits of the Bank's financial statements and made a recommendation to the Supervisory Board. The Audit Committee approved the additional services provided by the auditor in 2023.

**The Risk and Audit Committees** held a joint Extraordinary Meeting to discuss the findings of the audit on the use of information technology at L-Bank conducted by the German Federal Financial Supervisory Authority (BaFin) in accordance with Section 44 KWG.

Between meetings, urgent decisions were taken by written circular.

**The Personnel Committee** held two meetings in calendar year 2023. In the Ordinary Meetings, reports were given on the sideline activities of Management Board members, declared conflicts of interest, the results of the questionnaire for the Management and Supervisory Boards on the implementation of induction and training guidelines, and the ongoing development of the personnel strategy. The committee also held a preliminary discussion of the results of the suitability assessment of key function holders and the questionnaire used for the annual evaluation of the Board of Management pursuant to Section 25d (11) KWG.

Between meetings, urgent decisions were taken by written circular.

**The Remuneration Control Committee** met twice in calendar year 2023 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. The committee also held a preliminary discussion of the adjustments to the remuneration of Supervisory Board members due to take effect from 1 January 2024.

## Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft carried out the statutory annual audit for fiscal year 2023 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 2023 prepared by the Board of Management do not give rise to any objections. Accordingly, in its meeting on 15 April 2024, the Supervisory Board took note of and approved the Bank's annual financial statements for 2023.

The Supervisory Board has also reviewed the separate Non-financial Report for fiscal year 2023. KPMG AG Wirtschaftsprüfungsgesellschaft was commissioned to carry out an external limited-assurance engagement of the report's content. The auditor's notes on the audit 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 should be raised to the separate Non-financial Report for 2023.

Taking account of the profit carried forward from the preceding year, the distributable net profit totalled EUR 50.6 million. The Supervisory Board approved the Board of Management's proposal to allocate EUR 50 million of this amount to other retained earnings and to carry forward the remaining amount of EUR 0.6 million.

## Personnel Matters

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

The Supervisory Board is chaired by Minister Dr Danyal Bayaz. The two Vice-Chairs are Minister Dr Nicole Hoffmeister-Kraut (MSP)* and Minister Nicole Razavi (MSP)*.

Dr Jan Stefan Roell was appointed to the Supervisory Board on 1 January 2023. Upon expiry of their terms of office on 30 November 2023, Roger Kehle and Annegret Breitenbücher both stepped down from the Supervisory Board. The Council of Ministers appointed Minister of State Dr Florian Stegmann and Mr Ralf Bross as their successors, and reappointed the other Supervisory Board members for the new term of office commencing on 1 December 2023.

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

Stuttgart, 15 April 2024

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

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

# Annual Financial Statements 2023

# L-Bank Balance Sheet as at 31 December 2023

| **ASSETS** | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2022 EUR |
|---|---|---|---|---|
| 1. CASH RESERVE | | | | |
| a) cash in hand | | 8,946.66 | | 15,133.58 |
| b) current balances with central banks thereof: with Deutsche Bundesbank EUR 0.00 (EUR 152,025.06) | | 0.00 | | 152,025.06 |
| | | | **8,946.66** | **167,158.64** |
| 2. RECEIVABLES FROM BANKS | | | | |
| a) due on demand | | 5,562,848.56 | | 5,519,581.36 |
| b) other claims | | 39,801,217,527.24 | | 44,280,392,895.88 |
| | | | **39,806,780,375.80** | **44,285,912,477.24** |
| 3. RECEIVABLES FROM CLIENTS thereof: secured through real-estate liens EUR 4,090,318,758.25 (EUR 4,266,437,560.26) municipal loans EUR 9,495,518,118.12 (EUR 9,275,337,285.51) | | | **22,030,659,651.49** | **22,042,394,277.83** |
| 4. BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES | | | | |
| a) money-market instruments | | | | |
| aa) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 1,713,233,236.50 (EUR 397,073,826.00) | | 2,584,192,969.18 | | 866,976,777.52 |
| b) bonds and debentures | | | | |
| ba) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 11,200,398,209.43 (EUR 8,663,765,324.27) | 11,335,824,353.40 | | | 8,800,869,585.64 |
| bb) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 14,335,426,795.62 (EUR 11,675,685,921.43) | 17,897,427,979.67 | | | 15,580,165,061.71 |
| | | 29,233,252,333.07 | | 24,381,034,647.35 |
| | | | **31,817,445,302.25** | **25,248,011,424.87** |

| ASSETS | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2022 EUR |
|---|---|---|---|---|
| 5. SHAREHOLDINGS<br>thereof:<br>in financial institutions<br>EUR 4,166,214.92 (EUR 4,166,214.92) | | | 455,939,355.05 | 281,497,665.63 |
| 6. HOLDINGS IN AFFILIATED COMPANIES | | | 7,909,202.00 | 6,909,202.00 |
| 7. FIDUCIARY ASSETS<br>thereof:<br>fiduciary loans<br>EUR 11,613,995.80 (EUR 13,062,896.59) | | | 11,614,590.85 | 13,063,472.13 |
| 8. INTANGIBLE ASSETS<br>a) licences acquired for consideration, industrial property rights and similar rights and assets, and licences to such rights and assets | | | 883,632.30 | 1,739,041.30 |
| 9. TANGIBLE ASSETS | | | 66,404,204.29 | 69,409,439.29 |
| 10. OTHER ASSETS | | | 51,063,606.63 | 489,327,710.69 |
| 11. ACCRUALS | | | 869,551,786.41 | 788,148,013.75 |
| TOTAL ASSETS | | | 95,118,260,653.73 | 93,226,579,883.37 |

| LIABILITIES | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2022 EUR |
|---|---|---|---|---|
| 1. LIABILITIES TO BANKS | | | | |
| a) due on demand | | 5,767,504.28 | | 4,984,676.63 |
| b) with agreed term or notice period | | 31,127,708,164.28 | | 35,721,690,181.10 |
| | | | **31,133,475,668.56** | **35,726,674,857.73** |
| 2. LIABILITIES TO CLIENTS | | | | |
| a) other liabilities | | | | |
| aa) due on demand | | 358,261,086.47 | | 322,087,690.93 |
| ab) with agreed term or notice period | | 13,755,624,342.66 | | 13,698,674,773.97 |
| | | | **14,113,885,429.13** | **14,020,762,464.90** |
| 3. SECURITISED LIABILITIES | | | | |
| a) notes issued | | | **43,341,094,229.17** | **36,959,456,804.07** |
| 4. FIDUCIARY LIABILITIES<br>thereof: fiduciary loans<br>EUR 11,613,995.80 (EUR 13,062,896.59) | | | **11,614,590.85** | **13,063,472.13** |
| 5. OTHER LIABILITIES | | | **75,428,854.25** | **28,480,669.98** |
| 6. DEFERRALS | | | **1,301,116,513.23** | **1,457,822,505.58** |
| 7. PROVISIONS | | | | |
| a) provisions for pensions and similar obligations | | 484,548,331.50 | | 462,867,722.00 |
| b) tax provisions | | 964,000.00 | | 100,000.00 |
| c) other provisions | | 530,760,368.71 | | 393,959,990.07 |
| | | | **1,016,272,700.21** | **856,927,712.07** |
| 8. SUBORDINATED LIABILITIES | | | **10,110,382.52** | **118,435,918.91** |

| LIABILITIES | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2023 EUR | 31.12.2022 EUR |
|---|---|---|---|---|
| 9. PARTICIPATION CAPITAL thereof: due within two years EUR 110,643,750.00 (EUR 0.00) | | | 110,643,750.00 | 110,643,750.00 |
| 10. FUND FOR GENERAL BANKING RISKS | | | 810,000,000.00 | 790,000,000.00 |
| 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 | | 1,846,000,000.00 | | 1,803,000,000.00 |
| d) net profit | | 50,615,746.12 | | 43,308,938.31 |
| | | | 3,194,618,535.81 | 3,144,311,728.00 |
| TOTAL LIABILITIES | | | 95,118,260,653.73 | 93,226,579,883.37 |

| | | |
|---|---|---|
| 1. CONTINGENT LIABILITIES a) liabilities from sureties and guarantee contracts | 208,340,197.16 | 256,489,608.52 |
| 2. OTHER COMMITMENTS a) irrevocable lending commitments | 4,405,898,077.90 | 5,277,747,885.31 |

# L-Bank Statement of Income for the Fiscal Year 1 January to 31 December 2023

| | | 2023 EUR | 2023 EUR | 2023 EUR | 2022 EUR |
|---|---|---|---|---|---|
| 1. | INTEREST INCOME FROM | | | | |
| | a) lending and money market transactions | 1,900,918,525.51 | | | 783,913,735.17 |
| | b) fixed-income securities and debt-register claims | 613,292,906.60 | | | 458,718,485.66 |
| | | | 2,514,211,432.11 | | 1,242,632,220.83 |
| 2. | INTEREST EXPENSES | | 2,104,994,643.59 | | 990,831,607.57 |
| | | | | **409,216,788.52** | **251,800,613.26** |
| 3. | CURRENT INCOME FROM | | | | |
| | a) shareholdings | | | **5,441,528.10** | **1,809,865.80** |
| 4. | COMMISSION INCOME | | | **59,504,057.82** | **122,371,037.38** |
| 5. | COMMISSION EXPENSES | | | **3,390,112.71** | **2,979,732.32** |
| 6. | OTHER OPERATING INCOME | | | **6,962,366.19** | **6,776,029.35** |
| 7. | GENERAL ADMINISTRATIVE EXPENSES | | | | |
| | a) personnel expenses | | | | |
| | aa) wages and salaries | 92,835,929.98 | | | 90,810,336.21 |
| | ab) social security contributions and expenses for pensions and other benefits thereof: for pensions EUR 23,159,407.91 (EUR 30,183,594.33) | 39,661,090.87 | | | 46,271,215.70 |
| | | | 132,497,020.85 | | 137,081,551.91 |
| | b) other administrative expenses | | 204,571,834.28 | | 126,216,360.76 |
| | | | | **337,068,855.13** | **263,297,912.67** |
| 8. | WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS | | | **7,211,529.84** | **6,557,588.31** |

| | 2023<br>EUR | 2022<br>EUR |
|---|---|---|
| 9. OTHER OPERATING EXPENSES | 30,016,551.46 | 21,052,453.28 |
| 10. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON RECEIVABLES AND CERTAIN SECURITIES, AS WELL AS ADDITIONS TO PROVISIONS FOR LOAN LOSSES | 37,298,821.93 | 968,393.55 |
| 11. INCOME FROM ADDITIONS TO SHAREHOLDINGS, HOLDINGS IN AFFILIATED COMPANIES AND SECURITIES TREATED AS FIXED ASSETS | 5,406,921.16 | 5,373,729.39 |
| 12. ADDITIONS TO FUND FOR GENERAL BANKING RISKS | 20,000,000.00 | 50,000,000.00 |
| 13. INCOME FROM ORDINARY BUSINESS ACTIVITIES | 51,545,790.72 | 43,275,195.05 |
| 14. TAXES ON INCOME AND EARNINGS | 1,056,910.80 | 496,542.71 |
| 15. OTHER TAXES NOT STATED UNDER ITEM 9 | 182,072.11 | 182,312.85 |
| 16. NET INCOME | 50,306,807.81 | 42,596,339.49 |
| 17. PROFIT CARRIED FORWARD FROM PREVIOUS YEAR | 308,938.31 | 712,598.82 |
| | | |
| 18. NET PROFIT | 50,615,746.12 | 43,308,938.31 |

# L-Bank Cash Flow Statement for the Fiscal Year 1 January to 31 December 2023

| | 01.01–31.12.2023 EURk | 01.01–31.12.2022 EURk |
|---|---:|---:|
| Result for the period | 50,307 | 42,596 |
| Amortisation, valuation adjustments and write-ups on receivables, including contingent liabilities and securities | –10,277 | 66,704 |
| Depreciation/amortisation, valuation adjustments and write-ups on tangible assets and intangible assets | 7,212 | 6,558 |
| Amortisation, valuation adjustments and write-ups on financial assets (excluding securities) | 8 | 3,700 |
| Change in provisions (excluding loan-loss provisioning) | 295,652 | 160,962 |
| Profit/loss on the disposal of financial assets | –1,771 | –14,174 |
| Other adjustments (net) | 31,013 | 45,383 |
| Change in receivables from banks | 4,480,248 | –19,565,949 |
| Change in receivables from clients | 21,874 | –514,992 |
| Change in securities | –6,568,738 | –2,300,701 |
| Change in other assets from operating activities | 358,309 | 386,897 |
| Change in liabilities to banks | –4,593,199 | 5,510,291 |
| Change in liabilities to clients | 93,123 | 3,427,880 |
| Change in securitised liabilities | 6,381,637 | –5,416,534 |
| Change in other liabilities from operating activities | –337,513 | –113,131 |
| Net interest income | –409,217 | –251,801 |
| Income tax charges | 1,057 | 497 |
| Interest and dividend payments received | 1,970,748 | 1,394,015 |
| Interest paid | –1,592,544 | –1,187,597 |
| Income tax payments | –1,057 | –497 |
| **Cash flow from operating activities** | **176,872** | **–18,319,893** |
| | | |
| Proceeds from the disposal of financial assets | 11,831 | 30,303 |
| Disbursements for investments in financial assets | –185,510 | –51,906 |
| Disbursements for investments in tangible assets | –3,048 | –1,358 |
| Disbursements for investments in intangible assets | –303 | –854 |
| **Cash flow from investment activities** | **–177,030** | **–23,815** |
| | | |
| **Cash flow from financing activities** | **0** | **0** |
| | | |
| Cash and cash equivalents at start of period | 167 | 18,343,875 |
| Cash flow from operating activities | 176,872 | –18,319,893 |
| Cash flow from investment activities | –177,030 | –23,815 |
| Cash flow from financing activities | 0 | 0 |
| **Cash and cash equivalents at end of period** | **9** | **167** |

# L-Bank Statement of Changes in Equity as at 31 December 2023

| | | Reserves | | | | |
|---|---|---|---|---|---|---|
| | Subscribed capital EURk | Capital reserve pursuant to Section 272 (2) art. 4 HGB EURk | Other retained earnings EURk | Total EURk | Net profit EURk | Equity EURk |
| **Balance as at 31.12.2021** | **250,000** | **1,048,003** | **1,765,000** | **2,813,003** | **38,713** | **3,101,715** |
| Transfer to reserves | | | 38,000 | 38,000 | –38,000 | 0 |
| Net income for the year | | | | | **42,596** | **42,596** |
| **Balance as at 31.12.2022** | **250,000** | **1,048,003** | **1,803,000** | **2,851,003** | **43,309** | **3,144,312** |
| Transfer to reserves | | | 43,000 | 43,000 | –43,000 | 0 |
| Net income for the year | | | | | **50,307** | **50,307** |
| **Balance as at 31.12.2023** | **250,000** | **1,048,003** | **1,846,000** | **2,894,003** | **50,616** | **3,194,619** |

# Notes to the Annual Financial Statements of L-Bank as at 31 December 2023

## GENERAL PRINCIPLES

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

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

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

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

## ACCOUNTING AND VALUATION METHODS

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

### Financial assets and liabilities

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

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

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

When assessing risks in the lending business, a distinction is made between the recognition of risk provisions for non-performing loans and non-impaired loans. Individual valuation adjustments, specific provisions and generalised valuation adjustments are made for non-performing loans. Uncollectable receivables are written off. General loan-loss provisions are set up for non-impaired exposures in accordance with the principles of IDW RS BFA Opinion 7, together with a provision for general banking risks in accordance with Section 340f HGB. The generalised valuation adjustments are measured on the basis of historical losses for homogeneous portfolios. General loan-loss provisions are based on anticipated losses.

Current risk factors are taken into account: the impact of uncertainties resulting from current geopolitical crises – especially the Russian war on Ukraine and the escalation of the conflict in the Middle East – on loans to companies and private clients are accounted for by a management adjustment in the form of an addition to the general loan-loss provision. General loan-loss provisions are calculated using the simplified procedure set down in subsection 23 et seq. of IDW RS BFA Opinion 7. Where any anticipated loss is offset by the credit-rating premium, the general loan-loss provision is based on the amount of the loss anticipated over a one-year reference period (without taking credit-rating premiums into account). If it is no longer possible to assume such an offset, the amount of the general loan-loss provision is increased to match the expected loss over the entire term of the contract. Criteria for this include arrears of more than 30 days and certain deteriorations in probabilities of default. All valuation adjustments are offset against assets or stated under provisions.

Securities in the liquidity reserve are stated at the lower of acquisition cost or stock exchange/market price at the balance sheet date, in accordance with the strict 'lower of cost or market' principle. Where possible, stock-market prices are used to determine market values. Where no active markets are available, model values are 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 expected 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 of 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, taking into account a salary and pension growth rate of 2% (2022: 2%). Pursuant to the specifications of Section 253 (2) clauses 1 and 2 HGB, provisions are discounted at the average market interest rate over the last ten fiscal years, assuming a residual term of 15 years. The rate of interest applied is 1.82% (2022: 1.78%). 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 7 million as at 31 December 2023 (2022: EUR 30 million). This amount is barred from distribution.

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

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

Interest accruing on provisions (including provisions for pensions and similar obligations) totalling EUR 5 million (2022: EUR 15 million) is stated under net interest income.

## Development funds

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

Out of the development fund for 2023 totalling EUR 111 million, an amount of EUR 94 million was utilised. The remaining balance was carried forward to the following year. On 31 December 2023, L-Bank made a provision of EUR 100 million to cover its obligation to pay out development contributions in fiscal year 2025. An additional amount of EUR 20 million was also allocated to fiscal year 2024. Development funds available for fiscal year 2024 thus come to a total of EUR 117 million.

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

| | EURk |
|---|---|
| Interest expenses | 99,200 |
| Other operating expenses | 20,800 |
| **Total** | **120,000** |

## Currency translation

Currency translation is carried out according to the provisions of Section 256a in conjunction with Section 340h HGB, as well as IDW RS BFA Opinion 4. The initial valuation of assets and liabilities denominated in foreign currencies is carried out at acquisition cost, translated into EUR without affecting profit or loss. As at the balance sheet date, assets and liabilities denominated in foreign currencies, as well as pending foreign-exchange cash transactions, are translated at the mean spot rate on 29 December 2023. In the case of forward currency contracts, the forward rate is separated 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' (2022: '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 concludes 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 29 December 2023.

| Underlying transaction in micro hedge | Book value in EURk | of which interest-rate risk | of which currency risk |
|---|---|---|---|
| Assets | – | – | – |
| Liabilities | 2,873,371 | 2,797,250 | 76,121 |
| **Total** | **2,873,371** | **2,797,250** | **76,121** |

The underlying (hedged) transactions are offset by micro swaps with a market value of EUR –290.2 million.

| BREAKDOWN OF SELECTED BALANCE SHEET ITEMS BY TIME TO MATURITY OR CALL | 31.12.2023 EURk | 31.12.2022 EURk |
|---|---|---|
| RECEIVABLES FROM BANKS | | |
| due on demand | 5,563 | 5,520 |
| up to three months | 18,811,740 | 23,721,491 |
| more than three months and up to one year | 2,735,575 | 2,522,394 |
| more than one year and up to five years | 8,428,779 | 8,012,071 |
| more than five years | 9,825,123 | 10,024,437 |
| RECEIVABLES FROM CLIENTS | | |
| up to three months | | 746,526 |
| more than three months and up to one year | 804,780 | 879,822 |
| more than one year and up to five years | 4,444,936 | 4,555,556 |
| more than five years | 15,791,892 | 15,860,490 |
| BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES | | |
| maturing in the following year | 5,782,828 | 3,667,918 |
| LIABILITIES TO BANKS | | |
| due on demand | 5,768 | 4,985 |
| up to three months | 5,541,441 | 4,705,200 |
| more than three months and up to one year | 3,819,678 | 8,655,678 |
| more than one year and up to five years | 9,292,364 | 9,320,307 |
| more than five years | 12,474,225 | 13,040,505 |
| LIABILITIES TO CLIENTS | | |
| due on demand | 358,261 | 322,088 |
| up to three months | 7,981,379 | 8,233,044 |
| more than three months and up to one year | 38,564 | 108,647 |
| more than one year and up to five years | 397,518 | 422,423 |
| more than five years | 5,338,163 | 4,934,561 |
| SECURITISED LIABILITIES | | |
| maturing in the following year | 24,975,757 | 18,074,324 |

| EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS | 31.12.2023 EURk | 31.12.2022 EURk |
|---|---|---|
| RECEIVABLES FROM BANKS | | |
| This item comprises:<br>– receivables from companies in which an equity interest is held | – | 30,021 |
| RECEIVABLES FROM CLIENTS | | |
| This item comprises:<br>– receivables from affiliated companies | 74,539 | 67,990 |
| – receivables from companies in which an equity interest is held | 78,937 | 84,394 |
| BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES | | |
| This item comprises:<br>– receivables from companies in which an equity interest is held | 1,715,228 | 1,715,267 |
| The marketable securities in this item break down as follows:<br>– listed | 29,167,395 | 24,253,791 |
| – unlisted | 2,650,050 | 994,220 |
| Securities with a book value (excluding prorated interest accrued) of EUR 28,832,334,000 are assigned to investment assets. Of these, securities with a book value of EUR 19,713,233,000 have a market value of EUR 17,624,964,000. No amortisation has been applied to these items, as short-term market fluctuations are not taken into account given the intention to hold these assets on a long-term basis.<br>The interest-induced hidden charges on securities held as fixed assets are offset by interest-induced hidden reserves in derivative transactions. | | |
| SHAREHOLDINGS | | |
| Of the marketable securities included in shareholdings, the following are:<br>– listed | 0 | 0 |
| FIDUCIARY ASSETS | | |
| This item breaks down as follows:<br>– receivables from banks | 11,537 | 12,961 |
| – receivables from clients | 77 | 101 |
| – other assets | 1 | 1 |
| TANGIBLE ASSETS | | |
| This item comprises:<br>– plots and buildings used for the Bank’s own activities | 59,463 | 62,891 |
| – plant and office equipment | 6,868 | 6,446 |

| EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS | 31.12.2023 EURk | 31.12.2022 EURk |
|---|---|---|
| ACCRUALS – ASSETS | | |
| – Difference between disbursement amount or acquisition cost and lower nominal value of receivables | 323,029 | 387,495 |
| – Difference between issue price and higher repayable amount of liabilities | 50,260 | 62,477 |
| FIDUCIARY LIABILITIES | | |
| Fiduciary liabilities comprise – liabilities to banks | 2 | 24 |
| – liabilities to clients | 11,612 | 13,038 |
| – other liabilities | 1 | 1 |
| DEFERRALS – LIABILITIES | | |
| – Difference between disbursement amount or acquisition cost and higher nominal value of receivables | 312 | 355 |
| – Difference between issue price and lower repayable amount of liabilities | 84,351 | 104,922 |
| SUBORDINATED LIABILITIES AND PARTICIPATION CAPITAL | | |
| – Interest expenses on subordinated liabilities | 2,524 | 2,849 |
| – Interest expenses on participation capital | 5,661 | 5,661 |

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

| Currency | Amount in EURk | Interest rate in % | Maturity date |
|---|---|---|---|
| EUR | 5,000 | 4.040 | 23.09.2024 |
| EUR | 5,000 | 4.040 | 23.09.2024 |

Participation capital consists of participation certificates comprised as follows:

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

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

Subordinated liabilities and participation capital are intended for use as supplementary capital and comply with CRR eligibility requirements. The important factor here is the subordinated nature of the Bank's liability in these cases in relation to all non-subordinated liabilities to other creditors. In the event of liquidation, the liabilities to 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 call 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 | 31.12.2023 EURk | 31.12.2022 EURk |
|---|---|---|
| OTHER ASSETS | | |
| – Receivables from swaps | 30,153 | 28,658 |
| – Works of art | 11,631 | 11,638 |
| – Balancing item from currency translation | – | 438,803 |
| PREPAYMENTS AND ACCRUALS | | |
| – Single payments made in advance for swaps | 486,664 | 328,552 |
| OTHER LIABILITIES | | |
| – Balancing item from currency translation | 47,326 | – |
| – Liabilities from occupational pension scheme | 14,790 | 14,552 |
| – Single (bullet) repayments on swaps | 7,975 | 7,592 |
| DEFERRALS | | |
| – Single payments received in advance for swaps | 1,134,479 | 1,277,017 |
| – Contributions to administrative expenses received in advance | 77,603 | 74,778 |
| PROVISIONS | | |
| under other provisions:<br>– Provisions for development funds | 217,178 | 191,499 |
| – Provisions for development contributions already made | 66,889 | 41,450 |
| INTEREST INCOME | | |
| – Negative interest from financial investments | 7,116 | 73,704 |
| INTEREST EXPENSES | | |
| – Negative interest from borrowing | 13,058 | 80,721 |
| COMMISSION INCOME | | |
| – Income from other services | 56,200 | 118,845 |
| Other services mainly relate to services on behalf of the State of Baden-Württemberg | | |

| INDIVIDUAL AMOUNTS THAT ARE MATERIAL IN ASSESSING THE ANNUAL FINANCIAL STATEMENTS | 31.12.2023 EURk | 31.12.2022 EURk |
|---|---|---|
| GENERAL ADMINISTRATIVE EXPENSES | | |
| Other administrative expenses include auditor's fees (excluding sales tax):<br>– for year-end auditing services | 432 | 492 |
| – for other auditing services | 48 | 85 |
| Other auditing services include the limited-assurance engagement related to the Non-financial Report and the SWIFT CSP assessment. | | |
| OTHER OPERATING EXPENSES | | |
| – Addition to the provision for development funds | 20,800 | 13,594 |
| TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES | | |
| – Assets | 4,262,815 | 4,242,307 |
| – Liabilities | 26,612,124 | 27,234,275 |
| The exchange-rate risk from foreign-exchange balance-sheet items is essentially covered by off-balance-sheet hedging transactions.<br>Currency translation produced:<br>other operating expenses in the amount of | 6 | 29 |

## 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 8,149 million (2022: EUR 7,980 million) were deposited with Deutsche Bundesbank. As at 31 December 2023, securities totalling EUR 313 million (2022: EUR 3,733 million) had been credited in the course of open-market transactions. Securities in the amount of EUR 1,557 million (2022: EUR 2,145 million) were deposited in respect of membership of EUREX (the electronic derivatives exchange). Of this amount, EUR 1,006 million had been utilised as at 31 December 2023 (2022: EUR 1,369 million). As at 31 December 2023, no securities had been transferred for repo transactions (2022: EUR 282 million), whereas EUR 175 million (2022: EUR 177 million) had been transferred for initial margin transactions.

As collateral for OTC transactions, the Bank posted cash surety bonds totalling EUR 1,307 million (2022: EUR 1,437 million), reported under receivables from banks or clients.

## TRANSACTIONS WITH ASSOCIATED OR RELATED PARTIES AND PERSONS

Transactions with associated or related parties concluded on non-market terms had a reported value of EUR 17 million as at 31 December 2023 (2022: EUR 0 million). The transaction concerned is a shareholder loan.

## OTHER FINANCIAL COMMITMENTS

The Bank's investment business includes payment commitments for outstanding, previously uncalled deposits totalling EUR 165 million.

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 exchange-rate 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 31.12.2023 | Nominal values 31.12.2022 | Market values positive 31.12.2023 | Market values negative 31.12.2023 | Market values positive 31.12.2022 | Market values negative 31.12.2022 |
|---|---|---|---|---|---|---|
| INTEREST-RATE RISKS | | | | | | |
| Interest-rate swaps | 82,701 | 76,042 | 4,938 | –3,211 | 6,068 | –3,329 |
| Other forward transactions | 100 | 0 | 4 | 0 | 0 | 0 |
| **Interest-rate risks – total** | **82,801** | **76,042** | **4,942** | **–3,211** | **6,068** | **–3,329** |
| CURRENCY RISKS | | | | | | |
| Forward currency contracts/ swaps | 12,011 | 11,334 | 12 | –196 | 4 | –332 |
| Currency swaps/cross-currency interest-rate swaps | 17,639 | 19,124 | 210 | –619 | 581 | –677 |
| **Currency risks – total** | **29,650** | **30,458** | **222** | **–815** | **585** | **–1,009** |

On balance, no significant profit or loss on foreign-exchange transactions or interest-rate valuations are 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 47 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 'Accruals'.

Interest-rate swaps in the non-trading portfolio (bank book) are used primarily to control total interest-rate exposure and show a net positive market value of EUR 1,727 million as at 31 December 2023. These interest-rate swaps are not valued in the balance sheet.

## DERIVATIVE TRANSACTIONS – BY COUNTERPARTY

| in EUR millions | Nominal values 31.12.2023 | Nominal values 31.12.2022 | Market values positive 31.12.2023 | Market values negative 31.12.2023 | Market values positive 31.12.2022 | Market values negative 31.12.2022 |
|---|---|---|---|---|---|---|
| Banks in the OECD | 112,451 | 106,500 | 5,164 | –4,026 | 6,653 | –4,338 |
| **Total** | **112,451** | **106,500** | **5,164** | **–4,026** | **6,653** | **–4,338** |

## DERIVATIVE TRANSACTIONS – BY TERM

| Nominal values in EUR millions | Interest-rate risks 31.12.2023 | Interest-rate risks 31.12.2022 | Currency risks 31.12.2023 | Currency risks 31.12.2022 |
|---|---|---|---|---|
| RESIDUAL MATURITIES | | | | |
| – up to three months | 2,441 | 2,097 | 13,099 | 11,562 |
| – more than three months and | 8,071 | 5,681 | 4,558 | 4,280 |
| up to one year | 25,567 | 27,487 | 10,404 | 10,997 |
| – more than one year and | 46,722 | 40,777 | 1,589 | 3,619 |
| up to five years | | | | |
| – more than five years | | | | |
| **Total** | **82,801** | **76,042** | **29,650** | **30,458** |

There are no trading transactions.

## VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 29 December 2023, 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 | 36,971 | 472 |
| 2 | Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH | Stuttgart | 24.00 | 5,418 | –2,943 |
| 3 | Below One Fund I GmbH & Co. KG | Hamburg | 3.13 | 6,926 | –477 |
| 4 | BWK GmbH Unternehmensbeteiligungsgesellschaft | Stuttgart | 10.00 | 256,222 | 43,822 |
| 5 | DBAG Expansion Capital Fund GmbH & Co. KG | Frankfurt | 21.77 | 9,704 | 27,854 |
| 6 | European Investment Fund | Luxembourg | 0.18 | 4,368,892 | 70,414 |
| 7 | First Momentum Ventures Fund II GmbH & Co. KG | Karlsruhe | 18.30 | ** | ** |
| 8 | Grazia Impact III GmbH & Co. KG | Stuttgart | 9.99 | ** | ** |
| 9 | Landesbeteiligungen Baden-Württemberg GmbH | Stuttgart | 12.14 | 819,068 | 207 |
| 10 | LEA Mittelstandspartner Annex GmbH & Co. KG | Karlsruhe | 25.00 | ** | ** |
| 11 | LEA Mittelstandspartner GmbH & Co. KG | Karlsruhe | 25.00 | 142,253 | 153,989 |
| 12 | LEA Mittelstandspartner II GmbH & Co. KG | Karlsruhe | 20.85 | ** | ** |
| 13 | LEA Venturepartner Annex GmbH & Co. KG | Karlsruhe | 47.69 | ** | ** |
| 14 | LEA Venturepartner GmbH & Co. KG | Karlsruhe | 49.00 | 31,303 | –4,066 |
| 15 | LEA Venturepartner II GmbH & Co. KG | Karlsruhe | 48.00 | ** | ** |
| 16 | Mätch.vc Fund I GmbH & Co. KG | Stuttgart | 31.06 | ** | ** |
| 17 | MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH | Stuttgart | 26.80 | 99,598 | 7,387 |
| 18 | SHS VI Healthcare Investment GmbH & Co. KG | Tübingen | 5.56 | ** | ** |
| 19 | StEP Stuttgarter EngineeringPark GmbH | Stuttgart | 100.00 | 13,339 | –1,474 |
| 20 | Strohheker Holding GmbH | Pforzheim | 49.50 | –80 | 808 |
| 21 | SWK Beteiligungs GmbH & Co. geschl. Investment KG | Stuttgart | 20.00 | ** | ** |
| 22 | Technologiepark Karlsruhe GmbH | Karlsruhe | 96.00 | 52,846 | 1,404 |
| 23 | Technologiepark Mannheim GmbH | Mannheim | 100.00 | 4,110 | –119 |
| 24 | Technologieparks Tübingen-Reutlingen GmbH | Tübingen | 100.00 | 18,699 | 1,084 |

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

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

## STATEMENT OF CHANGES IN FIXED ASSETS

<table>
<tr><th>Fixed assets Balance-sheet items</th><th>Acquisition costs 01.01.2023 EURk</th><th>Addi-tions EURk</th><th>Retire-ments EURk</th><th>Transfers EURk</th><th>Write-ups, cumulative EURk</th><th>Depreciation/ amortisation, cumulative EURk</th><th>Book value 31.12.2023 EURk</th><th>Annual depreciation/ amortisation for 2023 EURk</th><th>Annual write-ups for 2023 EURk</th></tr>
<tr><td>Bonds, debentures and other fixed-income securities</td><td>26,310,175</td><td colspan="6" rowspan="3">Net change pursuant to Section 34 (3) clause 2 RechKredV:: 2,594,649</td><td>28,832,334</td><td>–</td><td>–</td></tr>
<tr><td>Shareholdings</td><td>373,926</td><td>455,939</td><td>–8</td><td>–</td></tr>
<tr><td>Holdings in affiliated companies</td><td>17,432</td><td>7,909</td><td>–</td><td>–</td></tr>
<tr><td>Intangible assets</td><td>36,043</td><td>303</td><td>–46</td><td>–</td><td>–</td><td>–35,416</td><td>884</td><td>–1,159</td><td>–</td></tr>
<tr><td>Tangible assets</td><td>198,331</td><td>3,048</td><td>–541</td><td>–</td><td>–</td><td>–134,434</td><td>66,404</td><td>–6,053</td><td>–</td></tr>
<tr><td>Other assets</td><td>13,148</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–1,517</td><td>11,631</td><td>–7</td><td>–</td></tr>
</table>

| Depreciation/amortisation | 01.01.2023 | Addition | Write-up | Transfer | Retirement | 31.12.2023 |
|---|---|---|---|---|---|---|
| Intangible assets | 34,304 | 1,159 | – | – | 46 | 35,416 |
| Tangible assets | 128,922 | 6,053 | – | – | 541 | 134,434 |
| Other assets | 1,510 | 7 | – | – | – | 1,517 |

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

Remuneration paid to members of the Board of Management for 2023 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 | 682 | 12 | 36 | 730 |
| Dr Iris Reinelt | 01.01–31.12 | 445 | 15 | 9 | 469 |
| Johannes Heinloth | 01.01–31.12 | 445 | 18 | 21 | 485 |
| **Total** | | **1,572** | **45** | **67** | **1,684** |

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 2023 in EURk[1)]

| Name | Membership period | Membership of Supervisory Board | Membership of committees | Attendance fees | Total |
|---|---|---|---|---|---|
| Dr Danyal Bayaz[2)] Chair | 01.01–31.12 | 9.0 | 14.0 | 1.8 | 24.8 |
| Dr Nicole Hoffmeister-Kraut[2)] 1st Vice-Chair | 01.01–31.12 | 7.5 | 5.9 | 1.4 | 14.8 |
| Nicole Razavi[2)] 2nd Vice-Chair | 01.01–31.12 | 7.5 | 2.4 | 1.2 | 11.1 |
| Annegret Breitenbücher | 01.01–30.11 | 5.5 | 4.4 | 0.9 | 10.8 |
| Dr Florian Stegmann[2)] | 01.12.–31.12 | 0.5 | 0.4 | | 0.9 |
| Dr Jürgen Bufka | 01.01–31.12 | 6.0 | | 0.8 | 6.8 |
| Claudia Diem | 01.01–31.12 | 6.0 | 8.1 | 1.5 | 15.6 |
| Martin Gross | 01.01–31.12 | 6.0 | 4.8 | 0.9 | 11.7 |
| Manuel Hagel | 01.01–31.12 | 6.0 | 3.5 | 0.9 | 10.4 |
| Felix Herkens | 01.01–31.12 | 6.0 | | 0.8 | 6.8 |
| Roger Kehle | 01.01–30.11 | 5.5 | | 0.5 | 6.0 |
| Ralf Broß | 01.12.–31.12 | 0.5 | | 0.2 | 0.7 |
| Gabriele Kellermann | 01.01–31.12 | 6.0 | 10.5 | 2.0 | 18.5 |
| Andrea Lindlohr[2)] | 01.01–31.12 | 6.0 | 2.4 | 1.4 | 9.8 |
| Rainer Reichhold | 01.01–31.12 | 6.0 | | 0.5 | 6.5 |
| Dr Jan Stefan Roell | 01.01–31.12 | 6.0 | 2.2 | 1.1 | 9.3 |
| Joachim Walter | 01.01–31.12 | 6.0 | | 0.6 | 6.6 |
| Barbara Bender-Wieland | 01.01–31.12 | 6.0 | | 0.8 | 6.8 |
| Thomas Dörflinger | 01.01–31.12 | 6.0 | | 0.8 | 6.8 |
| Clemens Meister | 01.01–31.12 | 6.0 | | 0.8 | 6.8 |
| Total | | **114.0** | **58.6** | **18.3** | **190.9** |

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

| | 31.12.2023<br>EURk | 31.12.2022<br>EURk |
|---|---|---|
| – Payments to former members of the Board of Management or their surviving dependants | 1,337 | 1,363 |
| – Pension provisions for former members of the Board of Management and their surviving dependants | 25,675 | 26,126 |

## NUMBER OF EMPLOYEES (ANNUAL AVERAGE)

| | Male | Female | Total |
|---|---|---|---|
| Employees* | 597 | 819 | 1,416 |
| of whom: full-time employees | 519 | 442 | 961 |
| of whom: part-time employees | 78 | 377 | 455 |

* Headcount; excluding apprentices, trainees and interns.

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

| EDITH WEYMAYR, CHAIR OF THE BOARD OF MANAGEMENT | |
|---|---|
| Wüstenrot & Württembergische AG, Stuttgart | Member of the Supervisory Board |

| DR IRIS REINELT, MEMBER OF THE BOARD OF MANAGEMENT | |
|---|---|
| Investitionsbank Berlin, Berlin, Germany | Member of the Administrative Board |

| JOHANNES HEINLOTH, MEMBER OF THE BOARD OF MANAGEMENT | |
|---|---|
| Hypo Vorarlberg Bank AG, Bregenz, Austria | Member of the Supervisory Board |
| TransnetBW GmbH, Stuttgart, Germany | Member of the Supervisory Board |

## BOARDS OF L-BANK

### BOARD OF MANAGEMENT

Edith Weymayr
Chair

Dr Iris Reinelt

Johannes Heinloth

### SUPERVISORY BOARD MEMBERS

#### Regular members

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

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

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

Annegret Breitenbücher
Assistant Secretary, Baden-Württemberg Ministry of State
until 31.11.2023

Ralf Broß
Former Lord Mayor and Executive Member of the Board of the Association of Cities and Towns of Baden-Württemberg
since 01.12.2023

Dr Jürgen Bufka
Proprietor, Bufka Advisory Services

Claudia Diem
Legal practitioner

Martin Gross
Regional Manager, ver.di Baden-Württemberg

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

Felix Herkens MSP*
Member of Alliance 90/ The Greens parliamentary group, Baden-Württemberg State Parliament

Roger Kehle
Former President and Honorary President, Baden-Württemberg Association of Municipalities
until 30.11.2023

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

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

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

Dr Jan Stefan Roell
Managing Director, roellpartners GmbH
since 01.01.2023

Dr Florian Stegmann
Minister of State and Head of State Chancellery, Baden-Württemberg Ministry of State since 01.12.2023

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 2023.

### 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 2023, totalling EUR 50,615,746.12, an amount of EUR 50,000,000.00 should be appropriated to other retained earnings and the remaining amount of EUR 615,746.12 carried forward to the current fiscal year.

Karlsruhe, 27 February 2024

L-Bank

Edith Weymayr Dr Iris Reinelt Johannes Heinloth

# Declaration of the Board of Management Regarding the Financial Statements of L-Bank as at 31 December 2023

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, 27 February 2024

Edith Weymayr Dr Iris Reinelt Johannes Heinloth

# Independent Auditor's Report

For Landeskreditbank Baden-Württemberg – Förderbank – Karlsruhe

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

### Audit opinions

We have audited the annual financial statements of Landeskreditbank Baden-Württemberg – Förderbank – Karlsruhe, comprising the balance sheet as at 31 December 2023, income statement, cash flow statement and statement of changes in equity for the fiscal year from 1 January to 31 December 2023, 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 2023.

In accordance with German legal requirements, we have not audited the content of those parts of the management report listed in the 'Other information' section of our auditor's report.

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

→ the accompanying annual financial statements comply, in all material respects, with the provisions of German commercial law applicable to institutions and, in accordance with German generally accepted accounting principles, give a true and fair view of the net assets and financial position of the public-law institution as at 31 December 2023, and of its financial performance for the fiscal year from 1 January to 31 December 2023, and

→ in all material respects, the accompanying management report conveys a true and fair view of the position of the public-law institution. It 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 content of those parts of the management report listed in the 'Other information' section of the opinion.

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

### Basis for the audit opinions

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

### Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2023.

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.

**The adequacy of the individual valuation adjustments on receivables from banks and clients in the lending business at L-Bank's own risk**

Please refer to the 'Counterparty risk' section of the management report for an explanation of the risk management system. For further details of the accounting and valuation methods applied by L-Bank to individual valuation adjustments, please refer to the 'Accounting and valuation methods' section in the 'Notes to the Annual Financial Statements of L-Bank'.

## EXPOSURE IN THE FINANCIAL STATEMENTS

In total, L-Bank reports receivables from banks and clients amounting to 65% of total assets. L-Bank uses a case-by-case approach to calculate the risk provision for credit exposures at risk of or in default and consequently classified under risk-related business.

Calculating the individual valuation adjustments that must be made requires forward-looking estimates of anticipated cash flows from interest and redemption claims. These estimates are based on anticipated trends in value-determining assumptions and parameters, and hence are subject to a high degree of judgement.

Because these estimates and judgements are subject to uncertainty and, in turn, have a significant influence on the amount of any individual valuation adjustments that may be required, it was especially important in the course of our audit that we obtain evidence showing that the material value-determining parameters were, overall, calculated appropriately, and that the assumptions made were based on reasonable premises.

## OUR AUDIT PROCEDURE

By applying a risk-focused audit approach, we based our audit opinion on both control-based audit procedures and evidence-based (substantive) audit procedures. Consequently we performed the following audit procedures, among others:

Our first step was to obtain a comprehensive insight into the development of the loan portfolio with respect to loans granted at L-Bank's own risk, the associated risks of counterparty default, the methods and models used, and the internal control system for monitoring and assessing counterparty default risks in the loan portfolio.

Our second step was to conduct interviews to assess the adequacy of the internal control system, and to inspect the relevant documentation. We then verified the implementation and – based on random sampling – effectiveness of the relevant controls intended to ensure compliance with the institution's own systems for calculating individual valuation adjustments and appropriately identifying the relevant value-determining assumptions and parameters. We reviewed the adequacy and effectiveness of the institution's management of the relevant IT systems and applications by involving our own IT specialists.

Finally, by deliberately selecting credit exposures according to primarily risk-based criteria, we verified that the calculation of the individual valuation adjustments was based on appropriate assumptions and parameters. We evaluated the dependability of the underlying risk-based selection criteria by taking a random sample. We also arithmetically verified individual valuation adjustments yet to be made and checked that they were appropriately recognised in the accounting system.

### OUR CONCLUSIONS

The assumptions and parameters used to calculate the individual valuation adjustments of receivables from banks and clients made at L-Bank's own risk were selected appropriately and then used to estimate the anticipated returns in accordance with the accounting principles that should properly be applied to the calculation of individual valuation adjustments.

## Other information

The Board of Management and Supervisory Board are responsible for the other information provided. The other information includes:

→ The separate Non-financial Report referred to in the management report.

The other information also includes:

→ The remaining parts of the annual report which we expect to be made available to use after this date.

The other information does not include the annual financial statements, the audited disclosures in the management report or our auditor's report pertaining thereto.

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

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

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

→ otherwise appears to be materially misstated.

## Responsibilities of the Board of Management and Supervisory Board for the annual financial statements and management report

The Board of Management is responsible for preparing annual financial statements that comply, in all material respects, with the provisions of German commercial law applying to institutions, and for ensuring that the annual financial statements give a true and fair view of the net assets, financial position and financial performance of the public-law institution in accordance with German generally accepted accounting principles. The Board of Management is also responsible for such internal controls as it, in accordance with German generally accepted accounting principles, has deemed necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e. manipulation of the accounting and/or financial reporting process, and misstatement of assets) or error.

In preparing the annual financial statements, the Board of Management is responsible for assessing the public-law institution's ability to continue as a going concern and is also responsible for disclosing, as applicable, matters related to the institution's viability as a going concern. In addition, it is responsible for financial reporting on the basis of the going-concern accounting principle, unless factual or legal considerations indicate otherwise.

Furthermore, the Board of Management is responsible for preparing a management report that, as a whole, appropriately reflects the position of the public-law 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 Board of Management is also responsible for such arrangements and measures (systems) as it considers 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 disclosures and assertions in the management report.

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

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

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

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

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

→ Identify and assess the risks of material misstatement in the annual financial statements and management report, whether arising as a result of 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 the risk of not detecting material misstatements resulting from errors, as fraud may involve collusion, falsification, intentional omission, misrepresentation and/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 public-law institution.

→ Evaluate the appropriateness of the accounting and financial reporting methods used by the Board of Management, as well as the reasonableness of estimates and related disclosures made by the Board of Management.

→ Draw conclusions on the adequacy of the Board of Management's 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 public-law 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 circumstances may cause the public-law institution to be unable to continue as a going concern.

.→ Evaluate the presentation, structure and content of the annual financial statements as a whole, 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 public-law institution's net assets, financial position and financial performance in accordance with German generally 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 public-law institution's position.

- Perform audit procedures on the forward-looking statements presented by the Board of Management 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 Board of Management 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 significant deficiencies in the internal control system which we identify during our audit.

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

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

## OTHER LEGAL AND REGULATORY REQUIREMENTS

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

In accordance with Section 317 (3a) of the German Commercial Code (Handelsgesetzbuch (HGB)), we have performed a reasonable assurance engagement to determine whether the renderings of the annual financial statements and management report (hereinafter also referred to as 'ESEF documents') contained in the 'L-Bank_ JA+LB_ESEF-2023-12-31' data file provided (SHA256 hash value: febc3fdd0ab1982b30a8808541cb82e1b93ca4e95bbb8ae365269842f06ab42d) and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format ('ESEF format'). In accordance with German statutory provisions, this assurance engagement only covers the conversion of the information contained in the annual financial statements and management report into the ESEF format, and consequently does not cover either the information contained in these renderings, or any other information contained in the above-mentioned data file.

In our opinion, the renderings of the annual financial statements and management report contained in the above-mentioned data file provided and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB.

We do not express any opinion whatsoever on the information contained in these renderings or any other information contained in the above-mentioned data file other than this opinion and our opinions on the accompanying financial statements and management report for the fiscal year from 1 January to 31 December 2023 contained in the preceding 'Report on the Audit of the Financial Statements and the Management Report'.

We conducted our assurance engagement pertaining to the renderings of the annual financial statements and management report contained in the above-mentioned data file provided in accordance with Section 317 (3a) HGB and in compliance with the IDW Auditing Standard: Audit of Electronic Renderings of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) of the German Commercial Code (HGB) (Prüfung der für Zwecke der Offenlegung erstellten elektronischen Wiedergaben von Abschlüssen und Lageberichten nach § 410 Abs. 3a HGB (IDW PS 410 [06.2022])). Our responsibility under the standard is described in more detail below. Our auditing practice applied the requirements of IDW Quality Management Standard 1: Requirements for Quality Management in Auditing Practice (Anforderungen an das Qualitätsmanagement in der Wirtschaftsprüferpraxis (IDW QMS 1 [09.2022]).

The public-law institution's Board of Management is responsible for preparing the ESEF documents containing the electronic renderings of the annual financial statements and management report in conformance with Section 328 (1) clause 4 art. 1 HGB.

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

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

Our objective is to obtain reasonable assurance that 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 intentional or unintentional, plan and perform assurance procedures in response to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.
- → Obtain an understanding of the internal controls relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, albeit not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- → Assess the technical validity of the ESEF documents, i.e. whether the provided 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 enable an XHTML rendering of the audited financial statements and the audited management report that is identical in terms of content.

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## Further information pursuant to Article 10 of the EU Audit Regulation

We were appointed statutory auditor by the Supervisory Board on 17 April 2023. We were engaged by the Chair of the Supervisory Board on 21 September 2023. We have served as the statutory auditor of Landeskreditbank Baden-Württemberg – Förderbank – without interruption since fiscal year 2023.

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

## OTHER MATTERS – USE OF THE AUDIT OPINION

Our auditor's report should always be read in conjunction with the audited annual financial statements and the audited management report, as well as the assured ESEF documents. The annual financial statements and management report converted to the ESEF format – including the versions to be filed with the German Companies Register – are merely electronic renderings of the audited annual financial statements and audited management report and do not replace them. In particular, the ESEF report and our assurance opinion expressed therein should be used solely in conjunction with the assured ESEF documents provided in electronic form

## INDEPENDENT AUDITOR RESPONSIBLE

The German public auditor responsible for the engagement is Andreas Dielehner.

Frankfurt am Main, 27 February 2024
KPMG AG Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dielehner | Immesberger |
| Public Auditor | Public Auditor |