Annual Report
2022

L-BANK
Staatsbank für Baden-Württemberg

L-Bank in Figures

OVERVIEW 2018–2022 in EUR millions

	2018	2019	2020	2021	2022
Total assets	69,608.87	77,622.56	86,759.63	89,597.02	93,226.58
Equity	2,963.98	3,013.96	3,064.38	3,101.72	3,144.31
Net interest income[1]	331.37	302.04	263.20	254.75	320.02
Net income	50.18	49.98	50.42	37.33	42.60

	2018	2019	2020	2021	2022
'Hard' Tier 1 capital ratio (CET1 ratio)	18.59%	20.06%	20.39%	20.99%	20.61%
Total capital ratio	20.59%	22.20%	22.29%	22.76%	22.12%
Return on equity	6.29%	4.39%	4.33%	5.13%	5.56%
Cost-income ratio	44.53%	53.45%	57.90%	64.11%	59.48%
Leverage ratio	5.12%	4.86%	4.56%	7.82%	7.05%

2022	Moody's	Standard & Poor's
Rating	Aaa	AA+

1 Based on business operations

Contents

A Letter to Our Business Partners

The war in Ukraine is showing us that the preservation of our democratic values, as well as the social system based on these values, is not something we can simply take for granted. We must constantly strive to integrate our society more fully and protect our values from external and internal attack. Only by so doing will we succeed in passing on the principles and prosperity that guide our lives to future generations.

What does this mean in terms of the way we act? How do we succeed in becoming robust and resilient enough to withstand internal and external attacks? Here, resilience is the key. The Latin word 'resilire' means 'to bounce back'; it was originally used in physics to describe a material's ability to return to its original shape after being deformed. Applied to human beings and society in general, resilience is used to describe the ability to cope with stress and crisis, and withstand even extreme situations.

It is important to recognise that the term 'resilience' does not stipulate the unconditional preservation of the status quo as an objective – rather, it describes dynamic processes of adaptation and development that emerge in response to unexpected events. Anything is possible – perhaps a return to the initial state, perhaps deep-reaching change, perhaps even a completely new direction. The enduring criterion, however, is that identity should be preserved. Applied to society, this means that we must do whatever we can to protect and preserve our values and our democracy. But how can we best do this – what does the goal of becoming resilient really mean for our society and economy? It means we must be robust, so that disruptions do not cause social or economic chaos. At the same time, it means we must be capable of evolving, so that we do not simply expend our energy on stabilising the status quo, but take full advantage of innovation. As the federal state's development bank, these two goals are precisely what we seek to achieve, day after day. Building Baden-Württemberg's resilience is our mission. Our actions are guided by the UN's Sustainable Development Goals (SDGs). By aligning with the SDGs, we ensure that the contributions we make to the protection and ongoing development of our society are genuinely meaningful – economically, socially and ecologically.

Through our development programmes, we support change, provide funding for adaptation, and offer people and businesses the help they need in time of crisis. So we are equally in demand as both first responders and architects of the future. In all cases, our chief concern is to build resilient structures. What must now be done to ensure resilience is something we have discussed with leading figures from various parts of our society. We have summarised their views in the introduction to this annual report. They clarify what resilience means in practical terms, what we need to do to make society and businesses resilient and thus fit for the future, and how resilience relates to social justice. Our balancing act between crisis relief, on the one hand, and stabilisation and development targets, on the other, is at its most obvious in the area of enterprise development. Supporting Baden-Württemberg's economy with aid and assistance programmes for cushioning the impacts of the coronavirus pandemic and the consequences of the war in Ukraine has kept us very busy throughout 2022.

At the same time, we have continued to systematically improve our SME development programmes to more effectively support and encourage the transformation of businesses in the key areas of digitisation and climate action. For example, we have added a sustainability component to our most popular SME development programmes.

In doing so, we have become aware that the spirit of innovation – the desire to create new things – remains high in Baden-Württemberg and has indeed resulted in a new boom in business start-ups. The volume of funding disbursed for start-up finance is higher than at any time in L-Bank's history. We were also very successful in financing the construction and modernisation of affordable rental accommodation; our strenuous efforts meant that the volume of funding rose once again compared to the previous year. Finally, we achieved a strong result in home ownership, including both new builds and rebuilds involving extensions or age-appropriate conversions.

Dear colleagues and co-workers; yet again, the demands of the past year put us all under enormous pressure. Indeed, developing greater resilience is also making significant demands of L-Bank as an organisation. The structural changes we are undertaking to prepare ourselves for forthcoming challenges require considerable extra energy. But investing such energy is worthwhile. Only by doing so will we remain capable of acting in the long term, so that we can continue to make a major contribution to the resilience and ongoing development of Baden-Württemberg as a society.

In past years, you have been instrumental in shaping the process of change, and you continue to do so with enormous commitment. For this I would like to thank you on behalf of the entire Board of Management. We look forward to continuing this exciting and productive work with you all.

Edith Weymayr
Chief Executive Officer, L-Bank

Greetings from the State Premier

Baden-Württemberg is one of the world's leading centres of innovation and technology. But it is precisely our economic strength that is now being challenged as never before by the multiple crises through which we are living. The Covid pandemic and Russia's war of aggression on Ukraine have had grave consequences, including a looming recession, hugely increased energy prices and shortages, supply-chain problems and much more. On top of all that, climate change is something we must also fight with all we have if we are to leave future generations a planet worth living on. In these turbulent times, L-Bank has once again shown itself to be a solid anchor of stability and a dependable partner to Baden-Württemberg's businesses and state government. The Bank's development programmes have helped the federal state's SMEs and MSMEs in particular to safeguard jobs that would otherwise have been lost – possibly for ever.

But business players and private households were not the only ones to experience a difficult 2022, and in so many ways. Over the past fiscal year, L-Bank itself – which by its very nature comes under exceptional pressure from the high demands arising during such periods – also had to overcome many challenges. On behalf of the state government, I warmly thank every member of staff for your extraordinary dedication in these extraordinary times!

Safeguarding the stability of our economy while, at the same time, stimulating the investments we need for the future – this is the tension of opposites within which L-Bank must develop and implement its business strategies. That the Bank succeeded in doing so is clearly reflected by the facts and figures in this annual report. The volume of development funding reported in the balance sheet came to around EUR 5.9 billion – funding which flowed equally into the stabilisation and repositioning of Baden-Württemberg's economy.

The strategically vital sector of innovation finance alone – including the development of new business models – accounted for EUR 890 million of this funding. It is also highly gratifying to report that the Bank's tried-and-tested development programmes preserved more than 350,000 existing jobs and helped to create some 13,760 new ones. At the same time, the federal state's business sector claimed more than EUR 1.9 billion to cushion the multifarious consequences of Covid. A dedicated liquidity programme is also helping to mitigate the consequences of the war in Ukraine.

The current crises remind us just how vulnerable we are – economy and society alike. For the future, this means that we must become more independent, more resistant and must build up our resilience. It is vital, for the good of our society as a whole, that the ecological transformation of our economy should succeed and that we should overcome the climate crisis. To do this, we need a reliable partner like L-Bank. In this spirit, I would like to thank L-Bank's management team, along with all L-Bank's employees, for your hard work and commitment, and wish you all every success in fiscal year 2023.

Winfried Kretschmann
State Premier of the State of Baden-Württemberg

Greetings from 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 my greetings to you, I wrote that there was good reason to look to the future with optimism. That was before Russia's war of aggression on Ukraine, at a time when we had finally reached a relatively relaxed phase in the pandemic. Now we are being subjected to yet another social, political and economic stress test, driven by inflation, rising energy prices and the ongoing consequences of the war. In addition, we are also increasingly experiencing the consequences of climate change.

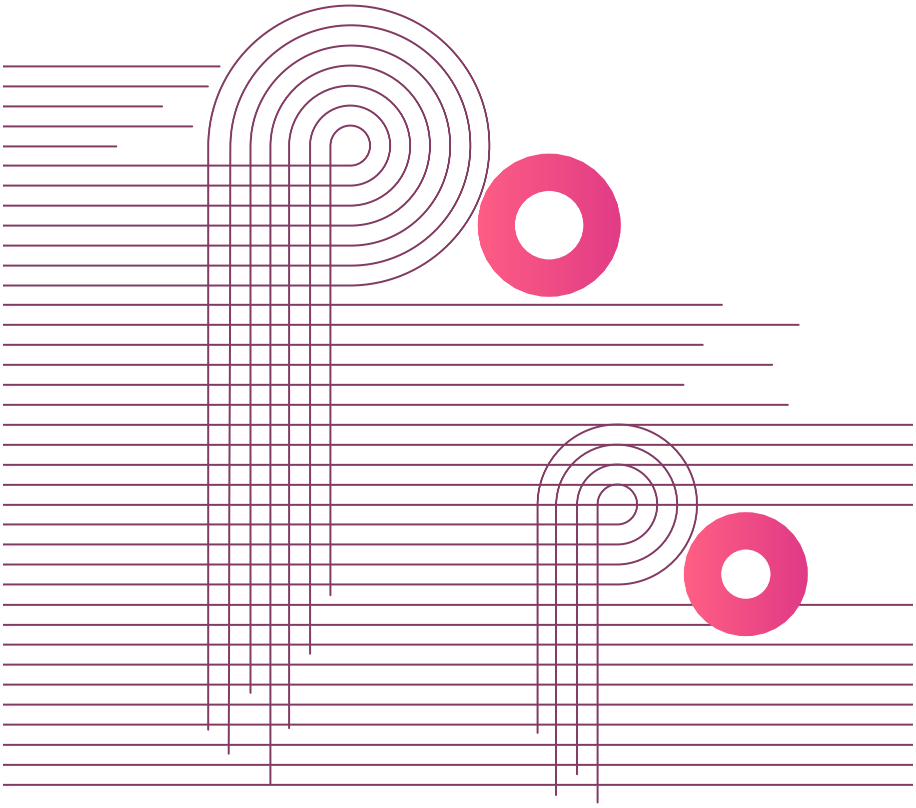
During the pandemic, L-Bank played an outstanding role in managing Covid-related aid and assistance. All of you worked so hard and achieved so much. The pandemic was all about helping people quickly and efficiently – and that is exactly what you did. Speed sometimes has its price, but this is certainly not a reproach that should be levelled retrospectively at L-Bank. And during the energy crisis, L-Bank once again proved just how important it is as a service provider by organising the Liquidity Loan Plus programme in the midst of the crisis.

Despite the enormous challenges we are currently confronting, it is your work that is showing us where to place our hope. Providing EUR 1.1 billion to fund the transformation of our SMEs and actualise their ability to innovate; funding business start-ups with EUR 736 million – this is how we lay the foundations for tomorrow's prosperity. Housing development assistance to the tune of EUR 2.1 billion – few things move our fellow citizens more than the issue of housing and homes.

And these financial contributions also represent investments in climate protection, innovation and economic development, as well as social solidarity. For this hard work, and for your ongoing commitment, I thank you from the bottom of my heart. Because you are also making the future possible.

Best wishes,

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



Our mission – to be a strong bank in a strong state

For the last three years, the world has been in a state of emergency. The coronavirus pandemic, the war in Ukraine and the energy crisis are all having a significant impact on the ways we think and act. Life in society has seen fundamental changes: social divisions have become deeper; cultural and political differences have become much more apparent. At the same time, we have seen repeatedly how individuals and communities come together and overcome challenges thanks to their solidarity. The crises have changed us as a society – and we have learned that we must change if we are to guarantee any kind of future.

The ability to adapt to existential emergencies – to seek and find ways to develop through them, rather than being broken by them – is called resilience. Businesses and society are increasingly concerned with the question of where, and to what extent, we are vulnerable – and above all, what we can do about it.

As a development bank, our goal is to make society in Baden-Württemberg more resilient, both in anticipation of and during crises. With our development finance programmes, we help to ensure that future generations will be able to live in a secure, economically and sustainably resilient manner, in a world worth living in, in a truly united society. This is why we support and finance families and communities, as well as small and medium-sized enterprises (SMEs). We aim to help them transform themselves so they can deal more effectively with unexpected developments and contribute to creating a climate-neutral economy and society. As a key provider of services to the federal state, we and our partners are striving to achieve the same objective: resilient businesses in a resilient society.

Learning from crises and then taking action

What resilience means for German society, and for Baden-Württemberg in particular, and which transformation processes we must engage in to become more resilient was the topic of a panel discussion hosted by L-Bank. We were interested to explore the conclusions drawn by businesses, trade unions and social organisations over the last few years of crisis, find out what homework we must do to help transform our society into a sustainable one, and establish what conditions we must put in place to develop greater resilience across society as a whole. We invited Kai Burmeister, President of the Baden-Württemberg Chapter of the German Trade Union Federation, Christian Erbe, President of the Baden-Württemberg Chamber of Industry and Commerce (BWIHK), and Thomas Schärer, Managing Director of welfare association Sozialverband VdK Baden-Württemberg e.V., to join our panel.

Each of them has made a short statement describing the insights they have gained from the last few years of crisis and the challenges they believe we should now tackle.

Living for the future

Find out more about our panellists, their careers and their experience – in short, everything that makes them true experts in resilience.

Watch the video of the panel discussion here: gb2022.l-bank.info

Or just scan the QR code for a direct link to Chapter 02 'Moving fast in fast-moving times'.

Focusing on resilience – the experts have their say

Kai Burmeister: It's time to change direction and focus on greater economic and social resilience. Yes, it's fair to say that we've come through the last few years relatively unscathed, despite Covid and the war in Ukraine. Even so, we should be aware of the shortcomings exposed by these crises – in both our public and social infrastructure.

We will only succeed in transforming our economy, bringing people together and building greater solidarity if we avoid resigning ourselves to what we already have and look ahead to address these shortcomings. In short, we need more welfare state, more solidarity, more sustainability. As trade unionists, that's what we're currently discussing with businesses and politicians.

Kai Burmeister
President of the Baden-Württemberg Chapter of the German Trade Union Association (DGB)

'It's time to change direction and focus on greater economic and social resilience.'

Kai Burmeister was born on 3 November 1976 in the Hanseatic city of Lübeck in northern Germany. He is married and has two daughters. After graduating with a degree in economics from the Hamburg University of Economics and Politics, he went on to earn a master's degree – Master of European Studies – in 2005, also in Hamburg.
After spending one year as a trainee with the Executive Committee of trade union IG Metall Frankfurt, he spent five years working as a trade union secretary specialising in questions of principle and social policy. He then spent another five years working as trade union secretary for IG Metall Stuttgart, where he was responsible for supporting union members at Daimler Sindelfingen. He spent another five years in IG Metall's Baden-Württemberg regional management, working on the 'Transformation of the Automotive Industry' initiative. During that time, he spent a year working as Acting First Authorised Representative for the Aalen and Schwäbisch Gmünd branches. He was elected Chair of DGB Baden-Württemberg at the end of January 2022.

Christian Erbe: We're living through a time of major challenges that are affecting us all, but also impacting the economy. We must face up to these challenges and make the most of any opportunities that may emerge from them. Our greatest concern is the shortage of skilled workers. If we fail to fill these jobs, we'll no longer be able to grow. Our second major area of concern is the energy crisis triggered by Russia's war on Ukraine. We must secure our energy supply and continue our systematic transition to sustainable, renewable energy sources. And the third area of concern is the whole issue of supply chains, which we must work harder to secure.

Christian Erbe
President of the Baden-Württemberg
Chamber of Industry and Commerce (BWIHK)

'We must secure our energy supply and continue our systematic transition to sustainable, renewable energy sources.'

Mr. Erbe was born in Tübingen in 1961. After finishing school and studying for degrees in Karlsruhe and Berlin, he started working for Erbe Elektromedizin GmbH in 1992 – a family-owned medical technology company established in 1851 and operating worldwide. Initially, he managed the group's East European business. In 1995, he was put in charge of the North American operation. In 2003, he returned to Germany and assumed overall responsibility for the Tübingen-based group. Since 2004, he has worked as an honorary member of the Executive Committee of the Electromedical Technology Association of the German Electrical and Electronic Manufacturers Association (ZVEI). In 2014, he was appointed Chairman.
He has been a member of the plenary assembly of the Reutlingen Chamber of Industry and Commerce since 2005. He was elected Vice President in 2008 and then President in 2010, an office he still holds today. In 2021, he was elected to the Executive Committee of the Association of German Chambers of Industry and Commerce (DIHK), and since October 2022, has also been President of the Baden-Württemberg Chamber of Industry and Commerce, having previously worked as Vice President.
Mr. Erbe sits on various committees and Boards of Trustees of colleges, universities and research institutions. He is also a judge specialising in commercial law at the Regional Court of Tübingen.

Thomas Schärer: As we see it, the whole issue of resilience – as embodied in a robust, crisis-resistant society – has a huge amount to do with how we live together as a society through a period characterised by multiple crises. We believe the whole concept of resilience should be examined from various perspectives – but the vital thing here is that we all accept democracy, freedom and social responsibility as the bedrock of our convictions and values. Take our children, for example – they're the ones who will have to take responsibility in the long run, and they must have the opportunity to develop themselves. And this means we'll have to discuss what it means to be poor, and what it means to be excessively rich.

Is my pension enough to live on? Who'll look after me? What will I have to pay my carers? Where can I turn for healthcare? These are the crucial issues, and our answers to them will determine how society ultimately coheres into an integrated whole.

Thomas Schärer

Managing Director of the welfare association Sozialverband VdK Baden-Württemberg e.V.

'With respect to resilience, it is vital that we accept democracy, freedom and social responsibility as the bedrock of our values.'

Now 60 years old, former Mayor of Sigmaringen Thomas Schärer has been the Managing Director of the Sozialverband VdK Baden-Württemberg e.V. welfare association since 1 July 2020, where he is responsible for the regional office and 35 branch offices. With over 250,000 members, Sozialverband VdK in Baden-Württemberg is one of the federal state's largest welfare organisations.

After completing his professional training as a PR consultant, followed by postgraduate studies at the Lucerne School of Economics (HSW) specialising in 'Environmentally Aware Management', he worked for many years in the private sector (1987–2005) in responsible positions such as media spokesperson for McDonald's Restaurants (Switzerland), Head of Corporate Communications at PricewaterhouseCoopers, and CEO and Deputy Director of bus company RTB Rheintal Bus Schweiz.

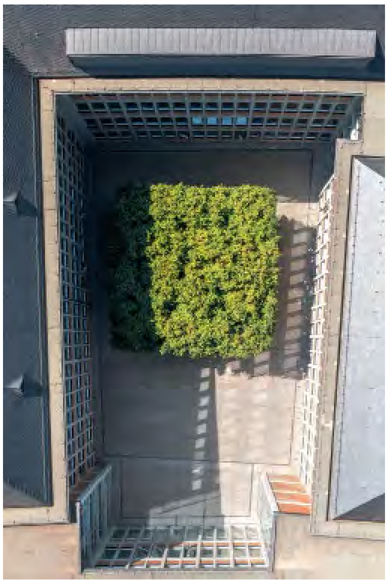
In June 2005, he moved into the public sector. He started by heading up the Department of Economic Affairs, Media & Tourism for Ludwigsburg City Council, which he did until he was elected Mayor of Sigmaringen in August 2010. During his time as mayor (2010–2018), he chaired the municipal council, supervised municipal workers and sat on numerous supervisory boards and on the district council. Afterwards, he spent nearly two years as Commissioner for Structural Change in the Ludwigsburg region, working on the digitisation and transformation of the regional economy, the shortage of skilled workers, the development of public-sector real estate and affordable housing.

Watch videos of the panel speakers' statements here: gb2022.l-bank.info

Or just scan the QR code for a direct link to Chapter 05 'The fiscal year at a glance' covering our mission and lines of business.

Our development finance is all about building a strong economy in a strong society

The priorities behind L-Bank's business activities are defined by our statutory public-service mandate. This consists of supporting the State of Baden-Württemberg in the performance of its public duties. In line with this mandate, L-Bank, in close collaboration with the state ministries responsible for state development policy, is increasingly focusing its development programmes on social justice, sustainability and structural transformation driven by digitisation and climate action. The primary objective of all these activities is to assist the State of Baden-Württemberg as it strives to become one of the most attractive, climate-neutral regions aligned with the United Nations Sustainable Development Goals by 2040.



Inside L-Bank

To achieve the social cohesion required to meet these goals, it is important to foster equal opportunities. A society in which everyone is given the same opportunities to develop their abilities and make the most of their potential is one in which social tensions and conflicts are minimised. At the same time, resilience and a sense of togetherness are strengthened.

L-Bank offers a broad range of social development services, ranging from family benefits to support for education and assistance for affordable housing. In ecological terms, our development activities all prioritise the protection of our natural assets and resources. Intergenerational equity and global justice are key concepts. We aim to help ensure that the natural limits of our planet Earth are not exceeded. L-Bank supports environmental and climate-related action through its housing and enterprise development programmes, providing incentives for private individuals, municipalities and businesses to act in ways that protect both environment and climate. Our enterprise development activities also help to safeguard the robust development of Baden-Württemberg and ensure that it remains an attractive place to do business, for example by supporting innovative fledgling companies and dynamic SMEs. Digitisation and sustainable development are two of our key development priorities. Companies in Baden-Württemberg are investing more and more in digital transformation, and are also incorporating various aspects of sustainability into their strategic objectives and investment decisions.

Resilience means being willing to change

In business, the pathway to crisis resilience leads through transformation processes based on strategic entrepreneurialism. These processes are largely shaped by two of this decade's megatrends: digitisation and sustainability.

The rapid and comprehensive digitisation of operating workflows and production processes, as well as international business and communication links, is one of the crucial prerequisites of a competitive economy.

The same applies to precepts guiding sustainable development. Sustainable development is an expression of corporate social responsibility. It is all about supplementing economic rationalism with ecological and social objectives. This will make us stronger and more resilient as a society, so that we are better able to withstand the kind of turbulence caused by pandemics or aggressive behaviour such as Russia's current war against Ukraine.

Digital and sustainable transformation is thus key to preserving jobs, prosperity and social integrity.

L-Bank is steadily incorporating digitisation and sustainability into its development programmes

For some years now, we have observed more and more companies becoming increasingly digital and focusing on sustainable development – while those that have already started down this path continue to make resolute progress. Our development finance programmes and funding figures reflect this development and show just how we are helping them. With our **Digitisation Premium** – available as both grant and loan – and **Innovation Finance 4.0** programmes, as well as our development offerings and financial assistance for climate action and energy (some of which are new), we already have a raft of very successful transformation programmes in our development portfolio.

Since mid-2022, for example, we have included a sustainability bonus in our broad-based investment programmes, aiming to exert the maximum possible leverage on the economy. Companies that meet clearly defined climate action criteria are given an interest-rate bonus. In this way, we have created a low-threshold offering for the SME sector as a whole that sends out a clear signal: sustainable, climate-friendly business makes sense!

Our **Energy Finance** programme is also new. With this programme, we provide funding for installations that generate heat and electricity from renewable sources, or store and distribute the energy once it has been generated.

By offering new funding and development finance products, and by tailoring them to specific, albeit constantly changing needs – always in close alignment with the United Nations SDGs – we will continue to support SMEs as they transform themselves and strengthen their entrepreneurial resilience.

L-Bank is modernising and becoming more efficient

As a finance company, L-Bank too has taken up the transformation gauntlet by launching a wide-ranging StrategyDIALOGUE initiative involving the entire workforce, management team and various Bank boards and committees. As an ongoing strategy-building process, StrategyDIALOGUE serves to actively shape L-Bank's strategic direction and objectives. Despite the high workload associated with our development finance operations, we are determined to pursue the ongoing transformation of L-Bank into the best possible development services provider for the State of Baden-Württemberg. In addition to maintaining the Bank's financial effectiveness, the key guiding principles behind L-Bank's strategy are end-to-end digitisation and holistic sustainable development. Everything is geared to ensuring that L-Bank can sustainably and efficiently fulfil its mandate: to implement long-term development finance initiatives for the State of Baden-Württemberg now and in the future.

> 'Everything is geared to ensuring that L-Bank can sustainably and efficiently fulfil its mandate: to implement long-term development finance initiatives ... now and in the future. ***Inspired by love for our state.'***

Last year, we launched a comprehensive modernisation and efficiency programme aimed at improving L-Bank's performance and making it even more effective. By doing so, we aim to boost our ability to support the sustainable development of Baden-Württemberg's businesses and society. In particular, the various initiatives in the programme focus on making more efficient use of L-Bank's buildings by introducing pioneering New Work practices, and on optimising the processes in our business operations. The modernisation drive is expected to run in parallel with the streamlining of our cost structures, which should enable us to save some EUR 21 million in structural expenditure compared to the baseline year 2022.

This modernisation and efficiency programme is the largest restructuring programme in the 100-year history of L-Bank. It essentially guarantees that despite ever more difficult conditions, we will remain the federal state's competent and reliable development services provider.

As a development agency, digital transformation is making us faster and better

L-Bank's systematic digitisation will make a significant contribution to improving the already high quality of our development finance business. For us, digitisation means, first, reviewing our development finance products, simplifying them as much as possible – especially the application process – and standardising them in terms of accessibility. Second, digitisation also means re-examining our internal processes and workflows and streamlining them wherever possible. In this sense, digitisation will also help to improve the Bank's cost structures.

One of our top strategic goals is to progress the digitisation of L-Bank at all levels. In doing so, we are guided by our mandate as the state government's development services provider: to support the companies and people in the federal state. This means that we are aligning our digitisation efforts with our customers' needs. In particular, we want to facilitate simple, unrestricted access to our development finance products. By standardising our processes, we can accelerate and improve our counselling, processing and application approval services. For us, focusing consistently on our clients, responding rapidly to changing circumstances and providing our services as cost-effectively as possible are especially important objectives.

A successful first step in this direction is our new development finance portal, the first stage of which is already online. The development finance portal gives clients easy, digital access to development funding and networks them directly and efficiently with L-Bank, Baden-Württemberg's development bank. The next stages in our digitisation project involve setting up digital application processes, initially for almost all the subsidy programmes managed by L-Bank, and subsequently for direct loans via the state housing development programme.

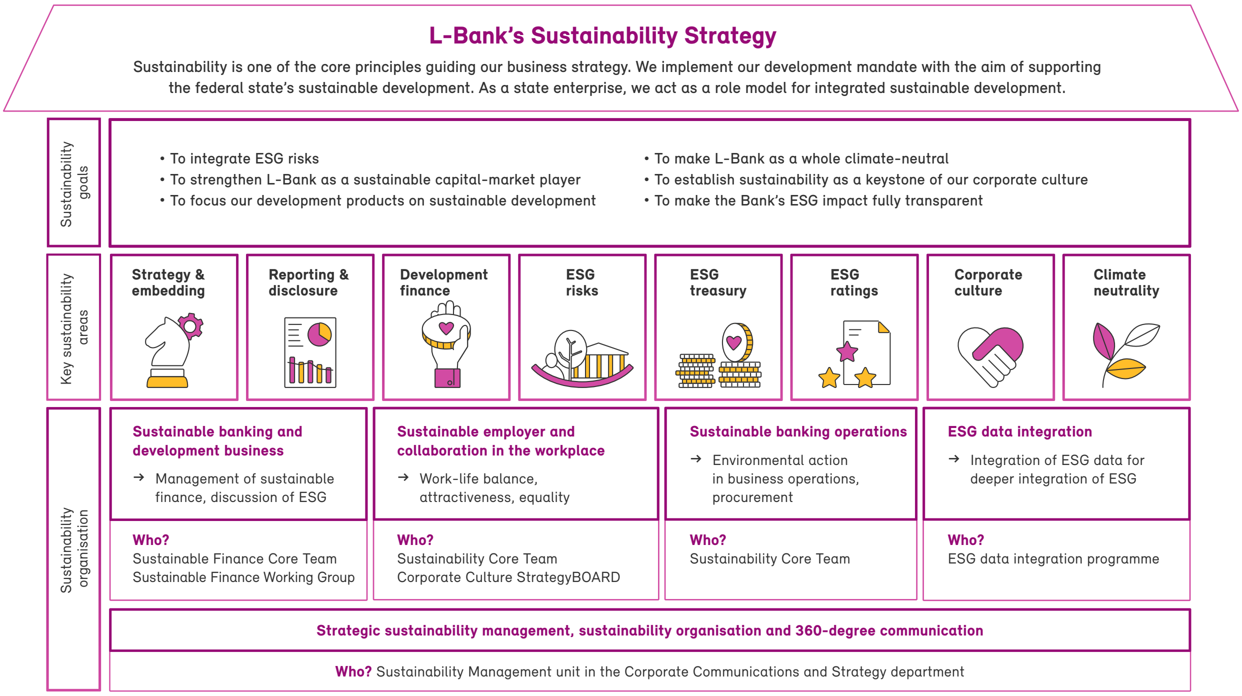
Sustainability is part of a development bank's gene pool, with a long tradition at L-Bank

Sustainability has been one of L-Bank's key guiding principles for some considerable time. A decade ago, L-Bank made a commitment to sustainable action and sustainable development. In 2013, the Bank set down a firm objective in the new L-Bank Sustainability Code and Sustainability Guidelines: to use financing projects and services to contribute to shaping a society that is fully aware of its economic, social and ecological responsibilities. L-Bank was one of the first signatories of the federal state's WIN Charter, and is thus committed to complying with key corporate sustainability principles. It is also a member of the BW Climate Alliance and a signatory of the Diversity Charter. 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 is driving sustainable development in more integrated ways

Last year, we focused our strategy on sustainable development with greater determination than ever before. Following our new, holistic, all-embracing sustainability strategy, we further developed our long-term sustainability goals and defined the tasks and initiatives we need to undertake in the future. Our new Sustainability Strategy 2023 acts as a compass for L-Bank and our employees, complementing and clarifying our business strategy by making sustainable development a core part of the vision. We have established a very high level of commitment by defining our medium-term and long-term goals in detail, together with appropriate key performance indicators (KPIs).

We have embedded six top-level sustainability goals in our strategy. We intend to integrate sustainability aspects even more tightly into our development business operations, align our capital market activities and risk management policies with sustainability priorities, and further develop our corporate culture and environmental performance in sustainable ways. One of the core objectives of these actions is to make L-Bank climate-neutral by 2040.



As one of our organisational initiatives, we have set up an interdisciplinary Sustainable Finance Core Team to expedite and support the implementation of individual actions. More staff now work in sustainability management, to ensure that L-Bank fulfils the comprehensive and steadily growing monitoring and reporting requirements that demonstrate the Bank's compliance with the ESG (environment, social, governance) criteria applying to the banking and development finance sector.

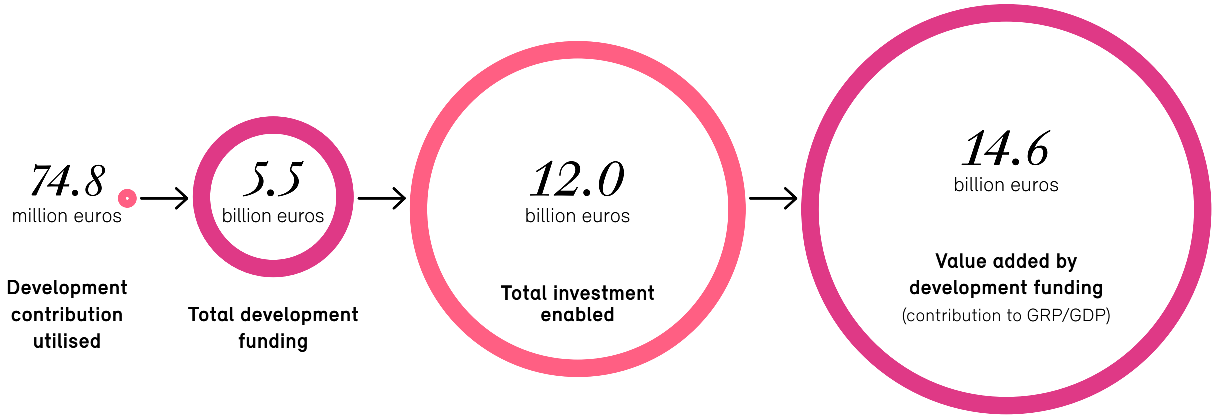
We aim to take a holistic view of the impact of our development activities

To be able to support the state government's development policies and goals efficiently and effectively, it is important to start by collecting data on the development impacts associated with L-Bank's development programmes, and then optimise the programmes on the basis of this data. By observing economic, social and ecological correlations, we aim to subject the impacts produced by our programmes to an ongoing evaluation process. This involves moving away from making purely quantitative statements on our funding activities and instead assessing the real-world impact of our development funding on our target markets.

First, we are measuring the economic value-adding effects of the investments we have triggered, or could trigger, through our development funding activities. To do so, we apply the value creation model devised by the Institute of Applied Economic Research (Gesellschaft für Angewandte Wirtschaftsforschung – GAW). By applying this model, we can use real-world data to objectively calculate the impacts achieved by our actual – or indeed hypothetical – development funding activities. The model considers aggregated macroeconomic factors such as value creation (as well as gross domestic and gross regional product), employment and income. This also makes it possible to quantify the broader economic impact of L-Bank's development finance activities and illustrate the leverage that can be achieved by, for example, subsidising the funding of development loans.

Development funding impact chain:

Development contributions trigger value-creation effects totalling nearly EUR 15 billion



Second, we are working on a comprehensive sustainability reporting and management system based on the broad approach represented by the United Nations Sustainable Development Goals (SDGs). By doing so, we will be able to use sustainability indicators to make the impact of our development funding activities measurable.

With the help of these impact metrics, the state ministries and L-Bank will then be able to devise development finance programmes that focus even more precisely on sustainable development in Baden-Württemberg's economy.

Sustainable Development Goals provide the necessary 360-degree orientation

The aim of all our development initiatives is to preserve Baden-Württemberg as a sustainably attractive place to live, and to strengthen the global competitiveness of both the region and companies in the region. When devising L-Bank's development finance products, sustainable development is one of our primary criteria and objectives. Consequently, one of the main benchmarks for our work is the 2030 Agenda for Sustainable Development adopted by the member states of the United Nations. In it, the international community defined 17 Sustainable Development Goals (SDGs) encompassing all three dimensions of sustainability: environmental, social and economic. We are totally committed to them.

To measure the impact of our development funding against the relevant sustainability criteria, we have assigned each of our development funding programmes to one of the 17 Sustainable Development Goals. The targets set out under each SDG, together with the associated SDG indicators, provide an additional frame of reference. With their help, it is possible to track the contributions we have made towards achieving the SDGs.

We use our SDG analysis to clarify the extent to which our credit-financed new business contributes to SDGs in each fiscal (funding) year. To avoid duplicating contributions in the analysis, development programmes that address multiple goals and targets are proportionately attributed to the relevant SDG indicators. The development funding totals attributed to each indicator for 2022 illustrate L-Bank's contribution to sustainable social progress.

Our contribution to sustainable development

As a development agency with a regional focus on Baden-Württemberg, the following Sustainable Development Goals are especially significant for us:

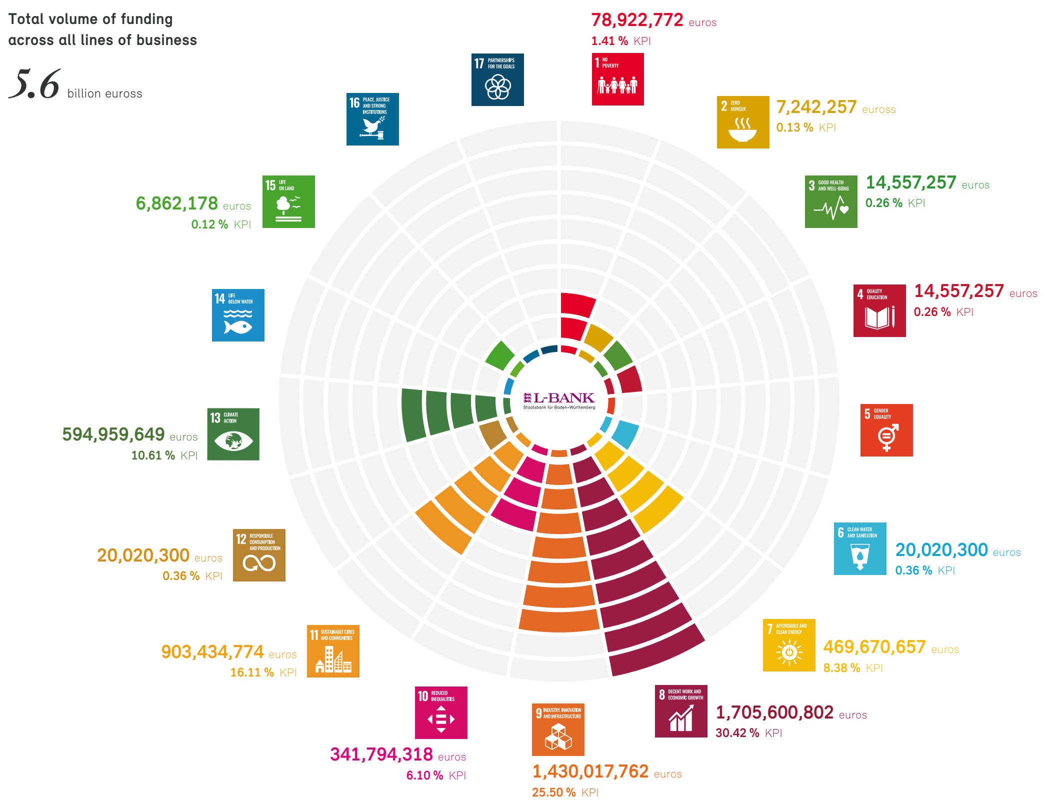
- Climate and environmental action under SDGs 7 (affordable and clean energy) and 13 (climate action)
- SMEs, transformation and digitisation under SDGs 8 (decent work and economic growth) and 9 (industry, innovation and infrastructure)
- Housing and basic amenities under SDG 11 (sustainable cities and communities)
- Equal opportunities under SDG 10 (reduced inequalities)

The SDGs should not be regarded in isolation. In view of the multiple reciprocal effects and interdependencies, they either reinforce other SDGs or make it possible to achieve them in the first place. Some of the SDGs, however, have conflicting or competing targets.

The analysis shows that through our development funding, we address 13 of the 17 Sustainable Development Goals. The total volume of funding attributed to the various sustainability goals came to EUR 5.61 billion. The three SDGs for which we provided the most funding were SDGs 8, 9 and 11:

- Decent work and economic growth: EUR 1.71 billion
- Industry, innovation and infrastructure: EUR 1.43 billion
- Sustainable cities and communities: EUR 0.90 billion

We also paid out some EUR 1.1 billion in support of goals associated with climate action and the environment (SDGs 6, 7, 12, 13, 15). An amount of almost EUR 460 million was allocated to social development funding for education, poverty eradication, gender equality and health.



Celebrating L-Bank's centenary – inspired by love for our state

We are still living through a time of multiple crises, and nobody knows what the coming months will bring. Learning the right lessons is a major challenge, as is making societies and nations more resilient for the future.

In 2024, L-Bank will proudly celebrate its hundredth birthday. For a whole century, we and our immediate predecessors have channelled our strengths and energies into developing our federal state as an economic hub, along with its businesses and the people who live and work here.

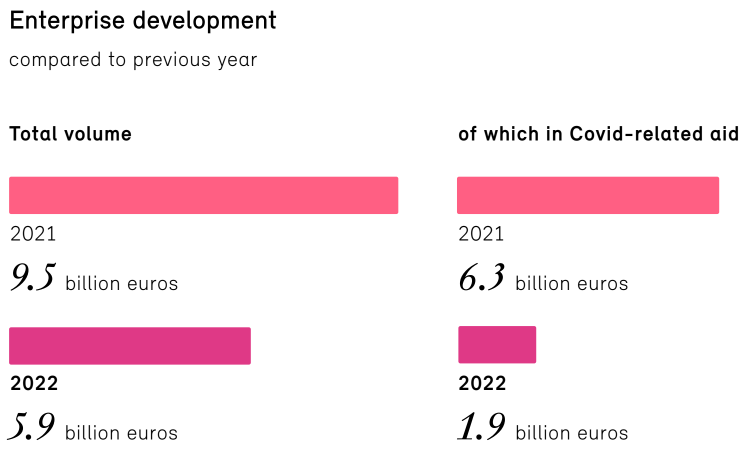
Baden-Württemberg is doing well. This is also thanks to the fact that for many decades, state governments have consistently treated development finance policy as a key element in their economic and social policies.

> 'For a whole century, we and our immediate predecessors have channelled our strengths and energies into developing our ... economic hub, along with its businesses and the people who live and work here. ***For love of our state.'***

With our three strategic guiding principles – digitisation, sustainable development, financial effectiveness – we have embraced an entrepreneurial process of transformation that will carry us through the next 100 years of our history. This process will undoubtedly have a formative influence on the coming years by helping to ensure that we not only preserve our development funding capability, but also anchor it on sustainable, future-proof foundations as we strive to be Baden-Württemberg's best development services provider. This will make us more resilient and ensure that we can continue to work on behalf of the businesses and people of Baden-Württemberg.

Strong figures for a strong state – pioneering enterprise development in times of crisis

Last year, L-Bank once again experienced very strong demand for enterprise development funding. The continuing strain placed on many businesses by the Covid pandemic, but also and in particular since February 2022 by the impact of Russia's attack on Ukraine, has darkened the mood and continues to threaten companies in all sectors of the economy: industry and trades, commerce and retail, agriculture and services. At a time when many SMEs and family businesses in particular are experiencing long, drawn-out anxieties about their future survival, the importance of a high-powered development bank for the domestic economy continues to grow.



In 2022, we once again completed our mission of mitigating the economic impacts of Covid and the energy crisis through our development finance programmes and financial assistance, while at the same time providing ongoing stimuli and incentives for the transformation of Baden-Württemberg's economy. Digitisation and sustainability are increasingly significant competitive and operational factors, and consequently represent key objectives for our development activities on behalf of small and medium-sized enterprises.

Young companies and start-ups in particular are often the initiators of new ideas and stimulators of positive changes in the way our economy is structured. This is why start-up finance has always been a key priority of L-Bank's development activities. And once again, 2022 was a strong year for start-up funding.

Adjusted for special Covid-related programmes, development finance services for Baden-Württemberg businesses rose by more than 20 per cent over the previous year to almost EUR 4 billion. If one also includes Covid-related aid – which declined sharply in the course of the year, in line with the pandemic – in the various programmes, the figure for enterprise development finance comes to a total of around EUR 5.9 billion.

Reduced Covid-related aid signals end of pandemic

So what, at first glance, appears to be a decline in enterprise development funding turns out, on closer inspection, to represent the long-awaited start of a return to normality following the huge strains caused by the coronavirus pandemic. However, the volume of funding approved for Covid-related aid in 2022 was still considerable. In spring 2022, L-Bank also launched an additional turnkey offering for companies in sectors of the economy that were especially hard hit by Covid, in the form of the Restart Premium.

However, with the expiry of the fixed-term regulations governing Covid-related state aid at the end of June 2022, the Bank ceased to offer financial aid for Covid-related emergencies. At programme level, the Bank shifted its focus back to the challenge of realigning development funding with key priorities for the future.

Since the start of the pandemic, L-Bank staff have processed some 650,000 grant applications under federal and state Covid-related special programmes, with the aim of safeguarding the existence of local businesses. This is an outstanding achievement. In the current year, 2023, the Bank will focus primarily on reviewing the actual eligibility of certain approved applications, as well as appeals against application rejections, and on making corrections where appropriate. In addition, there is still considerable administrative work to be done on closing down the Covid-related aid programmes. In short, the follow-up work on Covid-related special programmes will continue to place a burden on L-Bank's resources for at least the next three years.

Focusing on the energy crisis and geopolitical upheavals

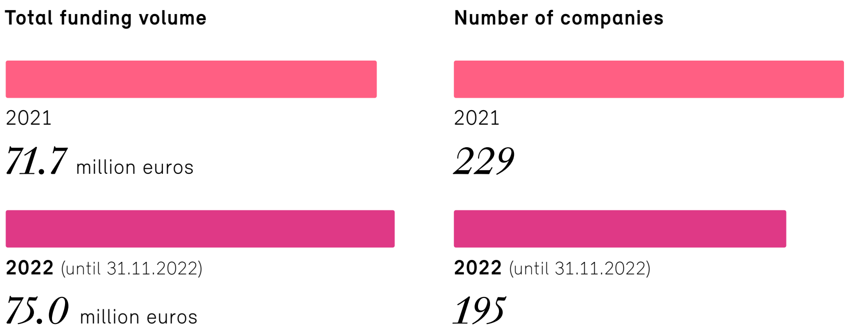
In the third year of the pandemic, businesses in the federal state were much more preoccupied by the unforeseen and essentially incalculable consequences of the military attack on Ukraine than by the consequences of Covid. Rising energy prices, issues with deliveries of raw materials and key manufacturing components, as well as the collapse of well-established business relationships and trade routes, have all put the survival of many small and medium-sized enterprises at risk. Last year, the concept of resilience – that is, the ability to survive crises and even, if possible, emerge from them stronger than before – became a central focus of strategic considerations for businesses of all kinds. Transformation-related factors such as sustainability and digitisation are consequently gaining even greater importance.

Liquidity loans are a valuable instrument of crisis relief

Prior to the launch of relief programmes by the federal government, Baden-Württemberg was one of the first federal states to bridge the support gap by organising its own aid programmes for businesses. The Liquidity Loan Plus programme, a variant of the Liquidity Loan programme that combines a low-interest development loan with a repayment subsidy, aimed to mitigate the sharp rise in energy costs and provide businesses with planning security. Some 570 companies applied to the fixed-term Liquidity Loan Plus programme, which ran from 1 December 2022 through to 31 March 2023; the volume of approved funding came to around EUR 350 million. These figures reflect the level of need for this special form of bridging assistance.

Liquidity Loan

compared to previous year



In 2022, the tried-and-tested **L-Bank Liquidity Loan** was also able to assist many companies in acute financial straits. A total of EUR 75 million (2021: EUR 71.7 million) was disbursed to 195 companies.

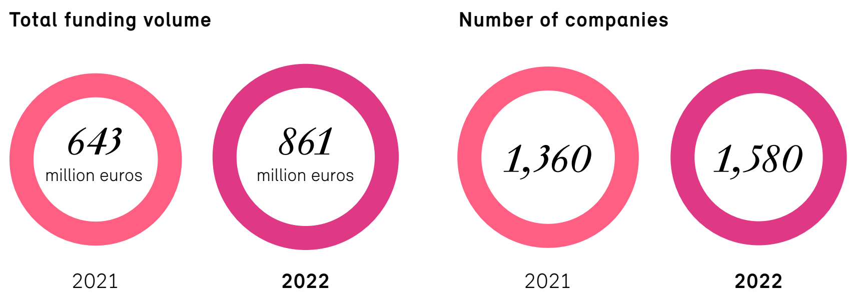
As another instrument for helping companies to invest and cover their liquidity requirements, the **L-Bank surety and guarantee programme** – together with products offered by Bürgschaftsbank Baden-Württemberg – has been providing businesses with significant support for many decades. Last year, L-Bank and the State Ministry of Economic Affairs substantially modified the programme to better meet the current transformation-related challenges and provide targeted crisis relief. By raising the guarantee ceiling from EUR 5 million to EUR 15 million and making other adjustments to the content of the guarantee programme as well as its conditions, the Bank will be able to safeguard the overall supply of credit to companies by working with commercial banks to take a more personalised approach.

Using investment to stabilise and modernise

Once again, our classic investment programmes were also extremely successful in 2022. Thanks to L-Bank's support, 1,580 companies were able to strengthen their core business operations by investing in expansion and modernisation. In March, the Growth Finance programme for SMEs was replaced by the Baden-Württemberg Start-up and Growth Finance (GuW-BW) programme for established SMEs. This was triggered by the reorganisation of KfW's start-up and SME development finance offerings.

Growth Finance and Investment Finance

compared to previous year



Under both these programmes, as well as the Investment Finance programme, a total of around EUR 861 million in funding was approved over the past year – funding that is contributing to business stability in the midst of a crisis, on the one hand, while on the other, also supporting crucial developments that will strengthen companies for the future.

Successful transformation requires digitisation and sustainability plus an ability to innovate

Securing a business's future requires not just a willingness to modernise and invest, but also an ability to change and blaze new trails. Foresight and transformation are the keys to success. As a development bank, we aim to be one of the drivers of a transformation based on sustainability and digitisation. This is why we have made digitisation and sustainability two of the highest priorities in our development activities.

Through our innovation programmes, together with the **Digitisation Premium** in both loan and grant variants, as well as **Innovation Finance 4.0** and our development funding and financial assistance products for climate action and energy production, we aim to drive forward a structural transformation that is both socially desirable and economically and ecologically necessary. This positioning reflects our self-image as the state government's travel companion and a trusted partner to business – both in an advisory capacity and more directly as a service provider implementing development policy instruments.

Thanks to the new EUR 15 million guarantee ceiling set up in the surety and guarantee programme, L-Bank can now support much larger projects, especially transformational ones. As a direct consequence, L-Bank has also been receiving a growing number of inquiries concerning specific transformation projects under the redesigned programme. L-Bank makes efforts to highlight the immediate relevance of its surety and guarantee offerings to the transformation of the state's economy, so it can more effectively support the efforts of Baden-Württemberg companies as they seek to transform themselves. The Bank pays special attention to inquiries of this nature that also align with the United Nations Sustainable Development Goals (SDGs).

Digitisation is the engine of transformation

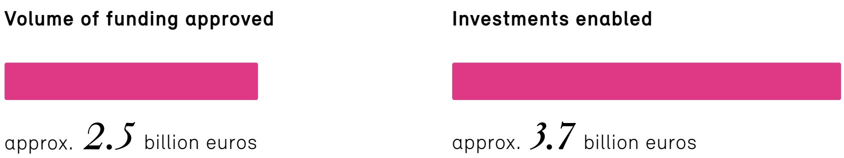
Digitisation offers small and medium-sized enterprises great opportunities. The efficiency gains and cost savings resulting from streamlined processes and workflows make companies more competitive. Digitisation also enables extensive personalisation and customisation, as well as new communication and logistics options. Digital innovation is, quite simply, key to preserving jobs and prosperity.

So, together with the federal state, we are funding investments in digital projects. Over the past year, more than 5,100 companies have taken their next steps into digitisation by calling upon L-Bank's Digitisation Premium, either in the form of direct grants or development loans. In this way, we are not only helping companies to modernise, but also to become more resilient in facing down existing and future crises.

Innovation Finance 4.0 is another programme that supports and encourages digitisation. In addition, it funds projects for developing new or improved products or processes, and for developing new business models. In the future, digital solutions will make it possible to implement entirely new value creation scenarios. The reigning value creation and business models will become less important, presenting companies with new strategic challenges. Not only must they ask themselves what products they will need and which markets they must target to succeed in the future; they must also start to think seriously about new business models capable of handling utterly new value creation criteria. Only businesses that adapt to these changing value creation models at an early stage will be successful in the long run.

Our balance sheet reflects the ascent of our **Innovation Finance 4.0** programme, which has become one of our top programmes for helping Baden-Württemberg's SMEs to make necessary structural adjustments: In 2022, we approved funding worth a total of EUR 891 million.

Innovation Finance 4.0
since 2017



Applications approved
since 2017

21,400

Investments enabled
around

650 million euros

Projects funded under Innovation Finance
since 2017

4,300

Since 2019, the programme has also funded the transformation of business models.

L-Bank makes sustainability and climate action a key development objective

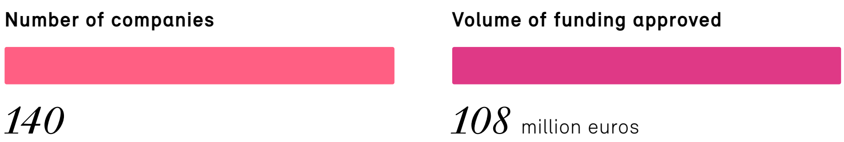
Over the past year, L-Bank has prioritised the sustainable development of the economy and society in its financing programmes and financial assistance.

Starting in the second half of 2022, a sustainability component was introduced to the **Baden-Württemberg Start-up and Growth Finance (GuW-BW)** and Investment Finance programmes, aiming to embed climate-friendly business practices across the federal state's economy as a whole. Companies that audit their own carbon footprints and develop, or have developed, their own climate strategies are awarded additional interest-rate rebates on loans under both programmes.

In mid-September 2022, L-Bank joined with KfW to offer a new **Energy Finance** programme. The aim of the programme is to support the federal state's climate action goals while, at the same time, finding sustainable ways to secure the state's energy supply in difficult circumstances. The programme focuses on providing development funding for installations that generate heat and electricity from renewable sources, or store and distribute the energy once it has been generated. The joint development programme bundles the benefits of both federal and state funding. For the first time, the various long-term programme facilities for commercial enterprise development include variants that offer fixed interest rates over ten years to the end of the term.

Take-up of Sustainability Bonus development programme

in 2022



Take-up of Energy Finance development programme

in 2022

Finally, at the beginning of December 2022, the Bank launched the **Living with a Future – Photovoltaics** programme aimed at private individuals who are installing PV panels at home. To do so, they can apply for a low-interest loan from L-Bank. The programme is the Bank's response to the mandatory PV legislation recently introduced in Baden-Württemberg.

The new programme supplements the established programmes for commercial real estate, which have long included an energy and climate protection component. Typical of such programmes is the **Combined SME Loan with Climate Premium**, a new build and renovation programme.

Take-up of Living with a Future development programme
in 2022

L-Bank also, and for the first time, participated in a venture capital fund ('impact fund') that is committed, under its investment strategy, to exclusively financing start-ups that operate sustainably.

Start-up finance beats previous years' record levels to set new funding record

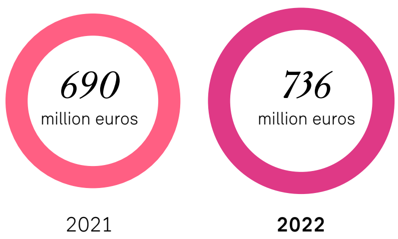
Baden-Württemberg is and remains an attractive place to do business – not least for fledgling companies. Once again, this is clearly reflected in this year's impressive figures for funding and supporting new business start-ups.

The Bank is constantly adapting its **Start Finance 80, Start-up Finance** (until 28.02.2022), **Baden-Württemberg Start-up and Growth Finance (GuW-BW) for Young Companies** (since 01.03.2022) and **Pre-Seed** programmes to the needs and requirements of start-up businesses, offering highly attractive tailored finance solutions to business founders. For example, the **Master Start-up Premium 2022** helped more than 100 young master craftspeople to launch their own businesses.

In 2022, L-Bank assisted nearly 2,500 fledgling companies on their entrepreneurial way. In total, the volume of funding utilised for start-up support came to EUR 736 million. This is a new record for business start-up finance. The programmes were used to secure many thousands of jobs in young companies and create several thousand new ones.

Volume of start-up funding

compared to previous year



Systematic, step-by-step development of direct investment activities

L-Bank's direct investment activities focus primarily on investments in funds, with the aim of achieving the broadest possible impact and most effective leverage of public money in collaboration with other investors in the relevant fund. L-Bank regularly reviews these activities, and the target investment level is EUR 50 million.

The Bank is actively supporting the structural transformation of Baden-Württemberg by systematically expanding its investment focus – originally confined to funds specialising in IT and digitisation – to embrace other technologies of the future such as medical technology and alternative mobility, as well as impact investment.

Last year, for example, L-Bank took a position in various funds, including a sixth funding round by the Tübingen SHS fund, which specialises in medical technology/healthcare companies. The Bank also supported its established concept funds LEA Mittelstandspartner and LEA Venturepartner as they launched successor and annex funds.

Through the **Start-up BW Pre-Seed** programme, which has been active since December 2018, L-Bank works with the federal state to provide a significant boost to business start-up activities. In 2022, the programme successfully supported 53 companies. The programme will be continued in the coming years, although the federal state and L-Bank intend to prioritise diversity in young company management, as well as sustainable business models that pursue SDG targets.

In addition, L-Bank is making steady progress in networking and developing equity funding, in collaboration with the federal state, public and private investors and other partners in the venture capital ecosystem.

Further expansion of technology parks

Last year, L-Bank continued to develop business zones, disbursing more than EUR 75 million to support companies in the Bank's technology and business parks in Karlsruhe, Mannheim, Tübingen/Reutlingen, Stuttgart and Freiburg. L-Bank's technology parks, with their close geographical and thematic links to universities and research institutions, facilitate the transfer of technology from academic and scientific research to the world of business. What most clearly differentiates the parks from other commercial leaseholds is their park management model and the additional services on offer, such as conference and training rooms or nursery and primary school classes.

While the generally challenging economic situation also put pressure on the technology parks, not least as a result of rising construction, energy and finance costs, the level of occupancy of the park buildings is still close to full capacity.

This also applies to the new park extension in Mannheim, completed in mid-2022. Leasing of premises at the new Freiburg Innovation Centre (FRIZ), on the other hand, was delayed due to bottlenecks in the delivery of materials. New buildings in Tübingen and Karlsruhe are scheduled for completion in 2023. L-Bank's technology park subsidiaries currently hold a total of 15 buildings in their portfolios.

Housing is a fundamental social right – housing development, a top L-Bank priority

The gap is widening – the housing market figures published at regular intervals are less than encouraging. Throughout Germany, there is a shortage of affordable housing, and the trend is accelerating. The supply of affordable housing cannot currently keep up with demand. An additional red flag is the accompanying decline in the number of building permits.

Together with rising interest rates, the substantial increase in the cost of materials over the past year is making it increasingly difficult for many people – especially families on low incomes – to find affordable housing. This is also a direct outcome of the economic turbulence caused by Russia's war of aggression on Ukraine. According to figures published by the State Statistical Office, the prices of residential construction services in the fourth quarter of 2022 were 14.5 per cent higher than in the same period in 2021.

Rising construction costs, coupled with increasing concerns about the future and a growing reluctance to invest, almost inevitably lead to the extremely constrained housing market we are seeing at the present time. This trend is compounded by the additional demand for housing to accommodate refugees, for example from Ukraine. No supply-side relief can be expected in the short to medium term. According to the L-Bank/ifo survey of the residential construction sector in the fourth quarter of 2022, the business climate is at its gloomiest for 13 years – despite relatively full order books. The main reason for this is the negative outlook for 2023, which reached a historic low. There are fears that the steady decline in construction activity first observed in 2022 will continue through 2023.

L-Bank's housing development objective: more affordable housing to counter the trend

In such difficult circumstances, L-Bank – as the federal state's housing development agency – has a particularly important role to play. It is vital to guarantee an adequate supply of housing for groups in lower to middle income brackets. With our products, we finance the construction of needs-based, affordable, energy-efficient accommodation for both owner-occupied homes and the rental market. At the same time, we support conversion and extension projects that create new social housing for rental, as well as modernisation and renovation projects that improve energy efficiency and protect the climate. In this way, we help to ensure that in Baden-Württemberg, as many people as possible have access to adequate, affordable residential accommodation.

L-Bank's high public profile helps us to meet our development finance objectives. **'Monitor zur Klimawende 2022'** (Climate Change Monitor 2022 – **Sirius Campus, Cologne 2022),** which we commissioned, shows that our advisory services for housing development finance are mainly used by younger people. Even so, around half of Baden-Württemberg's population is aware of the **state housing development programme**, and one sixth is aware of our **Combined Home Loan with Climate Premium**.

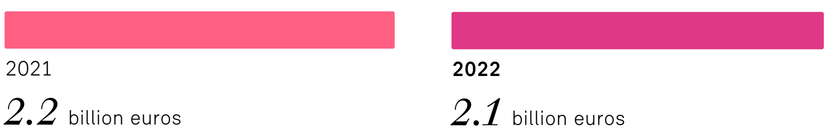
Climate Change Monitor 2022 ↗

But the Monitor also shows that the people of Baden-Württemberg are currently rather reluctant to invest – in energy-efficient renovation projects, at least – and that we must continue to raise awareness of our development finance programmes.

L-Bank paid out more than EUR 2 billion in 2022 for the construction and acquisition of rental and owner-occupied housing, as well as for improvements to housing quality. This meant that we maintained the previous year's high level of development funding. At the same time, our development finance criteria and facilitated access to funding ensure that we continue to provide meaningful support to the independent housing construction market.

Housing development

compared to previous year



Rental housing development defies nationwide trend with record funding

L-Bank's development finance activities in the rental accommodation sector have not yet been affected by the constrained situation on the housing market during 2022. Not only did the volume of approved funding reach the highest level ever achieved, at EUR 1.2 billion. The number of residential units funded – totalling just under 10,000, including at least 4,200 social and regulated residential units plus another 5,720 or so privately funded residential units without regulated tenancies – is also higher than expected. In fact, it exceeds the previous year's result, especially in the case of socially regulated rental accommodation.

Development funding for social and regulated rental accommodation under the BW Housing Construction state housing development programme is especially important to us, because it allows us to make a significant contribution to social equality and equilibrium on behalf of the state government. In 2022, the stock of social housing in Baden-Württemberg rose substantially for the first time in many years.

To further stimulate this development, in June 2022 we added several aspects to the BW Housing Construction 2022 programme that built on its predecessor, the BW Housing Construction 2020/2021 programme. Among other things, a new modernisation grant was introduced for projects involving existing housing stock if they include a regulated tenancy. To make this possible, the fixed eligibility ceiling for construction costs under the new housing development programme was increased from EUR 3,500 to EUR 4,000 per square metre. Anybody attaching a new regulated tenancy to existing rental accommodation is also eligible for higher subsidies – the longer the regulated tenancy, the higher the development subsidy.

Other innovations in the state housing development programme relate to energy-efficiency requirements. To ensure that we do not lose sight of the goal of making Baden-Württemberg climate-neutral by 2040, these have generally become more stringent.

Volume of funding approved for rental housing development

1.2 billion euros

Number of residential units funded

10,000

Social housing new builds

2,167

Cautious optimism is permissible!

In the social housing sector, the high demand for state housing development finance and the upward trend in regulated tenancies are creating an optimistic mood. Over the coming years, fewer residential units overall will be released from regulated tenancies than in past years; in addition, new-build projects are showing a tendency to opt for longer commitment periods. Some 80 per cent of new social housing units remain regulated over periods of between 25 and 30 years, and residential construction companies appeared to welcome the newly created 40-year regulated tenancy. One reason for this is probably the newly introduced development finance premium for longer commitment periods.

If demand for the state housing development programme remains at the same level as last year, and if applications that have already been approved are implemented, i.e. new residential units are built, then the federal state's urgently needed increase in social housing could still show up on the bottom line by the end of 2023.

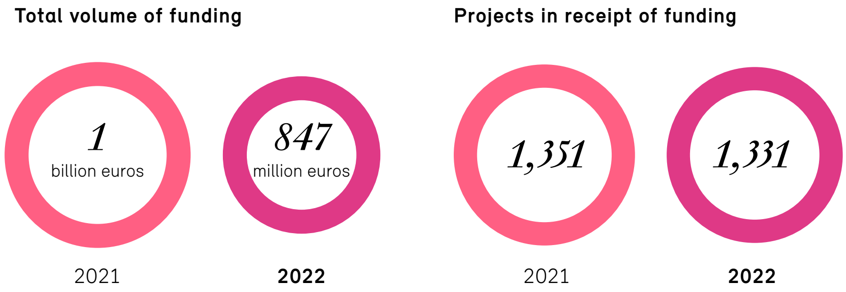
Subsidising home ownership safeguards social equilibrium

Housing is scarcer and more expensive than ever before. It is becoming clear that affordable home ownership is almost unimaginable without some form of subsidy. Over the past year, the challenge has if anything become even greater. In 2022, construction prices increased more than they have in a very long time. At the same time, real-estate prices declined in many regions. The rising cost of finance, plus a growing uncertainty about the future that is clearly affecting the population as a whole, represent a hazardous mix for the construction industry. As a result, many construction projects in the private residential sector were put on hold at the end of 2022.

Home ownership assistance in Baden-Württemberg has been resisting this trend for years. It aims to enable families with children in particular to build or buy their own homes. By providing precisely targeted funding incentives for the construction, purchase or renovation and extension of residential accommodation, the Bank was once again able to help almost as many projects on their way in 2022 as in the previous year.

Home ownership assistance

compared to previous year



In 2022, the volume of approved funding for home ownership projects under the state housing development programme actually increased slightly by around EUR 25 million, reaching EUR 322 million. There was also a marked increase in modernisation loans for owner-occupiers. From mid-year in particular, the demand for loans for new builds in Baden-Württemberg rose significantly, remaining at a high level until the end of the year.

This trend was supported by the adjustments to the federal state's **BW Housing Construction** programme mentioned earlier. Among other things, the programme helped to offset the discontinuation of federal funding for the 'Effizienzhaus 55' (Efficient House) climate protection standard. As part of the programme's regular revision, various funding components were adjusted to meet observed needs. One of the new features is, for example, flexible development funding, which aims to facilitate the structural modification of residential units in the future and awards repayment subsidies for preparatory work.

Due to the economic situation, demand for L-Bank's **Living with Children, Living with a Future** and **Combined Home Loan with Climate Premium** programmes was weaker overall than in the previous year. The terms and conditions of these broad-based development programmes, which are not tied to social conditions, are much more closely aligned with market interest-rate trends, which is why demand tends to fluctuate in immediate response to changing conditions on the market. One exception was the Combined Home Loan, which supplements federal development finance for energy-efficient buildings. There was a slight increase in the volume of funding under this programme, which includes a climate premium for particularly ambitious renovation projects.

In 2022, the **Energy Efficiency Finance – Refurbishment** programme was discontinued, as part of a general restructuring of federal funding for energy efficiency. In December, a new programme, **Living with a Future – Photovoltaics**, was launched, which provides funding for the purchase and installation of PV systems on private residential buildings, as well as investments in battery storage systems that are at least partially used by owner-occupiers – either in existing housing stock or new builds. In this way, L-Bank is supporting the photovoltaic requirement for residential buildings mandated by the federal state's climate protection legislation. The Bank is also fulfilling its responsibility to take greater account of general ecological goals and specific targets in its development business.

Development finance for homeowners' associations also plays an important role in maintaining an attractive housing stock while achieving climate-related goals. With our modernisation loans for homeowners' associations, we continued to act as a very popular finance partner to homeowners' associations in 2022.

In the current year, the problems characterising the real-estate market and real-estate finance are likely to have a more clearly defined impact on development finance for home ownership than they have to date. We are likely to see a moderate decline in the number of residential units in receipt of funding by the end of the year.

Funding for homeowners' associations
in 2022

27.1 million euros

Number of modernised residential units owned by homeowners' associations

2,185

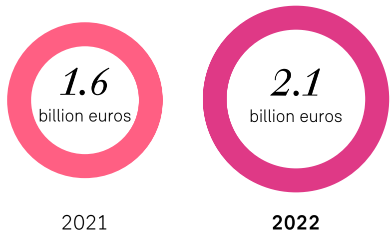
Funding families and education is about building a stronger society

L-Bank's grant-based funding for families, education and social projects is an essential part of its development finance activities. By awarding grants and subsidies, we strengthen the foundations on which a stable, cohesive society is built. It is precisely at this moment in time, as our values and our society are so profoundly threatened by Russia's military attack on Ukraine, that our support for young families, more education and greater social equality is so important, clearly signalling that as a society, we are stronger together.

In 2022, approvals for financial aid and assistance rose by some 30 per cent over the previous year, to a total of more than EUR 2.0 billion. By far the largest part of this additional funding was paid out for school construction and educational support projects; school development aid was quadrupled. In other areas such as language support, care services and support for addiction, approvals stayed at much the same level as in the previous year.

Financial assistance for families, education and social projects

compared to previous year



More and more fathers are discovering family benefits

Family allowances are a good investment in strong partnerships. With family allowances, mothers and fathers can balance the demands of raising children with the demands of their jobs and careers. And when parents must interrupt or limit their work after the birth of a child or children, family allowances compensate for the lack of income by temporarily bridging the gap and freeing them from financial anxiety.

But not all family allowances are the same. With so many variants and different forms of family benefits, suitable solutions can be found for every family scenario. Parents can choose between our Standard Family Allowance, our Family Allowance Plus, or a combination of the two. For those in part-time employment, there is also an option to extend the parental allowance by up to four 'partnership bonus months' per parent.

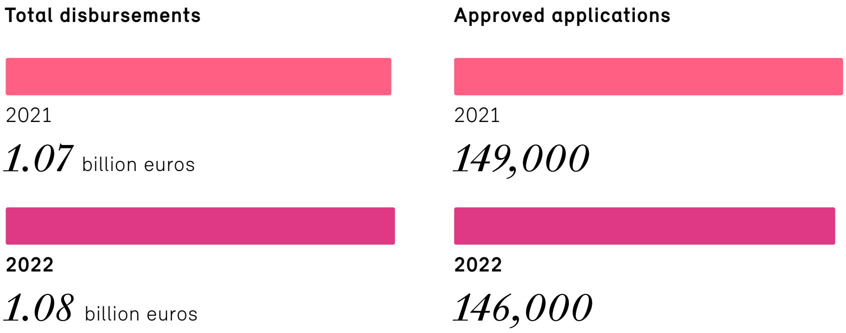
Parental allowances are also available to parents who live apart. Here, it is not always easy to make the right choice. Explanations are required, and parents are very willing to use our advisory service as they seek out the best solution for their specific circumstances. The total amount paid out for family allowances rose again in 2022. Although fewer parents applied for our highly differentiated range of products than in the previous year, the volume of approved funding still came to over EUR 1 billion.

Family benefit consultations

275,000

Volume of funding for family allowances in Baden-Württemberg

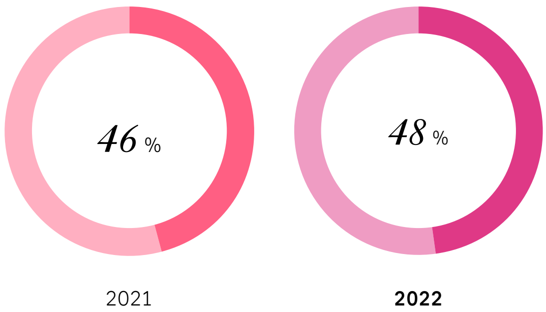
compared to previous year



In a trend continuing from previous years, more and more applications were submitted online. Another trend also gained impetus, as more and more fathers applied for family allowances. Although the numbers alone do not provide any real data about childcare practices in individual families, it is clear that bringing up children is increasingly perceived as a task to be shared.

Proportion of family allowances applied for by fathers

compared to previous year



Development finance by business segment: 1 January to 31 December 2022

DEVELOPMENT FINANCE ACROSS ALL LINES OF BUSINESS	VOLUME OF COMMITMENTS	COMMITMENTS	
	5,558,627,878.15	14,077	
	VOLUME OF COMMITMENTS	COMMITMENTS	RESIDENTIAL UNITS*
HOUSING DEVELOPMENT	**2,067,660,834.44**	**6,781**	**14,517**
Home ownership assistance	**847,253,922.21**	**5,787**	**4,592**
Home Ownership Finance – BW including finance for growing families – Structured loans (state housing development)	321,736,053.83	1,656	1,311
Top-up and miscellaneous loans	77,124,882.29	548	X
Living with Children	169,349,440.00	1,883	2,209
Living with a Future	2,653,376.00	84	176
Combined Home Loan	273,760,270.09	1,598	876
Other programmes	2,629,900.00	18	20
Rental accommodation assistance	**1,193,261,812.23**	**896**	**7,740**
Rental Accommodation Finance – BW – New builds – MW15/MW25 (state housing development)	423,912,054.02	270	3,341
Rental Accommodation Finance – BW – Approval of regulated tenancies (state housing development)	22,534,200.00	268	649
Rental Accommodation Finance – BW – Modernisation (state housing development)	22,955,600.00	45	639
Rental Accommodation Finance – L-Bank – New builds	375,320,818.00	181	2,233
Rental Accommodation Finance – L-Bank – Modernisation	39,697,650.00	39	578
Other financing instruments	34,909,297.17	40	300
Top-up loans (new builds/modernisation)	273,932,193.04	53	X
Support for homeowners' associations (state housing development)	**27,145,100.00**	**98**	**2,185**

	VOLUME OF COMMITMENTS	COMMITMENTS
INFRASTRUCTURE DEVELOPMENT	**177,143,412.00**	**138**
Municipal investment loan, direct	131,015,312.00	97
New Energy – Community wind farms	6,128,100.00	37
Other financing instruments	40,000,000.00	4

	VOLUME OF COMMITMENTS	COMMITMENTS	COMPANIES
ENTERPRISE DEVELOPMENT	**3,313,823,631.71**	**7,158**	**6,439**
Business start-up finance	**736,086,164.47**	**2,750**	**2,488**
Start Finance 80	72,134,980.56	864	860
Start-up Finance	200,474,492.63	529	453
BW Start-up and Growth Finance (GuW-BW) for young SMEs	455,500,691.28	1,304	1,123
Pre-Seed Finance Grant	7,976,000.00	53	52
Finance for SMEs	**2,486,231,213.14**	**3,965**	**3,564**
Growth Finance	190,324,142.34	446	420
BW Start-up and Growth Finance (GuW-BW) for established SMEs	302,414,205.00	976	899
Tourism Finance	19,282,500.00	54	52
Liquidity Loan (incl. liquidity loans to non-profit organisations)	129,614,461.29	313	302
Investment Finance	368,014,605.00	393	257
Rural Area Development programme	39,758,600.00	50	47
Combined SME Loan	314,016,650.00	126	115
Special financing instruments	136,500,000.00	13	7
Guarantees/sureties	52,066,666.00	10	6
Loans to associated companies	8,370,000.00	1	1
Innovation Finance	890,761,404.26	929	804
Digitisation Premium	35,107,979.25	654	654
Agricultural development finance	**91,506,254.10**	**443**	**387**
BW Agricultural Liquidity Assurance	150,000.00	1	1
Agricultural Growth	46,119,279.10	324	289
Loans for environmental and consumer protection, sustainability, new energy sources	38,241,300.00	90	71
Working capital loans – growth in the agri-food industry	6,995,675.00	28	26

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

Corporate Governance Report 2022

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 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 2022 and the following declaration applies in full as at the reporting date, 31 December 2022.

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 2022, two women were represented on the three-strong Board of Management. As at the reporting date, seven of the 18 members of the Supervisory Board (38.9%) and 68 of the 201 employees in executive management positions (33.8%) 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 2022

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 target clients and development priorities – are determined by L-Bank together with the Bank's owner in accordance with the provisions of the L-Bank Act. Specific programme guidelines are also established by setting political priorities and through the Bank's development programme-related business.

Economic Report

Basic parameters

The Russian war of aggression on Ukraine and its repercussions had a huge impact on 2022, not least in economic terms, resulting in severe supply-side disruptions and bottlenecks for German business in general. Even so, Germany's GDP grew by 1.8%, but only because of the pandemic's impact on the economy in the previous year, which resulted in a low figure for the year-on-year comparison. While growth in the first quarter, at 0.8%, was still quite high compared to the previous quarter, economic momentum was already weakening over the next two quarters. Even so, positive growth was achieved in the second (+0.1%) and third quarters (+0.5%), not least due to a surge in post-pandemic private consumption. However, as private households' purchasing power was increasingly eroded by ongoing price rises, Germany's gross domestic product declined slightly by 0.2% in the final quarter of 2022.

In 2022, the German labour market recovered from the impact of the pandemic despite the energy crisis and inflation. The number of people in employment showed a significant increase, while the average unemployment rate fell from 5.7% to 5.3%, notwithstanding the intake of Ukrainian refugees. After the rising inflation rates experienced in the previous year, the marked increase in energy prices triggered by the war in Ukraine and restrictions on Russian supplies of natural gas drove inflation even higher. By the autumn, the rate of inflation in Germany exceeded 10%, reaching the highest level seen in around 70 years. Energy imports were not the only factors boosting inflation over the course of the year; demand also escalated in certain sectors of the economy.

The repercussions of the war in Ukraine also impacted the development of Baden-Württemberg's international business. While export figures for the first three quarters of 2022 were nominally 20.9% up on the previous year due to worldwide price increases, the actual volume of exports declined by 6.1% over the same period. Baden-Württemberg saw a stronger recovery in the first three quarters of 2022 than the nation as a whole, primarily due to higher growth rates in the manufacturing sector. Thus the federal state's gross domestic product rose by 1.8% in the first quarter compared to the final quarter of 2021. The spring and summer quarters also saw significant growth (+0.9% and +1.9%, respectively). The state's unemployment rate remained below the previous year's level up to and including August 2022, and was only slightly higher through the autumn and winter months. Overall, the average unemployment rate in Baden-Württemberg fell from 3.9% in the previous year to 3.5% in 2022.

Business performance

Due to robust investment activity on the part of Baden-Württemberg's SME sector, and the consistently high demand for housing finance, the Bank paid out a high volume of development funding in 2022. During the second half of the year, demand for development finance showed a tendency to consolidate due to the deteriorating economic conditions. In addition, the Bank ceased to provide Covid-related aid programmes at the end of June 2022, in line with the expiry of regulations governing Covid-related state aid.

The primary focus of the Bank's development activities over the past reporting year remained unchanged, with SMEs, business start-ups and housing development as the main priorities. New business figures for SME finance and start-up finance were significantly up on the previous year. The volume of new business in the housing development sector remained high, albeit slightly down on the previous year's level. The infrastructure development segment showed very positive growth. In short, L-Bank achieved its target for the year: to maintain a consistently high volume of new business across all business sectors.

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 provides financial assistance for projects in rural areas. The Bank issues 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, energy price trends and the termination of Covid-related aid programmes. As expected, the level of Covid-related aid declined substantially to EUR 1,929.9 million (2021: EUR 6,366.8 million). The total volume of new enterprise development business came to EUR 5,874.1 million (2021: EUR 9,488.2 million).

L-Bank's well-established enterprise development programmes (excluding Covid-related aid programmes) are supporting the sustainable, climate-friendly transformation of Baden-Württemberg's businesses. As the economy started to normalise after the Covid pandemic, demand for financial resources rose significantly, especially in the first half of the year. As the year progressed, a certain reluctance to invest became apparent as a result of the gloomier economic outlook caused by the war in Ukraine. Even so, the volume of new business across the Bank's standard development programmes still rose to a new high of EUR 3,944.2 million (2021: EUR 3,121.4 million), exceeding the previous year's expectations.

With respect to business start-up finance, the previous year's positive trend continued unabated, as the volume of new business rose once again to EUR 728.1 million (2021: EUR 669.0 million). L-Bank was able to provide funding for business start-ups and fledgling companies through the Baden-Württemberg Start-up and Growth Finance programme introduced on 1 March 2022, which supports entrepreneurs who wish to become self-employed or take over and expand existing businesses.

The amount of finance committed to the development of small and medium-sized enterprises (SMEs) rose by EUR 655.7 million to a total of EUR 2,486.2 million (2021: EUR 1,830.5 million). The level of new business under the Innovation Finance development programme was exceptionally positive – indeed, it exceeded expectations. Thanks to attractive terms and conditions, the volume of approved funding rose significantly to EUR 890.8 million (2021: EUR 470.0 million). The Innovation Finance programme provides funding to companies that wish to launch innovative business models or innovative investment projects. There was also very strong demand for funding under the Baden-Württemberg Start-up and Growth Finance programme, which was relaunched on 1 March 2022 in restructured form, as well as the Investment Finance programme. A sustainability bonus was added to both of these development programmes in the middle of the year; companies pursuing climate-protection goals are now awarded a further reduction in interest rates. The Baden-Württemberg Start-up and Growth Finance programme helps established companies to finance investments of all kinds. New business increased by 8.7% to EUR 492.7 million (2021: EUR 453.4 million). The Investment Finance programme issues loans for business investments in rural areas; the volume of new business rose significantly to EUR 368.0 million (2021: EUR 189.9 million). The volume of loans approved under the Liquidity Loan programme also rose, in this case by EUR 48.3 million to EUR 120.0 million (2021: 71.7 million). The demand for Liquidity Loan offerings climbed steadily throughout the year under review as a result of the energy price increases triggered by the war in Ukraine. By contrast, there was a marked downward trend in the Digitisation Premium and Tourism Finance programmes. The Digitisation Premium programme issues loans to businesses wishing to digitise their processes, products and services. This year, the volume of loans approved came to EUR 35.1 million (2021: EUR 71.7 million). Under the Tourism Finance programme, businesses in the tourism sector are given low-interest loans for the construction, refurbishment and modernisation of their infrastructure.

The volume of funding paid out showed a marked decline to EUR 19.3 million (2021: EUR 107.4 million) due to the positive trend in bookings and less attractive terms and conditions.

The volume of new business in the agricultural development segment fell to EUR 91.0 million (2021: EUR 119.4 million). The decline in demand for finance is due to an 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 45.7 million (2021: EUR 62.2 million). At EUR 38.2 million, new business figures for the Agri-Food Industry – Environmental and Consumer Protection programme fell slightly below the previous year's level (EUR 43.1 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 declined slightly to EUR 2,067.7 million (2021: EUR 2,151.9 million). The reasons for this include the difficulty of planning construction projects due to capacity bottlenecks, delivery problems and highly volatile prices. In addition, a change in federal funding also had an impact following the termination of the federal funding programme for energy-efficient buildings (BEG); the effect is ongoing.

The various rental housing development programmes provide funding for the construction and renovation of rental accommodation in Baden-Württemberg. Due to the continuing high demand for housing in urban areas and conurbations in particular, new business slightly exceeded the level reached in the previous year at EUR 1,193.3 million (2021: EUR 1,107.1 million), despite a forecast predicting a slight decline in the volume of commitments. As of 1 June 2022, financing options under the state housing development programme were optimised, and a large number of new funding components were introduced; the volume of funding approved under this programme rose by EUR 37.3 million to EUR 494.2 million (2021: EUR 456.9 million). At the same time, the Bank's own development programmes for social rental accommodation, which complement the federal state's offerings, saw commitments increase by 7.5% to EUR 699.1 million (2021: EUR 650.2 million). As expected, the take-up of development funding for homeowners' associations in support of the energy-efficient renovation or accessibility-focused optimisation of residential buildings was positive; the approved lending volume rose to EUR 27.1 million (2021: EUR 19.6 million).

As a result of deteriorating conditions for real-estate projects, home ownership development programmes saw a further decline to a total of EUR 847.3 million (2021: EUR 1,025.2 million), thwarting expectations that the volume of new business would remain constant. This trend is primarily due to a further decline in demand for the Living with Children development programme, in line with the more general trend in funding for private residential construction. The approved lending volume took a substantial fall to EUR 169.3 million (2021: EUR 302.4 million). The programme is used to help families with children to buy or build their own homes. The demand for top-up finance also showed a decline; new approvals fell to EUR 77.1 million (2021: EUR 120.2 million). Figures for new business under the Combined Home Loan programme remained at much the same level as in the previous year, at EUR 273.8 million (2021: EUR 273.3 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. Figures for new business in the owner-occupied housing segment of the state housing development programme were better than anticipated; the lending volume rose to EUR 321.7 million (2021: 298.0 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 has risen sharply; in the year under review the total volume of new business reached EUR 6,079.0 million (2021: EUR 2,008.8 million).

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 2022, the Bank processed a total of 32,271 new approvals (2021: 36,186) – excluding Covid-related aid – which represented a funding total of EUR 3,193.7 million (2021: EUR 2,441.7 million). Mainly as a result of increases in the programmes for hospital finance (EUR 1,366.6 million; 2021: EUR 1,111.4 million), school funding (EUR 813.5 million; 2021: EUR 357.6 million) and the European Regional Development Fund (ERDF: EUR 214.7 million; 2021: EUR 40.0 million), the volume of funding was well above the previous year's level. A total of EUR 183.5 million (2021: EUR 168.4 million) was approved for investments in water, wastewater, flood protection, site decontamination and hydropower projects. The Bank paid out EUR 160.3 million (2021: EUR 190.9 million) to strengthen technology and enterprise development, and another EUR 105.3 million (2021: EUR 191.0 million) for urban development. L-Bank also supported families on behalf of the federal and state governments, in particular by awarding family and parental allowances. At EUR 1,078.5 million, the volume of funding approved for family benefits was slightly up on the already high level achieved in the previous year (EUR 1,071.1 million).

L-Bank's investment portfolio consists primarily of strategic and credit-equivalent shareholdings in Baden-Württemberg companies, as well as shareholdings in subsidiaries involved in the regional development of business zones in Baden-Württemberg. As at the balance sheet date, the book value of the portfolio as a whole amounted to EUR 288.4 million (2021: EUR 256.3 million).

At year-end 2022, the book value of strategic investments held by L-Bank on behalf of the State of Baden-Württemberg remained unchanged at EUR 186.0 million.

L-Bank invests primarily in small and medium-sized enterprises based in Baden-Württemberg through shareholdings in funds. Key elements in this segment are the external SME fund (LEA Mittelstandspartner), the external venture-capital fund (LEA Venturepartner) and their respective successor and annex funds. The external SME fund (in which L-Bank has a stake of up to EUR 120.0 million) helps established companies to deal in particular with the upcoming challenges associated with the digital transformation of products and value chains (Industry 4.0). The external venture-capital fund (in which L-Bank has a stake of up to EUR 39.1 million) provides venture capital to high-tech companies with growth potential. In the reporting year, the Bank's equity capital activities were further developed as planned through additional investments in fund shareholdings. The total book value of the Bank's credit-equivalent shareholdings at the balance sheet date came to EUR 95.5 million (2021: EUR 58.4 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 technology transfers from academia to business. 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. During the year, the Bank continued to expand its site development activities as planned. As at 31 December 2022, L-Bank had provided companies involved in business zone development with a total of EUR 76.1 million in funding (2021: EUR 60.9 million).

Assets, financial performance and financial position

Financial performance

The following breakdown of operating income helps to clarify L-Bank's financial performance. Transfers to the development fund, which under commercial law should be treated as interest expenses, commission expenses or other operating expenses, are shown here as payments to the State of Baden-Württemberg, hence as an appropriation of profits. Unexpectedly, net interest income – which continues to be L-Bank's most important source of income – was significantly up on the previous year at EUR 320.0 million (2021: EUR 254.8 million). L-Bank also benefited from the ECB's targeted longer-term refinancing operations (TLTRO III).

Once again, 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 parental allowances). The ongoing processing of Covid-related subsidy programmes resulted in slightly higher cost reimbursements, meaning that net commission income rose from EUR 110.4 million to EUR 119.4 million.

As anticipated, administrative expenses, which include depreciation on tangible assets as well as personnel and general expenses, were up on the previous year, coming to EUR 269.9 million (2021: EUR 229.6 million). The increase in personnel expenses was primarily due to the adjustment of parameters in the actuarial valuation review of company pension plans. General expenses rose due to the increased use of external personnel to process Covid-related subsidy programmes in particular. In addition, the increase in general (operating) expenses reflects the fact that projects that could not be implemented in full in either of the two previous years due to the Covid-related situation were resumed as planned in 2022.

The net result from other operating income and expenses was negative at EUR –0.8 million (2021: EUR –2.0 million). The operating result before risk provisioning/valuations was higher than anticipated at EUR 168.7 million (2021: EUR 133.6 million).

As expected, the net result from asset revaluation was lower than in the previous year at EUR 4.4 million (2021: EUR 24.2 million). The number of loan defaults was minimal. Risk provisioning took adequate account of the current crises. The additional loan-loss allowances set up to cover risks arising from the war in Ukraine largely corresponded to the loan-loss allowances originally set up for Covid but no longer needed due to the pandemic's rapidly waning impact. The operating result increased again to EUR 173.1 million (2021: EUR 157.8 million). L-Bank's distributable income came to EUR 172.6 million (2021: EUR 157.3 million).

Due to the development fund system, L-Bank's current development contributions had no impact on earnings in 2022. Of the total development fund (provision) of EUR 106.3 million set up for the year under review, EUR 74.8 million was utilised. The development fund available for financing development services in 2023 amounts to EUR 111.5 million. Out of the Bank's earnings for 2022, an amount of EUR 80.0 million was transferred to the development fund for 2024's development contributions. EUR 50.0 million was added to the fund for general banking risks (2021: EUR 40.0 million).

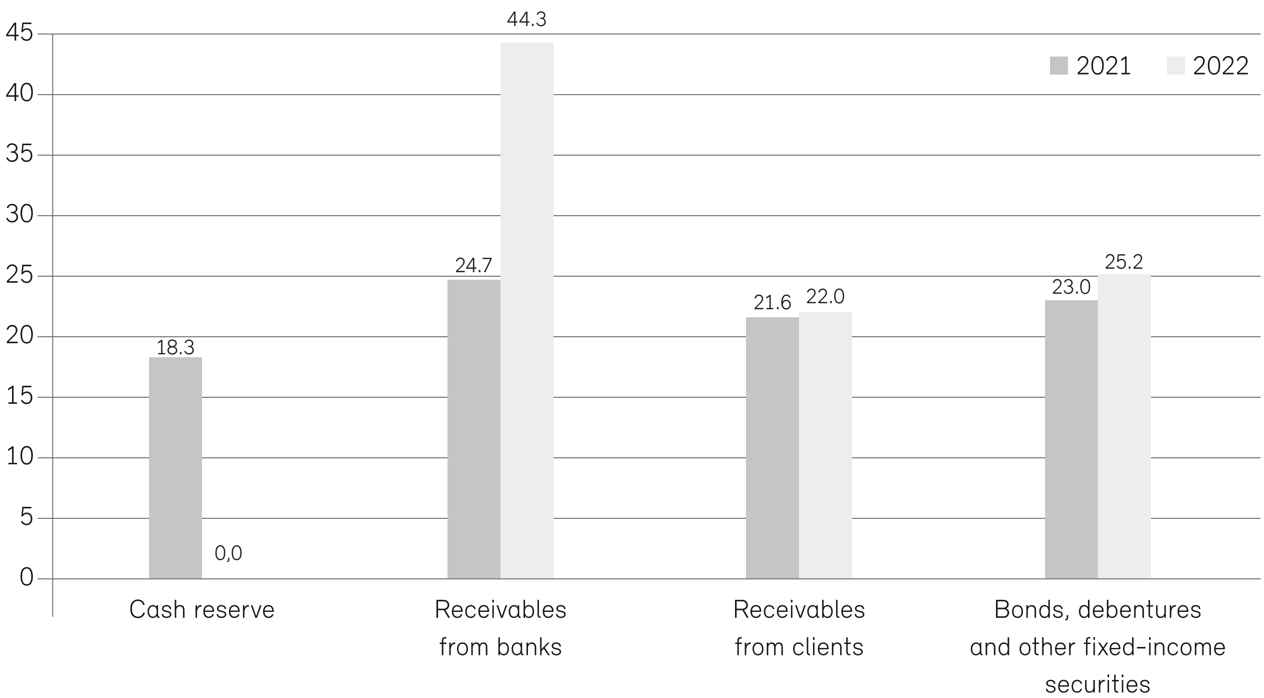
Net income for the year totalled EUR 42.6 million (2021: EUR 37.3 million). Taking account of the profit carried forward from the previous year, net profit amounted to EUR 43.3 million. The Board is planning to transfer EUR 43.0 million of this income to other retained earnings in order to increase the Bank's Tier I capital ratio, and to carry forward the remaining EUR 0.3 million.

BREAKDOWN OF OPERATING INCOME in EUR millions

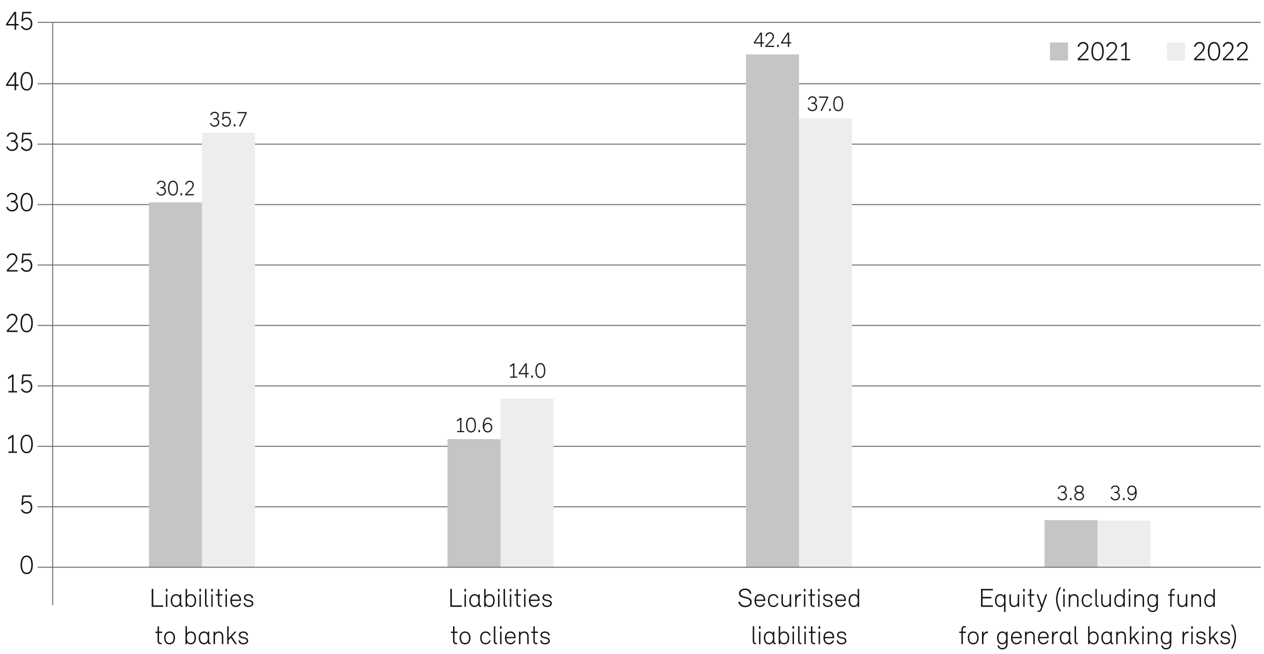
	01.01.2022 to 31.12.2022	01.01.2021 to 31.12.2021	Change	Change in %
Net interest income	320.0	254.8	65.2	25.6
Net commission income	119.4	110.4	9.0	8.2
Administrative expenses	269.9	229.6	40.3	17.6
Net result from other income/expenses	–0.8	–2.0	1.2	–60.0
Operating result before risk provisioning/valuations	**168.7**	**133.6**	**35.1**	**26.3**
Net income from asset revaluation	4.4	24.2	–19.8	–81.8
Operating result	**173.1**	**157.8**	**15.3**	**9.7**
Taxes on income	0.5	0.5	0.0	0.0
Distributable income	**172.6**	**157.3**	**15.3**	**9.7**
Addition to development funds (provision)	80.0	80.0	0.0	0.0
Addition to fund for general banking risks	50.0	40.0	10.0	25.0
Net income	**42.6**	**37.3**	**5.3**	**14.2**

Assets and liabilities

SELECTED ITEMS UNDER ASSETS in EUR billions



SELECTED ITEMS UNDER LIABILITIES in EUR billions



L-Bank's total assets rose by 4.1% to EUR 93,226.6 million (2021: EUR 89,597.0 million). On the assets side, the sharp decline in the cash reserve was more than offset by the increase in receivables from banks and slightly higher income from securities. On the liabilities side, maturities of securitised liabilities were more than offset by higher liabilities to banks and clients.

The business volume, which also encompasses contingent liabilities and irrevocable lending commitments, rose by 4.6% to EUR 98,760.8 million as at the balance sheet date (2021: EUR 94,394.3 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, Fitch Ratings and Scope continue to give L-Bank their top ratings of Aaa and AAA. As in the previous year, rating agency Standard & Poor's gave both the State of Baden-Württemberg and L-Bank its second-best AA+ rating. Banks can continue to count L-Bank bonds towards their short-term liquidity coverage ratios (LCR) as assets with the highest liquidity standing. 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 two-year to five-year range. The principal instrument used here is the Bank's Debt Issuance Programme, with a funding limit of EUR 30,000.0 million, of which EUR 20,064.8 million was utilised as at 31 December 2022 (2021: EUR 19,183.0 million). The total volume of medium- and long-term refinancing on the capital markets amounted to EUR 7,514.0 million (2021: EUR 7,001.5 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 12,631.5 million (2021: EUR 18,732.8 million). In the year under review, the Bank did not participate in any new targeted longer-term refinancing operations (TLTRO III) with either the ECB or Deutsche Bundesbank. The volume of these transactions remained unchanged at EUR 3,733.5 million.

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

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

Capital adequacy is calculated in accordance with the requirements of the Capital Requirements Regulation (CRR). The following table provides a breakdown of the Bank's equity as at 31 December 2022, prior to approval of the annual financial statements by L-Bank's Supervisory Board.

EQUITY in EUR millions

'Hard' Tier I capital after deductions	3,839.3
Additional Tier I capital after deductions	0.0
Supplementary capital after deductions	280.4
Total equity	4,119.7

Summary of the Bank's business development and position

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

Personnel

The effects of the coronavirus pandemic continued well into 2022, with a concomitant impact on personnel. The Bank continued to focus on initiatives for protecting employees' health, for example by shifting a large proportion of the Bank's in-house activities to home offices or ensuring that employees working in L-Bank buildings were socially distanced. From May onwards, the Covid-related situation steadily eased off, and more employees were able to return to work on the Bank's premises. Employees still have the option of working with considerable flexibility in terms of both location and working hours – a degree of flexibility which is important to L-Bank's 1,495 active staff (2021: 1,420). It is also one of the key factors behind the Bank's ability to attract skilled workers in an increasingly competitive labour market. Throughout 2022, the Bank also continued to implement its digitisation strategy.

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 441 employees were working part-time as at the reporting date (2021: 366).

For L-Bank, the provision of in-house training for junior staff is an important recruitment pathway. In addition to apprentices, trainees and students on work-study programmes, junior staff also included recruits who had previously worked for the bank as interns, work-experience trainees or legal interns; 104 new recruits started at L-Bank in fiscal year 2022 (2021: 61). As well as teaching specialist skills, the Bank's continuing education programme also gives a 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, using outcome-focused, sustainable learning, development and change processes. As well as designing and implementing customised staff development programmes, L-Bank's in-house continuing education catalogue lists training courses on cross-disciplinary 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.

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, 33.8% of all the Bank's executive managers were women (2021: 34.4%). Overall, L-Bank employs more women than men: female employees account for 57.6% of the workforce (2021: 57.0%).

L-Bank continues to offer employees a phased retirement programme for helping them manage the transition to retirement. As at the reporting date, some 59 people 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 two 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 down to 44.1 in 2022. The staff turnover rate is 6.69% (2021: 6.17%).

Sustainability Report

As a development bank, sustainability is a core component of L-Bank's DNA and one of the key principles behind its business strategy. 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. For fiscal year 2023, the Bank adopted a separate sustainability strategy which both complements and further clarifies its business strategy.

L-Bank has taken specific organisational measures to achieve the strategic objectives defined in its business and sustainability strategies, and has systematically strengthened its workforce. The Bank has restructured its sustainability organisation to incorporate ESG criteria even more effectively into its banking and development finance business, as well as its banking operations. L-Bank's previous sustainability organisation – consisting of the Sustainable Finance Working Group and the Sustainability Core Team – has been expanded to include a new Sustainable Finance Core Team, created in autumn 2022. The Sustainable Finance Core Team is tasked with rapidly progressing the integration of ESG criteria into L-Bank's banking and development finance business, especially in the target areas of development finance, capital markets and risk management. By integrating the relevant SDG criteria as required by the Bank's sustainability strategy, the expanded sustainability organisation is deliberately enhancing the Bank's instruments for taking strategic action to ensure that the Bank achieves its ambitious top-level sustainability goals.

In parallel, the Bank has launched a bank-wide, multi-year project for the integration of ESG- and SDG-related data. This integration represents a basic prerequisite for operationalising the Bank's sustainability targets and meeting the increasingly exacting requirements of sustainability reporting.

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

The current energy crisis, growing geopolitical tensions, and inflation and interest-rate trends are placing significant strains on companies and private households, making the outlook for 2023 significantly gloomier. While the danger of gas shortages has now diminished, the strong upward pressure on prices will cause the real disposable income of private households to fall even further, at least during the first half of the year, with a consequent dampening effect on the consumer economy. Other factors hampering economic recovery include the ongoing repercussions of the coronavirus pandemic, which – in the People's Republic of China in particular – have not yet been fully overcome, as well as continuing supply-chain disruption. Furthermore, high construction prices and higher interest rates are likely to reduce the demand for construction services. It is also probable that the ECB will continue to tighten its monetary policy through the first half of 2023, as it started to do in 2022, so that further interest-rate hikes should be expected. These too could weaken economic vitality. On the positive side, there is a high order backlog in the manufacturing sector. If supply-chain problems ease, it may be possible to gradually clear the backlog in the course of 2023, which would have a positive impact on economic growth.

In addition, private consumption is likely to pick up in the course of the year if income growth once again starts to outpace price rises. In short, L-Bank does not anticipate a drastic economic slump in 2023 comparable to the financial market crisis or outbreak of the coronavirus pandemic. But despite more positive forecasts at the start of 2023, we may expect to see a slight decline in GDP overall, ranging from –0.1% to –0.4%, due to a wide variety of unpredictable downside risks. Inflation is likely to remain high in 2023 due to the high wage settlements expected for the coming year; these will push up both labour costs and purchasing power. Government curbs on electricity and gas prices mean, however, that the average rate of inflation should nevertheless remain somewhat below last year's exceptionally high level.

The structure of Baden-Württemberg's economy is characterised by a high proportion of manufacturing activity, with particular concentrations in cyclical, energy-intensive, export-focused industries. Many companies in the federal state have already succeeded in diversifying their production centres and supply chains, and after more than a decade of favourable economic conditions, should still have adequate capital and liquidity reserves. In addition, industry order books are well filled and businesses are benefiting from the easing of disruptions across international supply chains, which should result in an increasingly lively export business as 2023 continues. In view of the ongoing high demand for labour, the labour market should be able to withstand cyclical headwinds in 2023, although the economic slowdown means we may expect to see a temporary increase in short-time work and an interruption of the employment recovery observed in 2022. Even so, we do not expect more than a mild increase – 4% at most – in the average unemployment rate for 2023 in Baden-Württemberg.

Downside risks for economic development are primarily the result of the ongoing energy crisis. In addition, further geopolitical developments – associated with the Russia-Ukraine war and tensions between China and the USA in particular – make reliable forecasts impossible and represent another downside risk for economic development in 2023. The possibility of further pandemic-related developments also represents a significant risk, especially with respect to the People's Republic of China.

In 2023, 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, and on social housing development. Essentially, the Bank plans to continue its development activities through its existing programmes. Following the very strong development achieved in recent years, and in view of the economic forecasts, L-Bank anticipates a slight decline in new business figures compared to the previous year.

In view of the rather subdued economic outlook, the Bank predicts a slight decline in the volume of new start-up and SME finance business. The energy price increases caused by the war in Ukraine mean that there will probably be less demand for loans to finance traditional investments. Innovation Finance, on the other hand, is likely to continue the positive development observed last year. This development programme is expected to experience a consistently high level of approvals. The process of transforming companies in Baden-Württemberg in line with sustainability, digitisation and climate action criteria will continue to play a key role in L-Bank's development finance activities. Further additions to and optimisations of individual development programmes are planned for 2023 as they are adjusted to meet impact- and SDG-related priorities. The Bank's equity capital activities will be further strengthened by additional investments in investment funds. L-Bank also intends to boost its business zone development activities, in particular by adding new technology park sites. The sale of technology park properties remains part of the Bank's overall strategy.

In view of the challenging situation in the construction and housing industry, new business in the housing development sector is expected to experience a slight decline over 2023 as a whole. Demand for development assistance for private home ownership will largely depend on the federal government's conditions for funding new building construction and renovation projects. The previous BEG regulations expired in early 2022 and are due to be restructured during the first quarter of 2023. Demand for rental housing development programmes is also likely to fall slightly below the 2022 level. A moderate decline in the volume of new business under the Bank's own rental housing development programmes is expected, but despite a lack of capacity in the construction industry and rising construction costs, existing development incentives mean that the state housing development programme is unlikely to see any significant changes in new business figures. The volume of approvals for homeowners' association funding should also stabilise at a comparable level.

In 2023, L-Bank is predicting that income and costs will remain more or less unchanged, so that the operating result before risk provisioning/valuations should remain at a similar level to 2022. According to current estimates, income from asset revaluation will also remain at a similar level to the reporting year. Total assets in 2023 are expected to fall slightly compared to the year under review.

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

Overall, L-Bank is forecasting that the volume of new business in 2023 will decline slightly compared to 2022. No significant changes in the Bank's financial performance, financial position or net assets are anticipated.

Opportunities and risk report

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

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

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

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

With respect to the Bank's lending and trading business, the front-office and back-office areas at L-Bank are strictly separated at all levels, up to and including Board of Management level. In 2022, 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 the above-mentioned risks.

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

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

The Audit Committee is primarily responsible for discussing the audit report with the auditor, and for preparing the Supervisory Board's adoption of the annual financial statements and the resolution on the appropriation of profits. It also discusses the Internal Audit unit's reports, as well as the Compliance unit'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 set by the Bank's individual lending departments according to a system of competencies.
- Operational risks are managed by risk managers. The latter are divided into central risk managers, who manage operational risks affecting the entire Bank, and decentralised risk managers, who manage the risks associated with specific working procedures.

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

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

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

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

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

The Security Office assists the Board of Management in all matters of corporate security. In addition to the information security (infosec) guideline, the Security Office is also responsible for the resulting security policies and the management of 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 in 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 that must be satisfied by borrowers who are not involved in the Bank's development programmes.

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

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

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

With respect to market price risks, the Bank pursues a strategy of following projected interest-rate movements to generate predictable levels of income with acceptable levels of risk, primarily within maturity bands of up to 24 months. The underlying projections of interest-rate movements are derived from capital market parameters. Due to the 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 of more than 24 months. The Bank makes use of the national and international capital markets to obtain refinancing on optimised structural and cost terms. The public guarantee and maintenance obligation provided by the State of Baden-Württemberg means that the Bank benefits from the latter's excellent credit standing on the capital markets. Potential refinancing risks due solely to a substantial downgrade of the federal state's credit rating are permanently classified as negligible.

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

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

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

Risk inventory

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

Risk management takes account of all relevant risks either by means of risk quantification or by applying other risk management policies. During reviews of the Bank's risk-bearing capacity, potential losses are calculated and management limits specified for all material risks as a matter of course. Potential losses are calculated on the basis of a 99.9% 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 2022 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.

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 pay an appropriation from its income into 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, an ESG scenario as well as (depending on circumstances) the scenario of a prolonged war in Ukraine. The latter scenario is based on the assumption of a severely prolonged war and, as a result, an increase in loan defaults, a deterioration in refinancing conditions for the Bank and longer-term inflationary tendencies. In this scenario, negative impacts on the Bank's risk-bearing capacity are not apparent, due to the improved return on equity.

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

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

In the normative perspective, the Bank's risk coverage capability corresponds to the total or Tier 1 capital calculated in accordance with CRR. In 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 transactions into account). In the case of risk provisioning expenses, the Bank distinguishes between specific and non-specific risk provisions. Specific risk provision for the unsecured part of a non-performing exposure (NPE) is calculated using a standardised expected-loss model. Non-specific risk provisions are calculated for performing exposures (PEs) using the methodology applied in standard accounting practice.

In 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 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). This 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 1 capital, total risk exposure and resulting capital ratios.

FISCAL YEAR 2022	31.03.2022	30.06.2022	30.09.2022	31.12.2022
Total risk exposure in EUR millions	18,182.7	18,518.1	18,621.6	18,627.9
Tier I capital in EUR millions	3,760.6	3,840.1	3,839.7	3,839.3
Equity in EUR millions	4,069.0	4,141.0	4,130.6	4,119.7
Tier I capital ratio in %	20.68	20.74	20.62	20.61
Total capital ratio in %	22.38	22.36	22.18	22.12
Leverage ratio in %	6.79	6.51	6.62	7.05

As at 31 December 2022, 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 2025/2026).

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

The following table shows the RWA limits as at 31 December 2022 and their respective maximum utilisation in fiscal year 2022. The maximum utilisation of RWA limits per business segment and in total is based on monthly calculations.

In EUR millions	RWA LIMIT 2022	MAXIMUM UTILISATION 2022	RWA LIMIT 2023
Total credit risk (CRSA)	25,000	17,395.4	22,500
Thereof for:			
Private clients	5,000	3,563.0	4,000
Companies	10,500	6,803.2	9,250
Financial institutions	8,150	6,907.0	8,000
Public sector	750	476.3	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 regulations. All risks are calculated with a confidence level of 99.9%.

As at the balance sheet date, the business portfolio's NPV is calculated as EUR 5,906.6 million. This is offset by NPV administrative expenses totalling EUR 308.4 million, plus imputed NPV risk provisioning costs of EUR 184.7 million, resulting in an NPV-based risk coverage capability of EUR 5,413.5 million. As at the reporting date, 32.11% of this was taken up by values at risk (VaR) totalling EUR 1,738.5 million. Utilisation of NPV risk coverage capital in 2022 ranged between 30.74% and 34.45%. 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 96%. For control purposes, an ALC of EUR 4,300.0 million has again been specified for 2023. This corresponds to 77.4% of the Bank's internal capital at the budgeting date (30 June 2022), totalling EUR 5,558.3 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	1,100.0
Interest-rate and FX risks (IRRBB)	700.0
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 time frame performance ratios. The Bank must comply with these ratios both in a credible baseline scenario and in an appropriately Bank-specific adverse scenario. Furthermore, the Board of Management has placed limits on 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 insolv ency 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 2022, neither the LCR, NSFR nor the survival timeframe ratios ever fell below the internally specified minimum thresholds. The projections performed on 31 December 2022 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 2022.

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

To ensure that the value-at-risk figures are as informative as possible, the underlying risk measurement methods are validated, which involves subjecting the applied parameters to various sensitivity analyses. In addition, an inverse stress test is used to verify the useful content of the value-at-risk figures. The annual validation procedures are carried out by a unit that has no connection with, or involvement in, model development and application. The validation methods, scope of the individual validation procedures and responsibilities for these procedures, as well as the regular intervals at which they should be applied, are specifically defined for each type of risk. Standardised report templates are used for all types of risk, in which the key findings of the validation processes are summarised for the Board of Management. If the findings of these validation exercises result in adjustments to measurement procedures or their underlying assumptions, all such adjustments must first be approved by the Board of Management. The Controlling department informs the Board of Management of the results once a year. During the 2022 validation cycle, the appropriateness of the methods and procedures used was confirmed.

In the economic perspective on the Bank's risk-bearing capacity, the actuarial models used to measure risk showed the limitations of their 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 2022 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 securing the energy supply 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 credit volume is sufficiently high.

Assessment of counterparty risk

The qualitative assessment of default and migration risk – which also includes issuer, counterparty and settlement risk – is carried out by classifying the borrower's creditworthiness and appraising the collateral provided for the loan. As part of classifying borrowers' creditworthiness, each borrower is assigned a credit rating expressed as a risk category (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 involved in development finance for owner-occupied housing, the homogeneity of the client group means that they are assigned a group rating based on the average probability of default. Certain kinds of collateral are taken into account in the qualitative assessment of loss exposure. Loans guaranteed by municipalities and real-estate loans secured on residential properties in Baden-Württemberg are assigned to risk category 1. Where collateral in kind is provided in the form of residential property in Baden-Württemberg – 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. The assumed correlations were raised in December 2020 to reflect borrowers' exposure to the pandemic as a common risk driver; this Covid-related adjustment will be retained until further notice. When calculating the amount of the loss, for reasons of prudence, only security provided in the form of cash collateral and/or loans granted to end-borrowers in accordance with the 'borrower's bank' principle are taken into consideration. For the remaining unsecured portion, the historically estimated recovery rates are compared with the regulatory recovery rates for all business segments except 'Companies in the financial sector' and 'Public sector', and the lower (more conservative) value is applied in each case. Because the Bank has no 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' programmes), the Bank applies the regulatory (IRBA) residual debt servicing capability of 90% (Article 164 (4) CRR), or 55% in the case of all other business segments (Article 161 (1a) CRR). As at the reporting date of 31 December 2022, 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 the 'obligation to contract', so the individual limits are very tight. The maximum loan amount that L-Bank may issue to borrowers incurring commercial risks outside the Federal Republic of Germany is restricted by appropriate limits set at country level (country limits). Issuer, counterparty, borrower and country limits are set by the Board of Management based on an internal analysis of credit quality and monitored on a daily basis by the Controlling department. If a limit is exceeded, the heads of the departments concerned are informed on the same day and appropriate risk-response measures are initiated. The Risk Committee/Supervisory Board is informed of significant limit overruns in the quarterly risk report.

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

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

Furthermore, the Bank has installed an early risk detection system so that it can identify early-stage deterioration of borrower creditworthiness at the level of both individual transactions and the portfolio as a whole, and subsequently gear ongoing loan processing and risk management to such changes in 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 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 saw a slight decline from mid-year onwards, although prices continued to rise over the year as a whole. So at present the risk of loss has not (yet) risen. Nevertheless, the Bank is already preparing appropriate sensitivity analyses due to the particular significance of price trends on Baden-Württemberg 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 8,253.4 million, the State of Baden-Württemberg accounts for some EUR 7,136.1 million. Due to the credit standing of the State of Baden-Württemberg, L-Bank regards this risk as negligible.

L-Bank's business model also shows a low concentration risk associated with industry sectors. At EUR 57,363.5 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 business development purposes via borrowers' commercial banks. The Bank's exposure to these borrowers' bank loans amounted to EUR 21,842.7 million as at 31 December 2022. These lendings to banks are secured by the assignment to L-Bank of claims on end-clients. Alongside these loans to borrowers' banks, L-Bank engaged in other development business with companies in the financial sector totalling EUR 6,243.1 million, of which EUR 3,469.1 million is secured by public guarantee/maintenance obligation. EUR 29,277.7 million of the Bank's total lending commitment to companies in the financial sector relates to transactions associated with development aid business, whereby the Bank invests low-cost funds from refinancing in low-risk or risk-free issuers. Of the above-mentioned EUR 29,277.7 million, an unsecured volume of EUR 6,567.4 million remains after deducting claims on central banks (EUR 22,710.3 million). Roughly 93.9% of this is assigned to risk categories 1 to 4 and only around 6.1% to risk categories 5 and 6. Consequently, the concentration in the financial sector does not currently represent any particular risk of loss for the Bank.

In regional terms, the Bank's public-service mandate means that it is exposed to a very high concentration risk for the region 'Germany'. A total of 87.9% of the risk-relevant portfolio is assignable to Germany, of which 58.4% relates to the State of Baden-Württemberg. Some 8.4% of the risk-relevant portfolio is located in the eurozone (primarily in France, the Netherlands and Austria) or with international organisations (such as the World Bank). A total of 3.7% of the risk-relevant portfolio is attributable to transactions in countries outside the eurozone, which are performed for purposes of risk management or capital investment.

Ongoing and incident-related creditworthiness and collateral classifications are intended, above all, to ensure that the Bank can take early risk-response measures at the level of individual transactions (e.g. by increasing the collateral requirement) in the event that a client's credit standing should deteriorate. But the classification also enables the Bank to carry out real-time assessments of the entire portfolio's risk structure. The following table shows the loan portfolio's risk structure as at 31 December 2022.

RISK STRUCTURE OF THE LOAN PORTFOLIO AS AT 31.12.2022 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	141.6	227.0	26,800.8	17,709.5	44,878.8	44.8
2	1.1	923.0	1,795.2	8,407.5	11,126.9	11.1
3	8.0	2,804.3	10,317.9	135.2	13,265.4	13.3
4	17.9	3,740.2	15,893.5	85.4	19,737.0	19.7
5	5,170.4	1,951.8	858.6	0.6	7,981.4	8.0
6	117.7	523.0	1,234.2	1.1	1,875.9	1.9
7	25.3	357.7	216.5	9.0	608.6	0.6
8		49.1	39.9		89.0	0.1
9		96.4	8.1		104.5	0.1
10		7.5	0.2	0.0	7.7	0.0
11			116.2		116.2	0.1
12		79.5	82.2		161.6	0.2
13	11.2	108.9			120.1	0.1
14	6.6	11.1	0.3	0.0	17.9	0.0
Total	**5,499.7**	**10,879.1**	**57,363.5**	**26,348.3**	**100,090.9**	**100.0**

In addition to RWA limits, which are used to safeguard the Bank's risk-bearing capacity from the normative perspective, credit risks are also limited by setting a value-at-risk limit at portfolio level. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by counterparty risks in the course of 2022.

VALUE AT RISK FOR COUNTERPARTY RISKS IN 2022 in EUR millions

	01.01.2022		31.03.2022		30.06.2022		30.09.2022		31.12.2022	
	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised
Aggregate loss ceiling	4,300.0	2,019.4	4,300.0	1,827.6	4,300.0	1,824.0	4,300.0	1,694.1	4,300.0	1,738.5
Share of counterparty risks in %	37.2	32.4	37.2	35.2	37.2	34.3	37.2	36.5	37.2	37.7
Counterparty risks	1,600.0	653.9	1,600.0	642.6	1,600.0	624.8	1,600.0	618.6	1,600.0	656.1

The steadily decline in potential losses during the first three quarters of 2022 is due to the interest-rate increases over this period. The increase as at 31 December 2022 is a result of changes in the methodology used to evaluate counterparty risks.

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 2022. When classifying NPEs, the Bank distinguishes between restructuring exposure (risk category 13) and workout exposure (risk category 14).

NPE PORTFOLIO AS AT 31.12.2022 in EUR millions

	Total risk portfolio	NPE portfolio		Restructuring portfolio		Workout portfolio	
		total	in %	total	in %	total	in %
Private clients	5,499.7	17.8	0.32%	11.2	0.20%	6.6	0.12%
Rental housing construction clients	7,635.6	6.3	0.08%	1.9	0.02%	4.4	0.06%
Companies in the financial sector	57,363.5	0.3	**0.00%**	0.0	0.00%	0.3	0.00%
Other companies	3,243.7	113.6	3.50%	107.0	3.30%	6.6	0.20%
Public sector	26,348.3	0.0	0.00%	0.0	0.00%	0.0	0.00%
Total	**100,090.9**	**137.9**	**0.14%**	**120.1**	**0.12%**	**17.9**	**0.02%**

The total NPE portfolio as at 31 December 2022 includes forborne loans in the amount of EUR 30.5 million. Another EUR 4.5 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 areas of business 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. Although residential property prices in Baden-Württemberg experienced a mild decline during the second half of 2022, prices over the year as a whole saw a marked increase. As at the reporting date, and indeed over the whole of fiscal 2022, 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 for 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 10- and 25-day holding periods.

A qualitative assessment of the interest-rate risk and USD risk is performed using the supervisory standard test and supervisory early-warning indicators for interest-rate 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 back-testing and sensitivity analyses. In fiscal year 2022, 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 2022, this was not the case in projections in either the normal or adverse scenarios.

To monitor the Bank's risk-bearing capacity from an economic perspective, the credit-spread risk is assessed on the basis of a historical simulation of changes in industry- and rating-dependent CDS spread curves. The 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 transactions is hedged primarily by means of interest-rate swaps and cross-currency interest-rate swaps. As at 31 December 2022, the portfolio of interest-rate swaps had a nominal value of EUR 76.0 billion. Cross-currency interest-rate swaps had a nominal value of EUR 19.1 billion, currency swaps had a nominal value of EUR 11.3 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 2022, embedded option-related risks were assessed at EUR 24.4 million.

As part of the process of safeguarding the Bank's risk-bearing capacity, the Board of Management also specifies a value-at-risk limit for interest-rate and foreign-exchange risk (including explicit non-behaviour-dependent options). The following table provides an overview of the proportion of the aggregate loss ceiling taken up by these market price risks in the course of 2022.

VALUE AT RISK FOR INTEREST-RATE AND FX RISKS IN 2022 in EUR millions

	01.01.2022		31.03.2022		30.06.2022		30.09.2022		31.12.2022	
	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised
Aggregate loss ceiling	4,300.0	2,019.4	4,300.0	1,827.6	4,300.0	1,824.0	4,300.0	1,694.1	4,300.0	1,738.5
Share of interest-rate and exchange-rate risks in %	4.7	2.3	4.7	10.6	14.0	20.1	14.0	20.6	14.0	25.5
Interest-rate and exchange-rate risks	200.0	46.5	200.0	193.3	600.0	366.5	600.0	349.0	600.0	443.6

The significant increase in potential losses associated with interest-rate and exchange-rate risks in the course of the year is due to interest-rate fluctuations exceeding those observed in the past; these fluctuations are taken into account when estimating future potential losses. As a result of these major interest-rate changes, the value-at-risk limit was raised from EUR 200 million to EUR 600 million in the second quarter, at the expense of the value-at-risk 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 1 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 12%. These key indicators are calculated and reported to the Board of Management on a daily basis.

EBA guidelines on the management of interest-rate 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 assumption both 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 value-at-risk limit for the credit-spread risk. The decline in credit-spread risks in the course of the year was primarily due to the increase in long-term interest rates, but also to the assumption that credit-spread changes would lessen in the future. The following table provides an overview of the proportion of the aggregate loss ceiling taken up by this risk in the course of 2022.

VALUE AT RISK FOR CREDIT-SPREAD RISK IN 2022 in EUR millions

	01.01.2022		31.03.2022		30.06.2022		30.09.2022		31.12.2022	
	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised
Aggregate loss ceiling	4,300.0	2,019.4	4,300.0	1,827.6	4,300.0	1,824.0	4,300.0	1,694.1	4,300.0	1,738.5
Share of credit-spread risks in %	34.9	40.1	34.9	41.2	25.6	31.7	25.6	26.5	25.6	26.3
Credit-spread risks	1,500.0	810.0	1,500.0	752.4	1,100.0	577.7	1,100.0	448.9	1,100.0	457.7

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

The Bank uses the so-called loss-free valuation of interest-rate derivatives to determine a possible provision for impending losses. This is because the bank book derivatives are in 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 on the interest-rate book compared to its NPV. As at 31 December 2022, these calculations show significant hidden reserves on which even a negative change in the yield curve, determined on the basis of the VaR calculation, would only have a 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 changes in L-Bank's refinancing conditions observed in the past, based on the underlying assumption that the Bank is only able to refinance net disbursements on less advantageous terms. Sensitivity analyses that assume a certain deterioration in funding conditions, or a widening of the funding gap, are used to confirm the validity of the calculated results.

Managing, monitoring and controlling the refinancing risk

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

The Bank complied with the value-at-risk limit granted for the economic perspective on risk-bearing capacity throughout fiscal year 2022.

VALUE AT RISK FOR REFINANCING RISK IN 2022 in EUR millions

	01.01.2022		31.03.2022		30.06.2022		30.09.2022		31.12.2022	
	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised
Aggregate loss ceiling	4,300.0	2,019.4	4,300.0	1,827.6	4,300.0	1,824.0	4,300.0	1,694.1	4,300.0	1,738.5
Share of refinancing risks in %	16.3	20.6	16.3	9.0	16.3	9.9	16.3	11.9	14.0	6.5
Refinancing risks	700.0	416.5	700.0	163.7	700.0	179.8	700.0	201.3	600.0	113.8

Refinancing risks are significantly down on the previous year's figure. The significant rise in interest rates since 1 January 2022 means that the market values of derivatives have increased, and consequently that no further deposits of cash collateral are required that would require refinancing. The decline in the value at risk in the fourth quarter is essentially due to the ongoing development of the valuation model. The more precise, less conservative calculation method means that the potential losses reported are lower; at the same time, the limit has been reduced accordingly by EUR 100 million to EUR 600 million, to the benefit of the buffer.

The Controlling department is responsible for monitoring the refinancing risk by comparing the VaR figures calculated each month with the specified limits. The risk of possible future price increases due to higher expenses for follow-up (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, workflow-related risks and legal risks.

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

Assessment procedures and management

The size and scope of operational risks are identified and assessed with the aid of structured interviews across all departments. These interviews are held throughout the year. Any risks identified are assigned to one of five loss-level or loss-frequency classes. These are measured by the impact on L-Bank's financial position of a potential risk were it to materialise, 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. An aggregated value at risk for the Bank as a whole is calculated from experts' estimates with the help of a Monte Carlo simulation.

VALUE AT RISK FOR OPERATIONAL RISK IN 2022 in EUR millions

	01.01.2022		31.03.2022		30.06.2022		30.09.2022		31.12.2022	
	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised	Limit	Utilised
Aggregate loss ceiling	4,300.0	2,019.4	4,300.0	1,827.6	4,300.0	1,824.0	4,300.0	1,694.1	4,300.0	1,738.5
Share of operational risks in %	1.2	2.1	1.2	2.5	1.2	2.5	1.2	2.8	1.2	2.3
Operational risk	50.0	41.4	50.0	45.7	50.0	44.8	50.0	48.2	50.0	40.6

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

The fall in the value at risk at the end of 2022 is due to the fact that from 31 December 2022, and consistently with other risk types, any expected losses from operational risks are now exclusively accounted for in the Bank's internal capital. So only unexpected losses (previously: expected and unexpected losses) are reported as potential losses.

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

To ensure that the Bank only enters into business transactions that it can process and manage in a manner commensurate with the associated risk, a new-product process is applied to all new types of business. Prior to first-time acceptance, the Bank determines the extent to which existing processes and procedures are sufficient to 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 adherence to relevant legal and regulatory provisions (e.g. compliance, prevention of money laundering and fraud, data protection). The Compliance unit aims to exclude risks that could arise from non-compliance with legal requirements. Consequently, the Compliance unit's role is to help implement effective procedures to ensure that L-Bank complies with the statutory regulations and policies that govern the Bank's activities, and to put in place the necessary controls. Compliance with these requirements is assured by appropriate organisational measures and the ongoing monitoring of relevant business transactions.

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

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

With respect to workflow organisation, the Bank makes a distinction between policies representing binding prescriptions for action, on the one hand, and process diagrams and knowledge documentation, on the other. Policies always apply, regardless of the underlying workflows or IT systems used, whereas knowledge documentation/process diagrams and IT user manuals describe specific workflows. L-Bank has broken down the loan administration process into multiple stages: granting of loans, further processing of loans 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 favourable terms thanks to the explicit guarantee provided by the State of Baden-Württemberg and the latter's very good credit ratings. International demand for liquid, safe investments will provide the Bank with reliable, broadly diversified opportunities to raise capital for the foreseeable future.

The Bank's market price risk is primarily due to longer-term equity investments. In the reporting year, the significant increase in interest rates caused hidden reserves to decline and hidden charges on securities to rise. 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 rates over the year has resulted in successively higher income from investments. Any risk to earnings lies in the possibility of a renewed decline in interest rates.

So far, Germany's economy – measured against very difficult conditions worldwide – has proved robust. Downside risks are associated in particular with the unfolding of the energy crisis associated with the Russia-Ukraine war. The ongoing development of the pandemic also continues to represent a significant risk, especially in respect of the People's Republic of China. 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 liability margin (spread of refinancing transactions versus risk-free yield curve) improves compared to 2022. Income from new development aid business could rise if the termination of the ECB's bond purchase programme results in a greater differentiation of credit spreads – this could increase the spread of the Bank's own refinancing and investment activities (versus the risk-free interest rate based on matching maturities). Income may also increase if interest rates continue to rise in 2023, 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 developed. The system includes specific rules relating to corporate structure and workflow management. These rules ensure compliance with existing accounting standards and regulations, as well as the regularity and reliability of the Bank's accounting functions. The accounting process set down in this system covers everything from the booking and processing of a business transaction through to the preparation of the annual financial statements and management report. L-Bank's senior management team is responsible for defining the Bank's internal control and risk management system as it relates to the accounting function. System implementation is the responsibility of the Accounting department, in collaboration with the Controlling department and the Payment Transactions and Trade Settlement department. In addition, the Internal Audit unit carries out regular, process-independent checks to monitor the reliability of the internal control and risk management system as it affects accounting.

L-Bank prepares its financial statements in accordance with the provisions of the German Commercial Code (HGB) and German Bank Accounting Directive (RechKredV), with due regard for generally accepted accounting principles. The practical interpretation of these regulations is set out in internal manuals and 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 legal 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 sub-ledgers for loans, securities, and debt and equity accounting. The data is transferred to the general ledger via an automated interface. The Accounting department is responsible for managing the general ledger, laying down rules for assigning items to accounts, operating the bookkeeping and ledger management system, and administrating the financial accounting system.

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

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

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

The annual financial statements and management report are derived from the Bank's financial accounting system. For the management report in particular, financial and risk 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, 7 March 2023

Edith Weymayr Dr. Iris Reinelt

Johannes Heinloth

Separate Non-financial Report – Report of the Board of Management of L-Bank for fiscal year 2022

Background, classification and methodology

Fiscal year 2022 was largely defined by the coronavirus pandemic and the war in Ukraine, as well as the consequences and repercussions of both crises. It is precisely in times of crisis that development banks are called upon to implement mitigation and support programmes. Crisis management relies on development subsidies, grants and loans to bridge liquidity bottlenecks. To safeguard the economic survival of businesses, it is vital to strengthen their equity capital – which acts as a corporate risk buffer in times of crisis – by providing suitable development funding. The Bank's development finance figures highlight the challenges that characterised 2022: L-Bank provided businesses in Baden-Württemberg with some EUR 5.9 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.

All L-Bank's actions are based on its statutory public-service mandate. Back in 2013, L-Bank established a Bank-wide sustainability management system and incorporated the sustainable development model into the Bank's business strategy to act as a framework for the Bank's business activities. Since then, L-Bank has been steadily developing its sustainability organisation by pursuing six strategic sustainability goals:

→ To make ESG risks an integral part of our risk profile.
→ To strengthen L-Bank as a sustainable capital-market player.
→ To focus our development products on sustainable development.
→ To transform L-Bank as a whole into a climate-neutral institution.
→ To make sustainability the cornerstone of our corporate culture.
→ To present the Bank's ESG impact holistically and transparently.

In reporting year 2022, L-Bank started to restructure and extend its approach to sustainability management. In autumn 2022, L-Bank's existing sustainability organisation, consisting of the Sustainable Finance Working Group and Sustainability Core Team, was expanded to include a newly created Sustainable Finance Core Team. This team's remit is to progress the integration of ESG criteria into L-Bank's banking and development finance business, especially in key target areas such as development funding, capital market activities and risk management. The Sustainable Finance Working Group acts as a knowledge multiplier, discussion platform and source of inspiration. The Sustainability Core Team will focus more intensively on business operations and employment-related issues.

In reporting year 2022, to flesh out L-Bank's understanding of sustainable development and the definition of strategic sustainability goals, the Bank also developed a Sustainability Strategy for the first time. Starting in 2023, this strategy will replace the previous sustainability guidelines. The new Sustainability Strategy complements and clarifies the Bank's business strategy in respect of sustainable development. Furthermore, the Bank will link this strategy with its digitisation strategy by setting up an independent, multi-year, institutionalised programme structure for integrating ESG data. Establishing an ESG dataset is an indispensable prerequisite for fulfilling new requirements and for advancing the Bank's strategic development.

To focus more intensively on the strategic prioritisation of sustainable, efficient development activities, the Bank continued to develop the established StrategyDIALOGUE strategy review process throughout reporting year 2022. Based on four action areas in the Bank's business strategy, 'Bank as a Whole', 'Development Business', 'Digitisation & Process Optimisation' and 'Corporate Culture', four StrategyBOARDs are tackling strategy-related assignments and ideas with a view to implementation. The start of 2022 saw the launch of the cost strategy's multi-year modernisation programme. The programme aims to secure L-Bank's ability to provide development funding over the long term, create additional scope for necessary investment and counteract cost pressures. In particular, it focuses on real estate and real-estate management, IT management and IT organisation, as well as lending processes.

The state government specifies the basic objectives underlying the Bank's development activities. This is reflected in L-Bank's business strategy and orientation. As a state-owned company, L-Bank is guided by the sustainability strategy of the State of Baden-Württemberg. Within the scope of its own operational discretion, L-Bank's development activities are consistently aligned with the primary issues on which current development policy is focused: sustainability, and the structural transformation currently being 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 are aligned 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.

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 chapter in the annual report. According to the FAQs published by the European Commission on 2 October 2022 and subsequently published in the Official Journal of the European Union, L-Bank, as a public-law institution, does not fall within the scope of the 'EU Taxonomy Regulation' (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, and amending Regulation (EU) 2019/2088).

The disclosures in the non-financial report were subjected to a limited-assurance audit ('engagement') of business operations by auditing firm PricewaterhouseCoopers GmbH in accordance with ISAE 3000 (Revised), and the limited-assurance engagement resulted in an unqualified auditor's opinion. The way in which the content of the non-financial report is structured reflects the relevant legal requirements.

The management approaches mentioned in the report are based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI). These act as the framework for the non-financial report's descriptions of management approaches and the underlying concepts. In an interdisciplinary, multi stage process, various non-financial criteria or 'aspects' (environmental matters; employee-related matters and social matters; respect for human rights; prevention of bribery and corruption) were assessed for their relevance to L-Bank, and the individual components were then reassessed in terms of materiality within the meaning of Section 289c (3) HGB. As part of the materiality analysis, the impact of the coronavirus pandemic on the various non-financial aspects and their individual components was taken into account, and is reflected in the report's assessment of the 2022 fiscal year. An additional aspect specific to L-Bank was also identified. The results are shown in the table below.

NON-FINANCIAL ASPECT	COMPONENTS DEFINED AS MATERIAL PURSUANT TO SECTION 289C (3) HGB
Environmental matters	Ecological value added 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

In fiscal year 2022 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 of the Bank's areas of development activity, as well as the relevant figures, are described in the 'Background' and 'Economic report' sections of the management report. References outside the management report do not form part of this separate non-financial report.

Environmental matters

According to the state constitution, all public institutions in Baden-Württemberg are responsible for protecting the natural environment and its resources for future generations. Climate protection has been firmly embedded in Baden-Württemberg's legislation since 2013.

On 1 February 2023, Baden-Württemberg's state parliament passed the new Baden-Württemberg Climate Protection Act (KSG BW). This law represents the further development of the 2013 law, which was amended in 2020 and 2021. Key elements of the Climate Protection Act are the goals set for 2030 and 2040, which now steer the federal state's climate policies. Over the next few years, the state government intends to transform Baden-Württemberg into Europe's leading climate-friendly region. By steadily reducing emissions, Baden-Württemberg aims to have achieved its goal of net climate (GHG) neutrality by 2040.

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, L-Bank has implemented an integrated environmental management system validated under EMAS and certified to ISO 14001:2015 standard. L-Bank's key environmental indicators are recorded and evaluated annually, validated by an independent environmental auditor, and published in the Bank's environmental statement. EMAS follows a three-year cycle, and in autumn 2022 the Bank successfully passed its revalidation audit. Thanks to the structures that have been put in place, L-Bank has laid the foundations for systematic environmental and climate protection. 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. Each year, and in the first instance retroactively for fiscal year 2020, L-Bank uses GHG emissions certificates to offset aggregated emissions from its business operations – that is to say, L-Bank's carbon footprint – through the Baden-Württemberg Climate Protection Foundation.

L-Bank's carbon footprint amounted to 1,110 tonnes of CO_2 equivalents (CO_{2e}) in 2022, breaking down as follows:

Direct greenhouse-gas emissions (GHG emissions) (Scope 1)	154 t CO_{2e}
Indirect GHG emissions from energy supply (Scope 2)*	708 t CO_{2e}
Other indirect GHG emissions (Scope 3)	249 t CO_{2e}
Total	**1,110 t CO_{2e}**

* District heating was offset against the energy providers' specific emission factors.

The Bank's carbon footprint was calculated using the methodology provided by the Association for Environmental Management and Sustainability in Financial Institutions (Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten e.V. – VfU), as set out in the 2022 version of update 1.1. This system of environmental indicators tracks the material and energy flows that occur in a financial services provider's day-to-day operations over 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 consumption attributable to lessees. Scope 3 includes, for example, GHG emissions from business travel, outsourced activities, 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 in September 2022 – such as the requirement to lower room temperature to 19 degrees Celsius – resulted in energy savings in fiscal 2022.

As part of its business activities, L-Bank uses development programmes to provide investment incentives for reducing CO_2 emissions. These help companies to become more energy-efficient, audit their carbon footprints and/or use renewable energy. Many of L-Bank's housing development products provide direct incentives for energy-efficient construction or eco-friendly renovation. On 1 July 2022, with the aim of embedding climate-friendly business practices across the federal state's economy as a whole, 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 develop or have already developed their own climate strategies are awarded additional interest-rate rebates on loans under the two above-mentioned programmes. When awarding a sustainability bonus, L-Bank works closely with a network of experienced specialists such as RKW Baden-Württemberg GmbH and Steinbeis Beratungszentren GmbH. These expert partners can help companies to prepare the necessary documentary evidence (see also the 'Economic report' section of the management report).

In fiscal 2022, as part of the Bank's venture capital-related activities to provide start-ups with support from the pre-seed through to the growth phase, L-Bank participated for the first time in a venture capital fund that is committed, under its investment strategy, to exclusively financing start-ups that operate sustainably and consequently make a direct or indirect contribution to the environmental goals of the EU Taxonomy. The fund is classified as an impact fund under Article 9 of the Sustainable Finance Disclosure Regulation (SFDR).

Employee-related matters

L-Bank's long-term success depends on the hard work of its 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 overarching approach to corporate governance, L-Bank's personnel strategy is based on the Bank's business strategy. Among other things, it includes areas of responsibility and action, instruments for strategic and operational staff development, the Bank's remuneration and recruitment processes, personnel planning, work-life balance and social welfare.

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 opportunities for 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 family-friendly environment and a good work-life balance. In a ranking of Germany's most family-friendly employers in the banking industry, L-Bank has appeared in the top 10 since 2020. 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 and remote-working options. A work agreement on remote working gives employees the opportunity to respond flexibly to various family matters. Under the remote-working arrangement, employees are paid an allowance for buying additional IT accessories over and above the basic IT equipment (laptop and mouse) to which they are already entitled. The various support services offered by pme Familienservice 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.

As an important part of business planning, personnel planning and recruitment policies are approved by the Board of Management. The business plan calls for even more vigorous recruitment of junior staff by expanding training opportunities for and retaining trainees, students at the Baden-Württemberg Cooperative State University (DHBW) and working students. In addition, L-Bank uses a phased retirement programme to structure the transition from one generation of employees to the next; this makes the planning process more dependable. The additional Covid-related aid programmes implemented over the last three years have required a high degree of flexibility from the workforce. On top of this, additional staff capacity had to be put in place at very short notice. During this process, the Bank took care to ensure that operational necessities were offset by measures for balancing work and family life by, for example, making working hours much more flexible and expanding remote-working options.

L-Bank's employee competencies are managed and further developed by systematic staff development courses based on the 360-degree 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. The design of the staff development programme is discussed and approved by the interdepartmental Personnel Development committee. The committee is a decision-making body that meets as required.

Attractive training schemes are central to L-Bank's development of junior staff. The range of training courses on offer is constantly reviewed and, where necessary, adapted to the Bank's operational circumstances and needs. To deliver this training, L-Bank works closely with DHBW and the Chamber of Industry and Commerce (IHK) in Karlsruhe. L-Bank offers high-school graduates work-study places as students specialising in Business Administration for Banks, Computer Science and Business IT. In addition, L-Bank offers a wide range of training opportunities, including a trainee programme, apprenticeships for aspiring chefs, winemakers and IT specialists, as well as voluntary work and internships.

In 2022, three apprentices and 12 students on work-study courses started training at L-Bank. As at the reporting date, a total of ten apprentices and 32 students on work-study courses were in training at L-Bank. In 2022, for the first time, junior staff were offered special project days covering sustainability – two-day events that gave junior staff the opportunity to focus intensively on a wide variety of sustainability issues and challenges.

In-house talent management is a key element in employees' continuing professional development (CPD). Based on L-Bank's skills profile, the programme opens up a wide variety of CPD options for employees by focusing on their strengths. Employees are given every opportunity to participate in the staff development programme and thus develop new career prospects.

Employees spend a large part of their lives in the workplace, so working conditions have a major impact on their overall physical and mental well-being. The Code of Ethics and Conduct forms the basis for teamwork and collaboration at L-Bank. The code formulates binding principles, values and standards of conduct for all Bank employees. L-Bank fulfils its duty of care by protecting its employees from health hazards arising at work or through work. Occupational health and safety are continuously developed with the active involvement of employees and the Staff Council. The central body is the Occupational Safety Committee, which meets quarterly. The committee discusses any issues arising, agrees corrective actions and monitors their implementation.

Occupational safety measures were supplemented by operational procedures for preventing infection aimed at ensuring employees' health and safety, especially in the first six months of 2022. These procedures were continuously adapted to the progress of the epidemic. Vaccinations can make an important contribution to containing a pandemic and protecting the workforce. At the beginning of the year, staff were once again given the opportunity to be vaccinated against viral diseases by the company doctor.

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

Social matters

L-Bank offers a broad range of social development services, ranging from family benefits to support for entrepreneurship through to support for affordable housing. While 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 contribution system described in the 'Financial performance' section of the management report. Persistently low interest-rate levels require new, forward-looking strategies and instruments if the Bank is to fulfil its statutory development finance mandate.

To make certain that development funding does not distort competition in the commercial sector, L-Bank ensures that all development programmes are implemented in accordance with European Union rules on state aid. Depending on the development programme, L-Bank carries out contract award and state-aid audits as one of the steps in the development finance process. Irrespective of the individual development programme, L-Bank uses documentary evidence to ensure that public funding is used appropriately.

Where loans are issued for business development purposes using the 'borrower's bank' procedure, the commercial bank involved in a given project ensures that funding requirements are met and, once the project has been completed, provides L-Bank with proof that the public funding has been used as intended. L-Bank ensures that the process of extending loans is carried out lawfully by auditing commercial banks on a spot-check basis.

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

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

In the economic system favoured by social market economies, companies are the initiators and facilitators of change and progress. Their entrepreneurial spirit safeguards society's economic prosperity. By using their initiative, they create jobs 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 various stages of development and in every business situation by providing suitable instruments. These extend from debt financing to quasi-equity financing; from equity and sureties through to grants awarded on behalf of the federal state. Furthermore, by building technology parks, the Bank is creating an innovation-friendly environment. Another L-Bank priority is the provision of funding for projects of particular significance for the future viability and competitiveness of Baden-Württemberg's businesses; this includes the Digitisation Premium, which forms part of the state-wide digitisation strategy.

To identify changing needs as early as possible, L-Bank commissions 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. In 2022, the State Prize for Young Companies was awarded for the fourteenth time.

Respect for human rights

Human rights are fundamental rights protecting 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 self-image as a state-owned company. L-Bank's compliance with statutory and legal regulations, coupled with the fact that the Bank's development business is limited to Baden-Württemberg, minimise 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.

The foundations of the German government's Supply Chain Due Diligence Act adopted in 2021 were laid at a much earlier stage, in the form of the National Action Plan on Human Rights (NAP). The new legal framework will play an instrumental role in the further development of L-Bank's human rights due-diligence processes, and has now been embedded as a work package in the Sustainable Finance Working Group's agenda.

The legal basis for the protection of personal data is the General Data Protection Regulation (EU GDPR). This embodies the basic right to informational self-determination: 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. Upon joining L-Bank, every employee is given a mandatory training course in data protection. The Board of Management has appointed a Data Protection Officer. The latter is the main point of contact and source of information for data protection issues, and submits regular reports to the Board of Management. In 2022, there were no data protection incidents that needed to be reported to Baden-Württemberg's State Commissioner for Data Protection, as required by law.

As both employer and contracting authority, L-Bank has an impact on human and labour rights. Freedom of assembly and the right to collective bargaining are fundamental to the protection of workers' rights. Because L-Bank's employees work in Germany, we believe that we comply with and guarantee our employees' rights by complying with Germany's statutory regulations. The State Staff Representation Act governs the representation of employee interests at L-Bank, hence also employees' operational participation. Staff interests are represented by a Central Staff Council, responsible for handling issues at all Bank locations, and by two local Staff Councils, in Karlsruhe and Stuttgart, respectively. Employer and staff representatives work together in a spirit of partnership and trust, in compliance with German legislation and collective bargaining agreements, for the benefit of all employees and to fulfil the duties incumbent upon the council. The Staff Council exercises its rights of participation through co-determination, collaboration and consultation. In addition, the Chair of the Central Staff Council and the two Chairs of the Karlsruhe and Stuttgart Staff Councils sit on L-Bank's Supervisory Board in an advisory capacity, as consulting members. Once the Covid pandemic had subsided in 2022, it once again became possible to hold staff assemblies in Karlsruhe and Stuttgart.

Prevention of bribery and corruption

L-Bank's credibility and success are directly related to the personal integrity and honesty of all individuals acting on behalf of L-Bank. In view of this, a sound and responsible approach to corporate governance is a self-evident component of the Bank's corporate culture. L-Bank has enshrined the Public Corporate Governance Code of the State of Baden-Württemberg in the Bank's in-house rule book by resolutions of both the Board of Management and Supervisory Board, and observes all provisions of the code. L-Bank 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).

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 totally 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 Compliance unit under the structure provided by the Fraud Prevention Working Group.

Our management approach is based on compliance with legal and regulatory requirements. The central unit set up within the Bank to prevent money laundering, terrorist financing and other criminal acts, which forms part of the Compliance unit, enjoys the full support of the Board of Management. The Compliance unit ensures conformance with internal, statutory and regulatory provisions and policies by monitoring compliance with due diligence requirements and other security measures. The Compliance unit reports directly to the Board of Management at departmental level, and all heads of compliance-related functions – such as the Compliance Officer, Money Laundering Officer and Compliance Officer for the purposes of the German Securities Trading Act (WpHG), as well as their corresponding deputies – work out of this department. All internal security measures required under Section 25h KWG in conjunction with Section 6 of the Anti-Money Laundering Act (GwG) have been implemented. Employees who wish to report their suspicions of possible violations of the legal provisions 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 guidelines (policies).

When new recruits join L-Bank, they are given mandatory in-house training on the prevention of money laundering and fraud, securities compliance, data protection and information security. In departments where money laundering is relevant, staff are required to take a supplementary online training course every two years. The Bank monitors participation in these courses. To prevent other criminal acts, staff are given an extended online training course every two years.

Identifying contractual partners pursuant to Section 10 (1) article 1 of the Anti-Money Laundering Act (GwG) is one of the most important aspects of the Bank's general duty of care towards clients. L-Bank has set up the processes and procedures necessary to fulfil this duty of care. Here, L-Bank's business model as a development bank 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 all areas of the Compliance unit's responsibilities, including money laundering and fraud prevention, corporate compliance and securities compliance. The corresponding annual reports on compliance are submitted to the Board of Management once per calendar year. In addition, ad-hoc reports are submitted to the Board of Management if there is any suspicion of serious compliance violations. In short, L-Bank has the resources and internal procedures at its disposal to detect and prevent money laundering operations involving profits from terrorist activities, organised crime or other serious criminal offences.

Client matters

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

The steady progress of L-Bank's digitisation, in line with the needs of both development clients and partners, 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'. As a practical addition to the business strategy, the Bank's digitisation strategy provides a framework for managing the impact, goals and implementation of digitisation. For L-Bank, digitisation is a key strategic principle. L-Bank's digitisation efforts also depend on developments at client level, as well as digital developments by business and joint-venture partners.

In 2022, the Bank introduced a development finance portal, while at the same time further progressing the rollout of a 'Digital Filing' system across departments. Together, these two parameters will enable the Bank to process development funding applications faster and more efficiently. As part of its development mandate, L-Bank also provides information relating to various aspects of development assistance and finance. To do so, the Bank steadily and continuously develops its online presence 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 which relies 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.
→ The Digitisation & Process Optimisation Strategy-BOARD, which acts as the gatekeeper of the Bank's digitisation strategy and suggests appropriate management initiatives.

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

A well-organised business prioritises the reliable and systematic recording, processing and evaluation of complaints, just as L-Bank's philosophy and actions prioritise the provision of excellent service. A systematic complaints management system that fulfils the relevant supervisory requirements meets both objectives. By handling complaints in a structured, transparent way, businesses can often identify both short-term needs for change as well as longer-term opportunities for improvement. The effective management of complaints can also help to moderate the concerns of those in receipt of financial assistance and further improve the business relationship. The Bank's internal processes are governed by L-Bank's written policies and procedures. Maintaining and updating a central register of complaints is another key component of effective complaints management. L-Bank manages a separate register of complaints associated with Covid-related aid programmes. 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.

Karlsruhe, 7 March 2023

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 2022 (hereinafter the 'separate non-financial report') published by Landeskreditbank Baden-Württemberg – Förderbank –, independent public-law institution, Karlsruhe (hereinafter the 'institution').

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

Responsibilities of the legal representatives

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

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

Audit firm independence and quality control

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

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

Independent auditor's responsibilities

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

We conducted our limited-assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the IAASB. This standard requires that we plan and perform the assurance engagement in order to obtain limited assurance about whether any matters have come to our attention that cause us to believe that the institution's separate non-financial report – with the exception of any external sources of documentation or expert opinions mentioned in the separate non-financial report – has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB.

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

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

- Obtaining an understanding of the structure of the institution's sustainability 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.
- Making inquiries of the relevant personnel concerning the materiality analysis and non-financial risks.
- Identifying likely risks of material misstatement in the separate non-financial report.
- Performing an analytical evaluation of selected disclosures in the separate non-financial report.
- Comparing selected disclosures with corresponding data in the annual financial statements and management report.
- Evaluating the presentation of the separate non-financial report.
- Evaluating carbon offset certificates, albeit exclusively with respect to their existence and not in terms of their effect.

Assurance conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the institution's non-financial report for the period from 1 January to 31 December 2022 has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB. We do not express an opinion on the external sources of documentation or expert opinions mentioned in the separate non-financial report.

Restriction of use of this report

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

Frankfurt am Main, 7 March 2023
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

During fiscal year 2022, 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 four meetings during calendar year 2022. The Board members monitored the orderly conduct of the Bank's business in two ordinary and two extraordinary meetings. For this purpose, pursuant to the relevant statutory provisions, and to the policies set down in Bank's articles of association and rules of procedure, the Board of Management regularly briefed the Supervisory Board and its committees on the development of the Bank's business and risk exposure, as well as major and material business transactions, throughout 2022. In the 2022 calendar year, the Board of Management's reports on business development were extended to include a strategy report, distributed to Supervisory Board members on a quarterly basis and informing them of current developments and progress in meeting strategic objectives. Between meetings, urgent decisions were taken by written circular.

Among other issues, the Supervisory Board's digital spring meeting focused on the adoption of the 2021 financial statements, as well as the further development and intensification of the strategy process initiated in 2020. The latter covers key areas such as cost and revenue management, the digitisation of L-Bank and personnel management. The streamlining of business responsibilities initiated in the previous year by reducing the Board of Management to three members formed the basis for further structural adjustments within L-Bank, which were pursued with great determination.

In the Supervisory Board's digital autumn meeting, the members approved L-Bank's business, digitisation, risk and IT strategies, as well as the newly adopted sustainability strategy intended to supplement the existing business strategy. To ensure that the business organisation is properly set up and organised, the Supervisory Board has also adopted eligibility and diversity guidelines, induction and training guidelines, and conflict of interest guidelines. The Supervisory Board also took note of the Bank's development contribution plan, approved the economic plan for 2023, and discussed the results of the questionnaire used for the annual evaluation of the Board of Management pursuant to Section 25d (11) of the German Banking Act (KWG).

The Supervisory Board's two extraordinary meetings were both concerned with discussions of the possible strategic acquisition of an equity interest by L-Bank.

The Risk Committee met four times during the 2022 calendar year to discuss risk reports, as well as the annual reports submitted by the Data Protection Officer and Security Office. The committee also discussed the Bank's strategies and played a close advisory role in the strategy process. In 2022, the members of the Risk Committee were kept informed of the current implementation status of the IT strategy by ongoing briefings.

Between meetings, urgent decisions were taken by written circular.

The Audit Committee met three times in the 2022 calendar year. 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, and also approved the additional services provided by the auditor in 2022.

In addition, the Audit Committee discussed the reports submitted by the Internal Audit and Corporate and Securities Compliance functions, the Money Laundering and Fraud Prevention Officer, and the auditor's follow-up review of audit findings. The Audit Committee also discussed other issues such as IT-related matters and sustainability reporting.

In February 2022, the regular briefings of Risk and Audit Committee members on the impact of the Covid pandemic on the Bank's business development were discontinued. The final briefing on the Covid pandemic's impact on the Bank's business development was issued in January 2022.

The Personnel Committee met twice in the 2022 calendar year and held preliminary discussions on the results of the questionnaire for the annual assessment of the Board of Management pursuant to Section 25d (11) KWG. In addition, the Board of Management reported to the committee on personnel strategy developments.

Between meetings, urgent decisions were taken by written circular.

The Remuneration Control Committee met twice in the 2022 calendar year and took note of the remuneration control report by L-Bank's Remuneration Officer, as well as the annual details of the configuration of the Bank's remuneration systems.

Annual financial statements

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft carried out the statutory annual audit for fiscal year 2022 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 2022 prepared by the Board of Management do not give rise to any objections. Accordingly, in its meeting on 17 April 2023, the Supervisory Board took note of and approved the Bank's annual financial statements for 2022.

The Supervisory Board has also reviewed the separate non-financial report for fiscal year 2022. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was commissioned to carry out an external limited-assurance engagement of the report's content. The auditor's notes on the report were discussed by the Supervisory Board and Audit Committee with the auditor's involvement. On completion of this review, the Supervisory Board concluded that no objection needed be raised to the separate non-financial report for 2022.

Taking account of the profit carried forward from the preceding year, the distributable net profit totalled EUR 43.3 million. The Supervisory Board approved the Board of Management's proposal to allocate EUR 43.0 million of this amount to other retained earnings and to carry forward the remaining amount of EUR 0.3 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)*.

During the reporting period, Ms Susanne Bay (MSP)* resigned her mandate as of 24 January 2022 and Mr Harald Unkelbach resigned his mandate as of 31 December 2022. New members joining the Supervisory Board included Assistant Secretary Annegret Breitenbücher on 18 January 2022 and Mr Felix Herkens (MSP)* on 5 April 2022. After the reporting period, Dr. Jan Stefan Roell also joined the Supervisory Board on 1 January 2023.

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

Stuttgart, 17 April 2023

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 2022

L-Bank Balance Sheet as at 31 December 2022

ASSETS	31.12.2022 EUR	31.12.2022 EUR	31.12.2022 EUR	31.12.2021 EUR
1, CASH RESERVE				
a) cash in hand		15,133.58		16,908.16
b) current balances with central banks thereof: with Deutsche Bundesbank EUR 152,025.06 (EUR 18,343,857,640.41)		152,025.06		18,343,857,640.41
			167,158.64	**18,343,874,548.57**
2, RECEIVABLES FROM BANKS				
a) due on demand		5,519,581.36		14,481,822.19
b) other claims		44,280,392,895.88		24,703,733,34.54
			44,285,912,477.24	**24,718,215,169.73**
3, RECEIVABLES FROM CLIENTS thereof: secured through real-estate liens EUR 4,266,437,560.26 (EUR 4,207,749,604.65) municipal loans EUR 9,275,337,285.51 (EUR 9,327,293,590.00)			**22,042,394,277.83**	**21,570,741,317.26**
4, BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES				
a) money-market instruments				
aa) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 397,073,826.00 (EUR 0.00)		866,976,777.52		0.00
b) bonds and debentures				
ba) from public issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 8,663,765,324.27 (EUR 5,871,015,794.89)	8,800,869,585.64			5,911,863,509.26
bb) from other issuers thereof: eligible as collateral with Deutsche Bundesbank EUR 11,675,685,921.43 (EUR 12,971,891,012.65)	15,580,165,061.71			17,043,063,128.02
		24,381,034,647.35		22,954,926,637.28
			25,248,011,424.87	**22,954,926,637.28**

ASSETS	31.12.2022 EUR	31.12.2022 EUR	31.12.2022 EUR	31.12.2021 EUR
5. SHAREHOLDINGS thereof: in financial institutions EUR 4,166,214.92 (EUR 4,166,214.92)			281,497,665.63	244,420,249.56
6. HOLDINGS IN AFFILIATED COMPANIES			6,909,202.00	11,909,201.00
7. FIDUCIARY ASSETS thereof: fiduciary loans EUR 13,062,896.59 (EUR 15,660,820.87)			13,063,472.13	15,661,396.41
8. INTANGIBLE ASSETS a) licences acquired for consideration, industrial property rights and similar rights and assets, and licences to such rights and assets			1,739,041.30	2,559,346.30
9. TANGIBLE ASSETS			69,409,439.29	72,934,460.29
10. OTHER ASSETS			489,327,710.69	1,020,976,107.99
11. ACCRUALS			788,148,013.75	640,799,964.53
TOTAL ASSETS			93,226,579,883.37	89,597,018,398.92

LIABILITIES	31.12.2022 EUR	31.12.2022 EUR	31.12.2022 EUR	31.12.2021 EUR
1. LIABILITIES TO BANKS				
a) due on demand		4,984,676.63		12,658,736.64
b) with agreed term or notice period		35,721,690,181.10		30,203,725,189.72
			35,726,674,857.73	**30,216,383,926.36**
2. LIABILITIES TO CLIENTS				
a) other liabilities				
aa) due on demand		322,087,690.93		108,987,191.97
ab) with agreed term or notice period		13,698,674,773.97		10,483,895,693.44
			14,020,762,464.90	**10,592,882,885.41**
3. SECURITISED LIABILITIES				
a) notes issued			**36,959,456,804.07**	**42,375,990,320.24**
4. FIDUCIARY LIABILITIES thereof: fiduciary loans EUR 13,062,896.59 (EUR 15,660,820.87)			**13,063,472.13**	**15,661,396.41**
5. OTHER LIABILITIES			**28,480,669.98**	**23,317,104.87**
6. DEFERRALS			**1,457,822,505.58**	**1,502,471,890.69**
7. PROVISIONS				
a) provisions for pensions and similar obligations		462,867,722.00		427,836,203.00
b) tax provisions		100,000.00		100,000.00
c) other provisions		393,959,990.07		371,579,614.52
			856,927,712.07	**799,515,817.52**
8. SUBORDINATED LIABILITIES			**118,435,918.91**	**118,435,918.91**

LIABILITIES	31.12.2022 EUR	31.12.2022 EUR	31.12.2022 EUR	31.12.2021 EUR
9. PARTICIPATION CAPITAL			**110,643,750.00**	**110,643,750.00**
10. FUND FOR GENERAL BANKING RISKS			**790,000,000.00**	**740,000,000.00**
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		1,803,000,000.00		1,765,000,000.00
d) net profit		43,308,938.31		38,712,598.82
			3,144,311,728.00	**3,101,715,388.51**
TOTAL LIABILITIES			**93,226,579,883.37**	**89,597,018,398.92**

1. CONTINGENT LIABILITIES				
a) liabilities from sureties and guarantee contracts			**256,489,608.52**	**263,819,570.28**
2. OTHER COMMITMENTS				
a) irrevocable lending commitments			**5,277,747,885.31**	**4,533,479,888.44**

L-Bank Statement of Income for the Fiscal Year 1 January to 31 December 2022

		2022 EUR	2022 EUR	2022 EUR	2021 EUR
1.	INTEREST INCOME FROM				
	a) lending and money market transactions	783,913,735.17			609,293,567.92
	b) fixed-income securities and debt-register claims	458,718,485.66			412,683,521.32
			1,242,632,220.83		1,021,977,089.24
2.	INTEREST EXPENSES		990,831,607.57		833,550,069.43
				251,800,613.26	**188,427,019.81**
3.	CURRENT INCOME FROM				
	a) shareholdings			**1,809,865.80**	**1,905,965.19**
4.	COMMISSION INCOME			**122,371,037.38**	**112,896,847.84**
5.	COMMISSION EXPENSES			**2,979,732.32**	**5,978,511.88**
6.	OTHER OPERATING INCOME			**6,776,029.35**	**7,274,875.04**
7.	GENERAL ADMINISTRATIVE EXPENSES				
	a) personnel expenses				
	aa) wages and salaries	90,810,336.21			88,740,216.29
	ab) social security contributions and expenses for pensions and other benefits thereof: for pensions EUR 30,183,594.33 (EUR 12,745,627.09)	46,271,215.70			27,584,054.56
			137,081,551.91		116,324,270.85
	b) other administrative expenses		126,216,360.76		106,543,086.13
				263,297,912.67	**222,867,356.98**
8.	WRITE-DOWNS AND VALUATION ADJUSTMENTS ON INTANGIBLE ASSETS AND TANGIBLE ASSETS			**6,557,588.31**	**6,705,472.92**

	2022 EUR	2021 EUR
9. OTHER OPERATING EXPENSES	21,052,453.28	21,094,400.15
10. WRITE-DOWNS AND VALUATION ADJUSTMENTS ON RECEIVABLES AND CERTAIN SECURITIES AS WELL AS ADDITIONS TO PROVISIONS FOR LOAN LOSSES	968,393.55	18,473,607.20
11. INCOME FROM REVALUATION OF RECEIVABLES AND SELECTED SECURITIES AS WELL AS FROM REVERSALS OF LOAN-LOSS PROVISIONS	5,373,729.39	42,647,704.43
12. ADDITIONS TO FUND FOR GENERAL BANKING RISKS	50,000,000.00	40,000,000.00
13. INCOME FROM ORDINARY BUSINESS ACTIVITIES	43,275,195.05	38,033,063.18
14. TAXES ON INCOME AND EARNINGS	496,542.71	519,434.20
15. OTHER TAXES NOT STATED UNDER ITEM 9	182,312.85	181,621.13
16. NET INCOME	42,596,339.49	37,332,007.85
17. PROFIT CARRIED FORWARD FROM PREVIOUS YEAR	712,598.82	1,380,590.97
18. NET PROFIT	43,308,938.31	38,712,598.82

L-Bank Cash Flow Statement for the Fiscal Year 1 January to 31 December 2022

	01.01–31.12.2022 EURk	01.01–31.12.2021 EURk
Net profit/loss for the period	42,596	37,332
Amortisation, valuation adjustments and write-ups on receivables, including contingent liabilities and securities	66,704	60,247
Depreciation/amortisation, valuation adjustments and write-ups on tangible assets and intangible assets	6,558	6,706
Amortisation, valuation adjustments and write-ups on financial assets (excluding securities)	3,700	–1,696
Change in provisions (excluding loan-loss provisioning)	160,962	178,213
Profit/loss on the disposal of financial assets	–14,174	–40,352
Other adjustments (net)	45,383	–169,084
Change in receivables from banks	–19,565,949	3,486,836
Change in receivables from clients	–514,992	1,300,593
Change in securities	–2,300,701	2,536,436
Change in other assets from operating activities	386,897	–903,819
Change in liabilities to banks	5,510,291	1,403,959
Change in liabilities to clients	3,427,880	459,721
Change in securitised liabilities	–5,416,534	2,554,227
Change in other liabilities from operating activities	–113,131	–1,787,808
Net interest income	–251,801	–188,427
Income tax charges	497	519
Interest and dividend payments received	1,394,015	1,223,163
Interest paid	–1,187,597	–865,651
Income tax payments	–497	–519
Cash flow from operating activities	**–18,319,893**	**9,290,596**
Proceeds from the disposal of financial assets	30,303	72,999
Disbursements for investments in financial assets	–51,906	–27,338
Disbursements for investments in tangible assets	–1,358	–3,141
Disbursements for investments in intangible assets	–854	–772
Cash flow from investment activities	**–23,815**	**41,748**
Cash flow from financing activities	**0**	**0**
Cash and cash equivalents at start of period	18,343,875	9,011,531
Cash flow from operating activities	–18,319,893	9,290,596
Cash flow from investment activities	–23,815	41,748
Cash flow from financing activities	0	0
Cash and cash equivalents at end of period	**167**	**18,343,875**

L-Bank Statement of Changes in Equity as at 31 December 2022

		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 31.12.2020	**250,000**	**1,048,003**	**1,715,000**	**2,763,003**	**51,381**	**3,064,383**
Transfer to reserves			50,000	50,000	–50,000	0
Net income for the year					**37,332**	**37,332**
Balance as at 31.12.2021	**250,000**	**1,048,003**	**1,765,000**	**2,813,003**	**38,713**	**3,101,715**
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**

Notes to the Annual Financial Statements of L-Bank as at 31 December 2022

GENERAL PRINCIPLES

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

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

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

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

ACCOUNTING AND VALUATION METHODS

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

Financial assets and liabilities

Cash reserves and receivables from banks and clients are 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 (since 2022, the term 'portfolio loan-loss provisions' is no longer in use) and a provision for general banking risks in accordance with Section 340f HGB are set up for non-impaired exposures. The generalised valuation adjustments are measured on the basis of historical losses for homogeneous portfolios. General loan-loss provisions are based on expected losses.

Current risk factors are taken into account; the impacts of uncertainties resulting from the Russian war on Ukraine and the coronavirus pandemic 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. During the reporting year, the method for calculating general loan-loss provisions was refined to comply with the requirements of IDW RS BFA Opinion 7; this did not result in material changes to the levels of general loan-loss provisions (including former portfolio loan-loss provisions). 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 in value may be permanent, extraordinary write-downs are made. Minor-value assets are combined in an annual summary item and depreciated over five years. Individually capitalised assets are depreciated on a straight-line basis over their assumed useful lives. The useful lives are generally derived from the tax depreciation tables.

Provisions

Provisions for pensions and similar obligations are determined according to actuarial principles using Professor Dr. Heubeck’s RT 2018 G mortality tables. The projected unit credit (PUC) method is used for valuation purposes. Future wage and salary adjustments are included in the calculation, based on a projected average increase of 2% p.a.; future pension adjustments are also included, based on an increase of 2% (2021: 1.6% or 2%).

Pursuant to the specifications of Section 253 (2) clauses 1 and 2 HGB, provisions are discounted at the average market interest rate over the last ten fiscal years, assuming a residual term of 15 years. The rate of interest applied is 1.78% (2021: 1.87%). 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 30 million as at 31 December 2022 (2021: EUR 43 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 15 million (2021: EUR 40 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 2022, totalling EUR 106 million, EUR 75 million was utilised. The remaining balance was carried forward to the following year, increasing the development fund available for the 2023 fiscal year to EUR 111 million in total. On 31 December 2022, L-Bank made a provision of EUR 80 million to cover its obligation to pay out development contributions in fiscal year 2024.

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	66,406
Other operating expenses	13,594
Total	**80,000**

Currency translation

Currency translation is carried out according to the provisions of Section 256a in conjunction with Section 340h HGB, as well as IDW RS BFA Opinion 4. The initial valuation of assets and liabilities denominated in foreign currencies is carried out at acquisition cost, translated into EUR without affecting profit or loss. As at the balance sheet date, assets and liabilities denominated in foreign currencies as well as pending foreign-exchange cash transactions are translated at the mean spot rate on 30 December 2022. 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 assets'.

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

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

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

Treatment of hedging transactions

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

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

Hedged transactions in micro hedges within the meaning of Section 254 HGB are presented in the table below. Where applicable, the stated book values have been translated into EUR at the mean spot rate on 30 December 2022.

Underlying transaction in micro hedge	Book value in EURk	of which interest-rate risk	of which currency risk
Assets	–	–	–
Liabilities	2,487,089	2,377,250	109,839
Total	**2,487,089**	**2,377,250**	**109,839**

The underlying (hedged) transactions are offset by micro swaps with a market value of EUR –416.4 million.

BREAKDOWN OF SELECTED BALANCE SHEET ITEMS BY TIME TO MATURITY OR CALL	31.12.2022 EURk	31.12.2021 EURk
RECEIVABLES FROM BANKS		
due on demand	5,520	14,482
up to three months	23,721,491	2,919,030
more than three months and up to one year	2,522,394	3,349,800
more than one year and up to five years	8,012,071	7,936,053
more than five years	10,024,437	10,498,850
RECEIVABLES FROM CLIENTS		
up to three months		747,849
more than three months and up to one year	879,822	642,935
more than one year and up to five years	4,555,556	3,804,405
more than five years	15,860,490	16,375,552
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
maturing in the following year	3,667,918	2,065,873
LIABILITIES TO BANKS		
due on demand	4,985	12,659
up to three months	4,705,200	2,372,530
more than three months and up to one year	8,655,678	1,899,035
more than one year and up to five years	9,320,307	12,796,444
more than five years	13,040,505	13,135,716
LIABILITIES TO CLIENTS		
due on demand	322,088	108,987
up to three months	8,233,044	5,039,169
more than three months and up to one year	108,647	41,517
more than one year and up to five years	422,423	586,580
more than five years	4,934,561	4,816,630
SECURITISED LIABILITIES		
maturing in the following year	18,074,324	24,922,815

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2022 EURk	31.12.2021 EURk
RECEIVABLES FROM BANKS		
This item comprises: – receivables from companies in which an equity interest is held	30,021	107,985
RECEIVABLES FROM CLIENTS		
This item comprises: – receivables from affiliated companies	67,990	47,565
– receivables from companies in which an equity interest is held	84,394	70,268
BONDS, DEBENTURES AND OTHER FIXED-INCOME SECURITIES		
This item comprises: – receivables from companies in which an equity interest is held	1,715,267	1,715,267
The marketable securities in this item break down as follows: – listed	24,253,791	22,826,877
– unlisted	994,220	128,050
Securities with a book value (excluding prorated interest accrued) of EUR 24,064,181,000 are assigned to investment assets. Of these, securities with a book value of EUR 21,585,462,000 have a market value of EUR 18,760,449,000. No amortisation has been applied to these items, as short-term market fluctuations are not taken into account due to the intention to hold these assets on a long-term basis. 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: – listed	0	0
FIDUCIARY ASSETS		
This item breaks down as follows: – receivables from banks	12,961	15,524
– receivables from clients	101	137
– other assets	1	1
TANGIBLE ASSETS		
This item comprises: – plots and buildings used for the Bank's own activities	62,891	65,058
– plant and office equipment	6,446	7,802

EXPLANATIONS OF INDIVIDUAL BALANCE SHEET ITEMS	31.12.2022 EURk	31.12.2021 EURk
ACCRUALS – ASSETS		
– Difference between disbursement amount or acquisition cost and lower nominal value of receivables	387,495	453,152
– Difference between issue price and higher repayable amount of liabilities	62,477	30,267
FIDUCIARY LIABILITIES		
Fiduciary liabilities break down into – liabilities to banks	24	58
– liabilities to clients	13,038	15,603
– other liabilities	1	1
DEFERRALS – LIABILITIES		
– Difference between disbursement amount or acquisition cost and higher nominal value of receivables	355	407
– Difference between issue price and lower repayable amount of liabilities	104,922	93,417
SUBORDINATED LIABILITIES AND PARTICIPATION CAPITAL		
– Interest expenses on subordinated liabilities	2,849	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	40,000	2.265	14.11.2023
EUR	20,000	2.265	14.11.2023

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

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

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

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

A retroactive limitation of the subordination, or of the original term (at least five years) or 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	31.12.2022 EURk	31.12.2021 EURk
OTHER ASSETS		
– Balancing item from currency translation	438,803	966,260
– Receivables from swaps	28,658	33,435
– Works of art	11,638	11,644
PREPAYMENTS AND ACCRUALS		
– Single payments made in advance for swaps	328,552	148,518
OTHER LIABILITIES		
– Liabilities from occupational pension scheme	14,552	10,432
– Single (bullet) repayments on swaps	7,592	7,210
DEFERRALS		
– Single payments received in advance for swaps	1,277,017	1,350,863
– Contributions to administrative expenses received in advance	74,778	57,416
PROVISIONS		
under other provisions: – Provisions for development funds	191,499	186,288
– Provisions for development contributions already made	41,450	39,988
INTEREST INCOME		
– Negative interest from financial investments	73,704	98,365
INTEREST EXPENSES		
– Negative interest from borrowing	80,721	66,792
COMMISSION INCOME		
– Income from other services	118,845	108,543
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	31.12.2022 EURk	31.12.2021 EURk
GENERAL ADMINISTRATIVE EXPENSES		
Other administrative expenses include auditor's fees (excluding sales tax): – for year-end auditing services	492	428
– for other auditing services	85	85
Other auditing services include the audits pursuant to Section 89 (1) of the German Securities Trading Act (WpHG), the limited-assurance engagement related to the non-financial report and the audit of deductions pursuant to Section 16j (2) of the Act Establishing the Federal Financial Supervisory Authority (FinDAG).		
OTHER OPERATING EXPENSES		
– Addition to the provision for development funds	13,594	12,081
TOTAL VALUE OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES		
– Assets	4,242,307	4,410,496
– Liabilities	27,234,275	35,411,498
The exchange-rate risk from foreign-exchange balance sheet items is essentially covered by off-balance sheet hedging transactions. Currency translation produced: other operating expenses in the amount of	29	21

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 7,980 million (2021: EUR 6,874 million) were deposited with Deutsche Bundesbank. As at 31 December 2022, securities totalling EUR 3,733 million had been credited in the course of open-market transactions (2021: EUR 3,733 million). Securities in the amount of EUR 2,145 million (2021: EUR 1,056 million) were deposited in respect of membership of EUREX (the electronic derivatives exchange). Of this amount, EUR 1,369 million had been utilised as at 31 December 2022 (2021: EUR 578 million). In addition, securities totalling EUR 282 million (2021: EUR 629 million) were transferred for repo transactions and another EUR 177 million (2021: none) for initial margin transactions.

As collateral for OTC transactions, the Bank posted cash surety bonds totalling EUR 1,437 million (2021: EUR 3,638 million), reported under receivables from banks or clients.

OTHER FINANCIAL COMMITMENTS

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

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

DERIVATIVE TRANSACTIONS

As at the balance sheet date, L-Bank had concluded the derivative transactions (forward transactions within the meaning of Section 36 RechKredV) listed below. They are used as hedges against interest-rate and 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 31.12.2022	Nominal values 31.12.2021	Market values positive 31.12.2022	Market values negative 31.12.2022	Market values positive 31.12.2021	Market values negative 31.12.2021
INTEREST-RATE RISKS						
Interest-rate swaps	76,042	69,618	6,068	–3,329	1,774	–5,298
Interest-rate risks – total	**76,042**	**69,618**	**6,068**	**–3,329**	**1,774**	**–5,298**
CURRENCY RISKS						
Forward currency contracts/ swaps	11,334	18,993	4	–332	710	–5
Currency swaps/cross-currency interest-rate swaps	19,124	19,574	581	–677	507	–1,037
Currency risks – total	**30,458**	**38,567**	**585**	**–1,009**	**1,217**	**–1,042**

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 439 million are due to changes in spot exchange rates. A balancing item from currency translation was set up in this amount on the assets side and stated under 'Other assets'. If individual swap contracts include bullet payments, these are reported under 'Other assets' or 'Other liabilities'. Any advance payments are included in 'Accruals'.

Interest-rate swaps in the non-trading portfolio (bank book) are used primarily to control total interest-rate exposure and show a net positive market value of EUR 2,739 million as at 31 December 2022. These interest-rate swaps are not valued in the balance sheet.

DERIVATIVE TRANSACTIONS – BY COUNTERPARTY

in EUR millions	Nominal values 31.12.2022	Nominal values 31.12.2021	Market values positive 31.12.2022	Market values negative 31.12.2022	Market values positive 31.12.2021	Market values negative 31.12.2021
Banks in the OECD	106,500	107,263	6,653	–4,338	2,906	–6,256
Other counterparties (including stock-exchange transactions)	–	922	–	–	85	–84
Total	**106,500**	**108,185**	**6,653**	**–4,338**	**2,991**	**–6,340**

DERIVATIVE TRANSACTIONS – BY TERM

Nominal values in EUR millions	Interest-rate risks 31.12.2022	Interest-rate risks 31.12.2021	Currency risks 31.12.2022	Currency risks 31.12.2021
RESIDUAL MATURITIES				
– up to three months	2,097	1,245	11,562	16,159
– more than three months and up to one year	5,681	4,200	4,280	7,677
– more than one year and up to five years	27,487	27,023	10,997	11,392
– more than five years	40,777	37,150	3,619	3,339
Total	**76,042**	**69,618**	**30,458**	**38,567**

There are no trading transactions.

VALUING DERIVATIVE FINANCIAL INSTRUMENTS

The market valuation of derivatives is based on market data as at 31 December 2022, 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	36,498	901
2	Baden-Württemberg International – Gesellschaft für internationale wirtschaftliche und wissenschaftliche Zusammenarbeit mbH	Stuttgart	24.00	3,362	–6,204
3	Below One Fund I GmbH & Co. KG	Hamburg	3.36	6,926	–477
4	BWK GmbH Unternehmensbeteiligungsgesellschaft	Stuttgart	10.00	227,901	20,982
5	DBAG Expansion Capital Fund GmbH & Co. KG	Frankfurt	21.77	9,704	27,854
6	European Investment Fund	Luxembourg	0.18	3,974,049	564,357
7	Landesbeteiligungen Baden-Württemberg GmbH	Stuttgart	12.14	818,861	40,528
8	LEA Mittelstandspartner GmbH & Co. KG	Karlsruhe	25.00	142,253	153,989
9	LEA Mittelstandspartner II GmbH & Co. KG	Karlsruhe	20.85	**	**
10	LEA Mittelstandspartner Annex Fonds	Karlsruhe	25.00	**	**
11	LEA Venturepartner Annex GmbH & Co. KG	Karlsruhe	48.00	**	**
12	LEA Venturepartner GmbH & Co. KG	Karlsruhe	49.00	31,303	–4,066
13	LEA Venturepartner II GmbH & Co. KG	Karlsruhe	48.00	**	**
14	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH	Stuttgart	26.80	92,210	8,859
15	Selbca Holding GmbH	Berlin	36.55	5,683	–190
16	StEP Stuttgarter EngineeringPark GmbH	Stuttgart	100.00	14,813	–577
17	Strohheker Holding GmbH	Pforzheim	49.50	–80	808
18	Technologiepark Karlsruhe GmbH	Karlsruhe	96.00	51,442	24,165
19	Technologiepark Mannheim GmbH	Mannheim	100.00	4,228	–123
20	Technologieparks Tübingen-Reutlingen GmbH	Tübingen	100.00	17,615	1,949

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

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

STATEMENT OF CHANGES IN FIXED ASSETS

Fixed assets Balance sheet items	Acquisition costs 01.01.2022 EURk	Add-itions EURk	Retire-ments EURk	Transfers EURk	Write-ups, cumulative EURk	Depreciation/ amortisation, cumulative EURk	Book value 31.12.2022 EURk	Annual depreciation/ amortisation for 2022 EURk	Annual write-ups for 2022 EURk
Bonds, debentures and other fixed-interest securities	23,783,877	Net change pursuant to Section 34 (3) clause 2 RechKredV: 213,120					24,064,181	–	–
Shareholdings	338,159						281,498	–	1,300
Holdings in affiliated companies	17,432						6,909	–5,000	–
Intangible assets	35,221	854	–32	–	–	–34,304	1,739	–1,674	–
Tangible assets	197,485	1,358	–512	–	–	–128,922	69,409	–4,884	–
Other assets	13,148	–	–	–	–	–1,510	11,638	–7	–

Depreciation/amortisation	01.01.2022	Addition	Write-up	Transfer	Retirement	31.12.2021
Intangible assets	32,662	1,674	–	–	32	34,304
Tangible assets	124,550	4,884	–	–	512	128,922
Other assets	1,503	7	–	–	–	1,510

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

Remuneration paid to members of the Board of Management for 2022 in EURk[1)]

Name	Membership period	Fixed remuneration	Other non-cash benefits	Payments from third parties in relation to Board of Management activities	Total
Edith Weymayr Chair	01.01–31.12	600	11	14	626
Dr. Iris Reinelt	01.01–31.12	445	14	9	468
Johannes Heinloth	01.01–31.12	445	28	9	482
Total		**1,490**	**53**	**33**	**1,576**

[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 2022 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	1.5	24.5
Dr. Nicole Hoffmeister-Kraut[2)] 1st Vice-Chair	01.01–31.12	7.5	5.9	1.1	14.5
Nicole Razavi[2)] 2nd Vice-Chair	01.01–31.12	7.5	2.4	1.1	11.0
Susanne Bay	01.01–24.01	0.4			0.4
Annegret Breitenbücher	18.01–31.12	5.7	4.1	0.9	10.7
Dr. Jürgen Bufka	01.01–31.12	6.0		0.8	6.8
Claudia Diem	01.01–31.12	6.0	8.1	1.4	15.5
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	05.04–31.12	4.4		0.6	5.0
Roger Kehle	01.01–31.12	6.0		0.6	6.6
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	1.2	9.6
Rainer Reichhold	01.01–31.12	6.0		0.5	6.5
Harald Unkelbach	01.01–31.12	6.0	2.4	1.1	9.5
Joachim Walter	01.01–31.12	6.0		0.6	6.6
Barbara Bender-Wieland	01.01–31.12	6.0		0.6	6.6
Thomas Dörflinger	01.01–31.12	6.0		0.6	6.6
Clemens Meister	01.01–31.12	6.0		0.6	6.6
Total		**112.5**	**58.1**	**16.7**	**187.3**

[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

	31.12.2022 EURk	31.12.2021 EURk
– Payments to former members of the Board of Management or their surviving dependants	1,363	1,678
– Pension provisions for former members of the Board of Management and their surviving dependants	26,126	26,569

LOANS TO ADMINISTRATIVE BODIES (INCLUDING CONTINGENT LIABILITIES)

	31.12.2022 EURk	31.12.2021 EURk
Supervisory Board	–	5

All loans bear interest at market rates.

NUMBER OF EMPLOYEES (ANNUAL AVERAGE)

	Male	Female	Total
Employees*	593	793	1,386
of whom: full-time employees	524	444	968
of whom: part-time employees	69	349	418

* 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, Germany	Member of the Supervisory Board

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

JOHANNES HEINLOTH, MEMBER OF THE BOARD OF MANAGEMENT	
Hypo Vorarlberg Bank AG, Bregenz, Austria	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, 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

Susanne Bay MSP*
Vice-Chair of Alliance 90/ The Greens parliamentary group, Baden-Württemberg State Parliament
until 24.01.2022

Annegret Breitenbücher
Assistant Secretary, Baden-Württemberg Ministry of State
since 18.01.2022

Dr. Jürgen Bufka
Managing Director, Amber Infrastructure GmbH

Claudia Diem
Member of Executive Board, Baden-Württembergische Bank

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
since 05.04.2022

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

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

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

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

Harald Unkelbach
Chair of the Executive Board, Würth Foundation

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 2022.

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 2022, totalling EUR 43,308,938.31, an amount of EUR 43,000,000.00 should be allocated to other retained earnings and the remaining amount of EUR 308,938.31 carried forward to the current fiscal year.

Karlsruhe, 7 March 2023

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 2022

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, 7 March 2023

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 (hereinafter the 'Company'), comprising the balance sheet as at 31 December 2022, income statement, cash flow statement and statement of changes in equity for the fiscal year from 1 January to 31 December 2022, 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 2022.

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

→ the accompanying annual financial statements comply, in all material respects, with German commercial law and, in accordance with German accepted accounting principles, give a true and fair view of the net assets and financial position of the Company as at 31 December 2022, and of its financial performance for the fiscal year from 1 January to 31 December 2022, and

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

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

Basis for the audit opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the annual financial statements as a whole and in the preparation of our opinion thereon; we do not express a separate audit opinion on these matters.

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

1. Loan-loss provisions in client lending business

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

1. Matter and issue

2. Auditing procedure and findings

3. Reference to further information

We present the key audit matter below:

1. Loan-loss provisions in client lending business

1. Landeskreditbank Baden-Württemberg – Förderbank is the development bank of the German federal state of Baden-Württemberg. Its business activities are governed by its statutory remit, namely to support the state government of Baden-Württemberg in the fulfilment of its public duties, especially in terms of structural, economic and social policy, by implementing development initiatives in accordance with European Union (EU) rules on state aid. It provides this support mainly by issuing low-interest loans and grants. As at 31 December 2022, loan receivables in the amount of EUR 22,042.4 million (23.6% of total assets) were reported under the balance sheet item 'Receivables from clients' in the Company's annual financial statements. As at 31 December 2022, the balance sheet showed a loan-loss provision for the loan portfolio consisting of specific and general valuation adjustments. The measurement of loan-loss provisions in client lending business is determined in particular by the structure and quality of the loan portfolio, macroeconomic factors and the legal representatives' assessment of future credit defaults, not least in view of the anticipated impact of macroeconomic trends on client lending business. Specific valuation adjustments for receivables from clients are equal in amount to the difference between the outstanding loan amount and its lower fair value at the reporting date. Existing collateral is taken into account. In the year under review, general valuation adjustments relating to foreseeable counterparty risks in banks' lending business which have not yet been quantified for individual borrowers have, for the first time, been made by applying the principles of IDW RS BFA Opinion 7. In setting up loan-loss provisions, L-Bank has set up post-model provisions (management adjustments) in the general valuation adjustment. These represent a response to the increased latent credit risk associated with the direct and indirect consequences of the Russia-Ukraine war, as well as the after-effects of the coronavirus pandemic, in line with the principle of prudence enshrined in commercial law. In terms of the amounts involved, the valuation adjustments in client lending business are highly significant for the Company's net assets and financial performance, and also associated with considerable scope for discretion on the part of the legal representatives. Furthermore, the valuation parameters applied, subject as they are to material uncertainties, exert a significant influence on the recognition and amounts of any valuation adjustments that may be required. In light of these facts, this matter was especially important in the context of our audit.

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

As part of this process, we also assessed the correct first-time application of IDW RS BFA Opinion 7 to the general valuation adjustments. Furthermore, in order to evaluate the specific and general valuation adjustments, we scrutinised the calculation methods as well as the underlying assumptions and parameters. When doing so, we paid particular attention to scrutinising the legal representatives' assessment of the impact of macroeconomic trends on borrowers' financial circumstances. We examined the need to set up the post-model provisions (management adjustments) and verified the reasoning behind these adjustments. Based on the audit procedures we performed, we were able to satisfy ourselves overall of the appropriateness of the assumptions made by the legal representatives when testing the loan portfolio for impairment, and of the appropriateness and effectiveness of the controls implemented by the Company.

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

Other information

The legal representatives are responsible for the other information provided.

The other information includes:

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

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

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

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

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

→ otherwise appears to be materially misstated.

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

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

In preparing the annual financial statements, the legal representatives are responsible for assessing the Company's ability to continue as a going concern and disclosing, as applicable, matters related to the Company's viability as a going concern. In addition, they are responsible for financial reporting on the basis of the going-concern accounting principle, unless factual or legal considerations indicate otherwise.

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

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

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

Our objectives are, first, to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement as a result of fraud or error, and whether the management report as a whole appropriately reflects the position of the Company; 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 the 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 Company.

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, as well as significant audit findings, including any 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).

Assurance conclusion

In accordance with Section 317 (3a) of the German Commercial Code (Handelsgesetzbuch (HGB)), we have performed a reasonable assurance engagement to determine whether the renderings of the annual financial statements and management report (hereinafter also referred to as 'ESEF documents') contained in the data file L-Bank_JA+LB_ESEF-2022-12-31.zip and prepared for disclosure purposes comply in all material respects with the requirements of Section 328 (1) HGB regarding the electronic reporting format ('ESEF format'). In accordance with German statutory provisions, this assurance engagement only covers the conversion of the information contained in the annual financial statements and management report into the ESEF format, and consequently does not cover either the information contained in these renderings, or any other information contained in the above-mentioned data file.

In our opinion, the renderings of the annual financial statements and management report contained in the above-mentioned data file and prepared for disclosure purposes comply, in all material respects, with the electronic reporting format requirements of Section 328 (1) HGB. We do not express any opinion whatsoever on the information contained in these renderings or any other information contained in the above-mentioned data file other than this opinion and our opinions on the accompanying financial statements and management report for the fiscal year from 1 January to 31 December 2022 contained in the preceding 'Report on the Audit of the Financial Statements and the Management Report'.

Basis for the assurance conclusion

We conducted our assurance engagement pertaining to the renderings of the annual financial statements and management report contained in the above-mentioned data file in accordance with Section 317 (3a) HGB and in compliance with the IDW Auditing Standard: Audit of Electronic Renderings of Financial Statements and Management Reports Prepared for Disclosure Purposes in Accordance with Section 317 (3a) of the German Commercial Code (HGB) (Prüfung der für Zwecke der Offenlegung erstellten elektronischen Wiedergaben von Abschlüssen und Lageberichten nach § 317 Abs. 3a HGB (IDW PS 410 [06.2022])) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility under the standard is further described in the section 'Auditor's responsibilities for the assurance of the ESEF documents'. Our auditing practice applied the requirements of IDW Quality Assurance Standard 1: Requirements for Quality Assurance in Auditing Practice (Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)).

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

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

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

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

Auditor's responsibilities for the assurance of the ESEF documents

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

→ Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether 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 data file containing the ESEF documents complies with the requirements of Commission Delegated Regulation (EU) 2019/815, as amended at the reporting date, regarding the technical specification for that data file.

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

Further information pursuant to Article 10 of the EU Audit Regulation

We were appointed statutory auditor by the Supervisory Board on 25 April 2022. We were engaged by the Chair of the Supervisory Board on 13 December 2022. We have served as the statutory auditor of Landeskreditbank Baden-Württemberg – Förderbank – Karlsruhe without interruption since fiscal year 2015.

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

NOTE ON ANOTHER MATTER – USE OF THE AUDIT OPINION

Our audit opinion should always be read in conjunction with the audited annual financial statements and the audited management report, as well as the assured ESEF documents. The annual financial statements and management report converted to the ESEF format – including the versions to be filed in 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 'Report on the assurance of the electronic renderings of the annual financial statements and management report prepared for disclosure purposes in accordance with Section 317 (3a) HGB' and our assurance conclusion expressed therein should be used solely in conjunction with the assured ESEF documents provided in electronic form.

INDEPENDENT AUDITOR RESPONSIBLE

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

Stuttgart, 7 March 2023
PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Digitally signed by Peter Schüz Public Auditor	Digitally signed by pp. Alexander Gießler Public Auditor