Investitionsbank des Landes Brandenburg ILB

Management Report 2021
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I Fundamentals of Investitionsbank des Landes Brandenburg

1. Business model

1.1 Basis of business activities

Investitionsbank des Landes Brandenburg (ILB or “bank“) is the central business promotion institution of the federal state of Brandenburg and in this capacity supports the implementation of business development policy in Brandenburg. The ILB law and ILB’s articles of association determine the framework for ILB’s activities and form the basis for all ILB’s business which directly or indirectly serves the implementation of the bank’s statutory task as a business development institution. The bank is authorised to issue official administrative decisions as an approval authority. The bank is supervised by Germany’s Federal Financial Supervisory Authority (BaFin) and by the Ministry of Finance and for Europe of the State of Brandenburg (supervisory authority).

Pursuant to the ILB law, the bank bears public-sector responsibility and guarantor’s liability and is protected by a federal-state guarantee issued by the federal state of Brandenburg. Pursuant to its articles of association, ILB conducts its business according to commercial principles whilst at the same time respecting the common interest and strict competition neutrality.

The federal state of Brandenburg and NRW.BANK each hold a 50% stake in the bank.

1.2 Mission

As the business promotion bank of the federal state of Brandenburg, ILB supports public and private investment projects in Brandenburg in the fields of business, employment, infrastructure and housing construction, thereby promoting successful and sustainable economic development in the region.

In its capacity as an intermediary for the federal state of Brandenburg, ILB approves funds from the ERDF (European Regional Development Fund), the ESF (European Social Fund) and from the EAFRD (European Agricultural Fund for Rural Development) in the federal state of Brandenburg. The bank’s business management duties involve a wide range of tasks, such as consultancy services, application processing, preparation of proposals for funding committees, approval and disbursement of funds, comprehensive documentation and reporting obligations, verification of fund application documentation as well as the further development of guidelines.

Furthermore, ILB is entrusted with the administration of the trust funds assigned to it by the federal state of Brandenburg and with the formation and management of special funds. In this context, the bank manages in trust the housing assets of the federal state of Brandenburg (LWV), guarantees in housing construction and promotional measures under the film promotion fund of the federal states of Berlin and Brandenburg.

1.3 Aims of the business activities of ILB

ILB’s aim is to act as an independent, trusted and sustainable partner for its clients in order to support the successful development of the region and its people in all business promotion projects and issues.

To achieve this, ILB is continuously developing and improving its range of services. The central goal is to ensure long-term fulfilment of ILB’s business development mission pursuant to its articles of association and the ILB law. ILB is active in the following business fields:

- In the **business field of federal-state promotional programmes**, ILB implements promotional programmes on behalf of the ministries of the federal state of Brandenburg. ILB acts as a service provider for the federal state. ILB's mission is to serve the federal-state ministries with efficient and high-quality handling of promotional programmes for the federal state. At the same time, ILB strives to meet its clients' needs for simple and digital application procedures as well as service-orientated advice and application processing.
- In the **business field of ILB promotional programmes**, ILB grants loans from its own funds as part of its statutory tasks. The aim here is to comprehensively supplement federal-state funding programmes through a broad range of products with ILB funding programmes. ILB also provides national co-financing, for instance, for EU financing instruments. In addition, ILB may enter into strategic participations in order to pursue tasks in the public interest.

1.4 Products and services

ILB offers its customers grants, interest rate subsidies, loans, redemption grants, liability exemption, guarantees as well as venture and investment capital from funds provided by the federal state, the federal government and the European Union (EU) as well as from refinancing on the capital market.

With its equity capital firms, the bank is improving the equity situation of undertakings in the federal state of Brandenburg. The real-estate company develops property projects and rents out properties, but also promotes tourism in the city of Potsdam and the establishment of companies.

Apart from distributing budget resources, the bank itself grants loans.

ILB conducts lending business for the infrastructure sector and commercial enterprises, granting loans to the federal state of Brandenburg as well as its local authorities and social institutions. ILB grants low-interest global loans to banks (applicant's bank procedure) in order to enhance the supply of loans to the commercial sector and, when necessary, also enters into syndicated loan agreements as a consortium partner. Furthermore, ILB also co-finances film and media productions in order to strengthen the Berlin-Brandenburg media region. Housing is another focus of the bank's loan portfolio.

ILB is refinanced mainly by issuing its own bonds and by raising refinancing funds from the European Investment Bank, the Council of Europe Development Bank, Landwirtschaftliche Rentenbank and KfW Bankengruppe.

ILB acts as the lead institution for the savings banks in the federal state of Brandenburg. In this capacity, it assists the customer support staff at savings banks in their advisory services regarding KfW products, the structuring of promotional funds (also as part of package financing) and the forwarding of loan applications and pledges. In this context, ILB offers training and advisory meetings to customer support staff at savings banks and provides a web-based information portal.

1.5 Declaration of Compliance

In accordance with ILB's Corporate Governance Code, the Management Board and the Administrative Board are required to report annually on corporate governance (Corporate Governance Report). The Declaration of Compliance forms an integral part of the Corporate Governance Report. The 2020 Corporate Governance Report and the Declaration of Compliance were drawn up in February 2021 and approved by ILB's Administrative Board on 28 May 2021. The 2020 Corporate Governance Report and the Declaration of Compliance are published on ILB's website.

II Economic Review

1. Economic conditions in Germany

After the Covid pandemic in 2020 triggered one of the most severe recessions of the post-war period, severely slowing down economic development, the German economy managed to gradually recover at the beginning of the second quarter of 2021.

Vaccination of ever-larger parts of the adult population allowed far-reaching opening steps to be introduced in previously restricted economic sectors. As a result, pandemic-related behavioural adjustments by private households ceased, allowing consumer demand to normalise to a large extent.

Nevertheless, a variety of supply-side bottlenecks continued to disrupt global value chains and, together with existing pandemic-related constraints, again dampened growth in the German economy, which is strongly embedded in global value chains.

Growth remained below the original forecasts and totalled only 2.5% in 2021 (https://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2021.html). This development was particularly due to the partial postponement of industrial production to the following year, but was also in response to renewed uncertainty in the fourth quarter of 2021 regarding the measures needed to contain the new Omikron virus variant.

The labour market developed positively in 2021. The average unemployment rate decreased from 5.9% to 5.7% when comparing 2020 and 2021. This is primarily due to an increase in regular employment, the decline in mini jobs and self employment, but also the steady decrease in short-time work (according to: https://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2021.html and Bundesbank forecast – BZ 19-12-2021).

Stock markets recovered significantly in 2021, recording new highs. The DAX, for instance, reached a new all-time high of almost 16,200 points in mid-November 2021. The leading index closed the 2021 year at just under 15,900 points (according to: https://www.boerse-frankfurt.de/index/dax/charts).

2. Economic conditions in the federal state of Brandenburg

The following information is taken from the economic report (Konjunkturtelegramm) issued by the federal state of Brandenburg: (https://mwae.brandenburg.de/media/bb1.a.3814.de/KonjunkturtelegrammBB.pdf/).

Economic development in the federal state of Brandenburg was on par with the positive trend seen at federal level in 2021. Due to the structure of the economy, however, both the catch-up effects in 2021, as well as the recession in 2020, turned out to be more restrained than originally forecast.

Manufacturing firms reported a significant 9.0% increase in sales in 2021 compared to the same period of the previous year. Export sales rose by 13.3% during this period.

Overall, however, economic development varied considerably: While the food industry, Brandenburg's strongest economic sector in terms of sales and employment, and mechanical engineering recorded lower sales than for the same period of the previous year, the chemical industry as well as metal production and processing increased, in some cases significantly.

The trend in order intake was clearly positive. Orders on hand rose by 24.1% in the period from January to December 2021. Domestic orders rose by 28.0%, orders from abroad by 17.9%. The number of people in jobs was down by 1.6% between January and December 2021.

By December 2021, sales in the construction industry were 3.5% lower than in the same period of the previous year. The number of people in jobs was up by 3.7%. Incoming orders stagnated at the previous year's level.

Between January and November 2021, retail sales were up 3.0% against the same period of the previous year. The number of people in jobs rose by 1.3% during the same period.

The hospitality sector in the federal state of Brandenburg saw guest numbers in 2021 down by 2.9% compared to the previous year. The number of overnight stays declined by 0.3%. Sales (in real terms) in the hospitality sector slumped by 9.6% in the year to November 2021 compared to the same period of the previous year. Employment in the hospitality sector shrank by 12.1% compared to the previous year.

In the services sector, sales in the second quarter of 2021 were up 16.3% compared to the same quarter of the previous year. The number of people in jobs rose by 3.3%.

In previous years, developments on the labour market in Brandenburg showed a long-term positive trend. However, the impact of the Covid pandemic interrupted this trend in 2020 when the annual average figure for people out of work rose to 82,491 or by 6.2%. However, the labour market managed to recover in 2021 with the number of people out of work down to 71,763 or 5.4% of the working population by December 2021.

A total of 128 insolvency proceedings were registered in the first half of 2021, which meant 33.7% fewer cases than in the same period of the previous year. In total, 98 insolvency proceedings were opened against companies. Expected receivables decreased by 68.7% to EUR 39.0m. In the third quarter of 2021, the number of insolvency proceedings stagnated compared to the previous year. 71 insolvency proceedings were registered, of which 52 proceedings were opened. Expected receivables increased by around two thirds to EUR 39.1m.

3. Business development

3.1 Promotional and development business

ILB's funding and promotion portfolio met with a very positive response from Brandenburg's business community, private households, municipal administrations and the housing sector. This applies to both the federal-state and ILB's own promotional programmes. In 2021, ILB pledged a total volume of EUR 2,872m.

Promotional and development business in 2021 included, for instance, the following:

- The EUR 1,177m to be pledged for 2021 was exceeded by EUR 1,695m or 144%, respectively, thus totalling EUR 2,872m.
- Compared to the previous year, the volume pledged increased from EUR 2,275m by around EUR 597m (+26%).
- The volume of ILB programmes pledged totalled EUR 1,264m (2020: EUR 883m). The main reasons for this growth were the growth in refinancing by borrowers' banks and strong demand in housing construction.
- ILB's promotional programmes accounted for a share of 44% in the total sum pledged in 2021.
- All the support areas in federal-state promotional programmes recorded positive demand. Pledges totalled EUR 1,608m (2020: EUR 1,392m).
- The volume pledged under federal-state promotional programmes was up EUR 975m or 154% against the budgeted value of EUR 633m.
- Compared to the previous year, the sum pledged under federal-state promotional programmes increased by EUR 216m, marking an increase of 16%. Pledges increased in the support areas of business, labour and infrastructure, Pledges to promote housing declined.
- Covid 19 assistance amounting to EUR 668m was granted to the commercial sector.

3.2 Earnings development

ILB can once again look back over another successful financial year.

The result of operating activities exceeded the budgeted figure without compensatory entries of the ILB promotional fund and the Brandenburg fund.

Earnings before risk provisioning totalled EUR 47.2m and were hence EUR 7.9m above budget.

Earnings after risk provisioning also surpassed expectations and, at EUR 44.8m, were EUR 17.8m higher than budgeted for 2021. This was particularly driven by the positive development of risk provisioning, which at EUR 2.4m was EUR 9.8m below the budgeted need for valuation adjustments.

As per 31 December 2021, return on equity totalled 0.12% for ILB.

4. Income, financial position and net worth

ILB's balance sheet total increased in the 2021 financial year by EUR 595.0m to EUR 14,906.9m (previous year EUR 14,311.9m), once again reflecting the stability of ILB's business model.

The bank's income, financial position and net worth are satisfactory and stable.

4.1 Income position

As the business promotion institution of the federal state of Brandenburg, ILB has a central role to play in implementing political support measures due to the Covid 19 pandemic. In the second year of the pandemic, processing Covid-19 aid for businesses once again played a major role in the bank's promotional activities. Numerous new special programmes to support Brandenburg's business sector and society were processed and approved quickly and in line with demand by the Corona Special Programmes Unit that was set up for this purpose. Bridging aid 2 and 3 accounted for the highest commitment volume, followed by Covid December Aid and November Aid. In 2021, ILB was able to commit a total of just under EUR 672.0m in Covid economic aid. This corresponds to more than 40% of total commitments in the management of promotion and support programmes.

Accordingly, ILB's expense and income situation in 2021 was once again shaped by the effects of the Covid 19 pandemic.

In 2021, ILB's profit for the year totalled EUR 6.3m (previous year: EUR 11.2m).

As part of the annual planning process, income and expenditure items are steered with defined budget variables. As part of quarterly extrapolation, budget figures are reviewed with regard to the achievement of targets and, if necessary, used to identify management measures. All the targets set for 2021 were exceeded. Commission income especially was higher than budgeted. Administrative expenses were in total lower. Earnings before risk provisioning were therefore significantly above budget.

The measure for ILB's financial success is earnings before risk provisioning and the formation of reserves. In 2021, ILB recorded – without compensatory entries of the ILB promotional fund and the Brandenburg fund – good earnings of EUR 47.2m before risk provisioning and the formation of reserves, thus remaining almost flat against the previous year (EUR 46.6m).

In detail, development was as follows:

Net interest income totalled EUR 65.3m and was up against the previous year (EUR 61.1m). This meant that net interest income increased despite persistently very low interest rates. The increase of over EUR 4.2m compared to the previous year is particularly due to ILB's participation in the ECB's TLTRO III programme (open market transactions). In 2020, ILB participated in the ECB's TLTROs with a term of three years. The interest rate of this transaction is based on the institution's net lending. ILB has exceeded the conditions for new lending of eligible loan portfolios and thus realised the maximum premium in the form of an additional interest bonus of -0.50% as a partially aperiodic interest income component retroactively since the beginning of the term. Income from interest-bearing promotional and development business also increased.

Net fee and commission income of EUR 60.2m (previous year: EUR 60.2m) largely results from fees for the management of promotion and support programmes. This is made up of administrative cost contributions in conjunction with the granting of loans from trust funds and fees for handling grant programmes and the management of guarantees.

ILB's **personnel expenses** totalled EUR 55.0m in 2021 (previous year: EUR 50.9m). The increase of EUR 4.1m is largely due to the increase in the number of employees to cover the high need for processing of grant and Covid 19 aid programmes.

At the end of 2021, ILB employed a staff of 795 (previous year: 728) in active and passive employment relationships.

Other administrative expenses (operating costs), including depreciation, amortisation and write-downs on intangible assets and tangible assets totalled EUR 25.0m (previous year: EUR 26.1m).

Operating costs totalled EUR 19.6m and were thus EUR 1.5m down against the previous year. This is particularly due to the fact that the ILB's auditing and consulting costs were significantly lower than in the previous year due to certain projects being postponed to 2022 and the withdrawal of project proposals. These measures are mainly due to the ongoing Covid crisis, which led to capacity bottlenecks both externally and internally. In addition, the introduction of individual funding programmes relating to the new 2021-2027 programming period was delayed. Corresponding expenses were no longer incurred in the past financial year and will be taken into account in the following year.

Depreciation on tangible assets totalled EUR 5.4m and was higher than the previous year's figure (EUR 5.0m). On the one hand, additional hardware adjustments as a result of the basic technical equipment required for mobile working (laptops, monitors, etc.) led to unplanned, high investments. On the other hand, higher demands on performance, partly driven by the increase in staff, made it necessary to purchase additional network components.

Itemised allowances are formed for identifiable risks in loan business, taking existing collateral into consideration. These risks are at a low level, reflecting ILB's conservative risk culture. Through recovery in the portfolio, ILB was able to benefit from reversals of already existing risk provisioning amounts in 2021. On the other hand, an expense was incurred with the value adjustment of a larger exposure in lending business, which was, however, significantly below the total expected risk amount of the ILB portfolio.

Latent credit risks are taken into account through the formation of general allowances. However, in view of the ongoing exceptional situation due to the Covid 19 pandemic and its heavy economic impact, it is possible that the current risk structure could deteriorate. In order to derive general allowances, ILB therefore considers a scenario analysis which assumes sector-dependent deteriorations in the creditworthiness of the borrowers in the portfolio. Conservatively estimated, the associated, potentially higher probabilities of default led to a general value adjustment requirement as of 31 December 2021. Compared to the previous year, there was a slight decrease in general allowances for the entire bank due to an improved risk structure in the portfolio.

In order to cover possible unexpected default risks, ILB formed additional contingency reserves in 2021 according to section 340f of the German Commercial Code ("Handelsgesetzbuch", HGB).

Fixed-asset securities are generally valued according to the less strict lower of cost or market principle. In line with the high quality of the securities held, no write-offs were required at the end of the year.

With regard to long-term loan business with fixed-interest periods of more than ten years, provident funds pursuant to section 340f of the German Commercial Code were formed in order to address the risk of statutory termination rights being exercised in this context.

Other operating net income, without allocations to the ILB promotional fund and to the Brandenburg fund, totalled EUR 1.7m in 2021 and was thus below the previous year's figure of EUR 2.2m.

Other operating net income, without allocations to the ILB promotional fund and to the Brandenburg fund, included revenue from services performed for subsidiaries and the bank's rental income. These items were up against last year's figures.

The decline in other operating net income, without allocations to the ILB promotional fund and to the Brandenburg fund, is largely due to significantly lower income from the reversal of provisions and lower other operating revenues than in the previous year, as well as to higher expenses for semi-retirement and severance obligations.

With a view to the allocations to the ILB promotional fund and to the Brandenburg fund, other operating net income also includes expenditure for earmarked funds of the ILB promotional fund of EUR 6.6m that became necessary due to funds and support pledged in 2021. On the other hand, other operating net income included revenues of EUR 5.4m from the appropriate use of ERDF funds. This revenue was appropriated to the Brandenburg fund.

EUR 5.0m was earmarked for the ILB promotional fund in 2021. This means that since 2006, EUR 110.0m of the bank's revenues has been made available for funding and support measures within the scope of ILB's Brandenburg loan product family.

A total of EUR 38.0m was allocated to the fund for general banking risks from current net earnings (previous year: EUR 32.6m).

4.2 Financial position

ILB's balance sheet total in the 2021 financial year rose by EUR 595.0m to EUR 14,906.9m (previous year: EUR 14,311.9m).

ILB's business volume, comprising business recorded in the balance sheet with current customers, contingent liabilities and other obligations, totalled EUR 15,469.5m at the end of the financial year (previous year: EUR 14,729.0m).

ILB's loans and advances to banks increased by 6.4% to EUR 2,478.1m (previous year: EUR 2,329.3m). This is mainly due to the EUR 147.1m increase in global loans as well the EUR 90.0m increase in investments in time deposits and call money, which are offset by a decline of EUR 82.9m in cash collateral provided.

ILB’s loans and advances to customers increased by EUR 304.9m to EUR 6,202.9m (previous year: EUR 5,897.9m). The main reason for this was the EUR 228.9m increase in municipal lending business. In addition, the volume of note loans and registered bonds in customer lending business increased by EUR 36.3m to EUR 1,159.6m.

Trust loans declined by EUR 38.4m to EUR 1,980.2m as a result of scheduled and extraordinary repayments.

Bonds and other fixed-income securities at ILB totalled EUR 3,050.8m as per 31 December 2021 and were EUR 166.8m below the previous year’s level.

Stocks and other variable-income securities are exclusively the shares for the special fund issued in April 2014 with Union Investment Institutional GmbH which is a pension fund that primarily invests in European corporate bonds.

ILB‘s **other assets** totalled EUR 277.4m (previous year: EUR 313.4m), of which EUR 260.1m was attributable to the margin payment to central counterparties.

ILB enters into derivative interest rate hedging transactions for the sole purpose of steering interest rate and currency exchange risks. The nominal volume of business as per the balance sheet date totalled EUR 15,857m (previous year: EUR 14,565m).

4.3 Net worth

ILB’s liabilities are secured by statutory public-sector responsibility, guarantor‘s liability and the liability guarantee of the federal state of Brandenburg.

In the 2021 financial year, short-term funds were primarily taken out through repo transactions, time deposits and call money transactions, mostly with domestic banks.

In the medium term, ILB refinances itself mainly through open market transactions with Deutsche Bundesbank.

Long-term refinancing was primarily taken out through bonded loans from domestic banks and global loans from the European Investment Bank (EIB), KfW-Bankengruppe, Landwirtschaftliche Rentenbank and the Council of Europe Development Bank, as well as from bond placements with domestic insurance companies. Since 2018, ILB has also refinanced itself by issuing listed bearer bonds. In the year under review, a further issue amounting to EUR 500.0m took place on the Berlin over-the-counter market.

Compared to the previous year, **liabilities due to banks** rose by EUR 410.9m to EUR 10,037.1m as per 31 December 2021 (previous year: EUR 9,626.2m). This resulted primarily from increases in repo transactions amounting to EUR 329.0m and in open market transactions amounting to EUR 108.5m. In contrast, time deposits and call money fell slightly by EUR 9.4m.

Liabilities to customers as per 31 December 2021 were EUR 264.6m below the previous year’s figure. This decrease mainly relates to EUR 224.6m less in short-term deposits with a remaining term of up to three months.

To raise liquidity, **bearer bonds** amounting to EUR 500.0m were issued in the year under review (previous year: EUR 225.0m). Bonds with a nominal amount of EUR 100.0m matured in 2021. The portfolio therefore amounted to EUR 975.1m as per the balance sheet date.

Other liabilities amounted to EUR 17.2m (previous year: EUR 40.0m).

Off-balance sheet liabilities increased in 2021 as a whole. **Liabilities in relation to guarantees and warranties** increased by EUR 31.4m. There are no indications that guarantees for contingent liabilities will be called on, except for one case for which a corresponding risk provision was made. **Irrevocable loan commitments** increased by EUR 114.1m to EUR 475.8m as per 31 December 2021. ILB's liquidity was secured at all times. At the end of 2021, the bank had open loan commitments from other promotional banks that had not yet been drawn down totalling EUR 170.5m.

The **fund for general banking risks** according to section 340g of the German Commercial Code was increased to EUR 536.7m, including EUR 445.5m which must be classified as liable core capital.

ILB's **equity**, including the fund for general banking risks, together totalled EUR 774.9m as per 31 December 2021 (previous year: EUR 736.7m).

This increase is largely due to the allocation to the fund for general banking risks and to retained earnings. The appropriation to the fund for general banking risks totalled EUR 38.0m. This includes a demand-based appropriation to the ILB promotional fund with a budgeted sum of EUR 5.0m. Since 2006, EUR 110.0m of the bank's revenues has been made available for funding and support measures within the scope of ILB's Brandenburg loan product family.

The table below shows the development and composition of the ILB promotional fund and of the Brandenburg fund.

In thousand EUR	ILB promotional fund	Brandenburg fund
As per 1 January 2021	**28,350**	**58,397**
Appropriations	5,000	6,627
of which:		
Compensation for other operating income		5,434
Compensation income from valuation of receivables		1,193
Reversals	6,627	529
of which:		
Compensation for other operating expenses	6,627	
Compensation for expense from receivables valuation		227
Compensation for depreciation on shares in affiliated companies		302
As per 31 December 2021	**26,723**	**64,495**

Due to the resolution regarding the appropriation of profits from the year 2020 adopted at the shareholders' meeting on 28 May 2021 and 8 December 2021, a dividend of EUR 6.0m was distributed to the shareholders. Furthermore, EUR 5.0m was allocated to revenue reserves. The remaining EUR 1.0m was carried forward.

All in all, the strategic goal to strengthen ILB's own funds each year by at least EUR 15.0m was clearly surpassed in 2021 with an appropriation of EUR 33.5m.

In the 2019 financial year, the German Federal Financial Supervisory Authority (BaFin) ordered within the framework of the Supervisory Review and Evaluation Process (SREP) that ILB and the ILB group maintain a total capital ratio of 9.5% in excess of the requirements of Art. 92 of the Capital Requirement Regulation (CRR). In addition, an SREP stress buffer (supervisory target capital ratio) of 1.3 percentage points was set. The SREP capital buffer can be offset against the capital conservation buffer of 2.5%, so that the SREP capital buffer does not result in an additional capital requirement for ILB.

The equity requirements of the German Solvability Ordinance and of the Capital Requirement Regulation (CRR) of the EU were fulfilled at all times.

ILB's total capital ratio according to CRR was between 18.08% and 18.22% in 2021. This was well above the bank's total capital requirement of 9.5% and the capital conservation buffer of 2.5%.

In 2021, ILB's core Tier 1 capital ratio according to CRR ranged between 17.27% and 17.40%.

4.4 Financial and non-financial performance indicators

In the 2021 financial year, ILB pledged promotional funds amounting to around EUR 2.9bn for 45,502 projects, including EUR 1,608m for products related to federal-state promotional programmes and EUR 1,264.4m for ILB's own programmes. The financial performance indicators relevant for ILB are shown and explained in section II 3.2 Earnings development.

ILB's non-financial performance indicators are mainly related to employee issues.

695 people were actively employed in permanent jobs on 31 December 2021 (previous year: 647). The number of employees in temporary jobs rose from 61 to 79. All in all, 22.9% of all active employees worked part-time. This figure is 1.4 percentage points above the previous year's level.

24 employees were in the passive phase of semi-retirement, early retirement, parental leave or other forms of passive employment (previous year: 25). The number of students in cooperative study programmes increased from 18 as per the balance sheet date of the previous year to 19.

At the end of 2021, female employees accounted for 67.4% (previous year: 67.5%) of the workforce. The average age of all employees was 45.7 years (previous year: 46.2 years).

In 2021, ILB provided active support for its employees' further professional development through in-house and external training events. Seminar attendance totalled 1,536 (previous year: 1,635).

5. Non-financial Declaration

<u>Classification and procedure</u>

This summarised Non-financial Declaration serves to meet the requirements of section 340a (1a), sentence 3 of the German Commercial Code in conjunction with sections 289b to 289e of the German Commercial Code. The following disclosures are necessary to explain the course of business, the results and position of ILB and the impact of the activities on non-financial aspects.

For the 2021 financial year, ILB is using the German Sustainability Code ("Deutscher Nachhaltigkeitskodex", DNK) as a framework for the first time. The use of the German Sustainability Code is intended to make ILB's sustainability reporting more transparent and comparable. This Non-financial Declaration is based on the German Sustainability Code. The complete sustainability report, which goes beyond the statutory obligation, is published at: https://www.ilb.de/nachhaltigkeit.

5.1 Strategic analysis and measures

Sustainability concept

ILB is the business promotion institution of the federal state of Brandenburg, supporting the federal state and other public administration agencies in the fulfilment of their public tasks in compliance with the principles and objectives of the federal state's business promotion policy. Sustainability is increasingly becoming the focus of business promotion policy. In order to strengthen our sustainability management, a concept to expand ILB's sustainability management was developed in 2020 and approved by the Management Board. This concept refers both to international goals, such as the Paris Agreement and the Sustainable Development Goals (SDGs) of the United Nations, and to the sustainability goals of the federal state of Brandenburg. The sustainability concept identifies ILB's four main fields of action: banking, banking operations, employer and transparency. The concept also features a repository containing more than 50 ideas for expanding ILB's sustainability management.

Business strategy and strategic goals

ILB's business strategy has been expanded to take account of the sustainability concept. Sustainability was anchored as a strategic goal in the 2021 business strategy for the first time. The aim is to systematically expand ILB's sustainability management and to anchor it in the bank's processes. While developing ILB's 2021 business strategy and the resources strategies for Treasury, HR and IT, overarching sustainability goals were developed and presented to the Administrative Board. As part of the strategy process, strategic measures were defined to ensure more sustainable banking business and banking operations. Annual targets have been set to achieve the strategic measures, such as the allocation of the funding programmes to the Sustainable Development Goals (SDGs) of the United Nations, the introduction of the German Sustainability Code as a sustainability reporting standard or the recording of ILB's resource consumption. In monthly meetings, the Management Board is informed about the implementation of the annual targets.

Responsible corporate governance

Responsibility for sustainability management at ILB lies with the entire Management Board. A sustainability officer is responsible for and coordinates the expansion of sustainability management throughout the bank. This officer belongs to the strategy and communication function. Within the framework of the Sustainability Working Group, regular exchange takes place with the Management Board regarding current sustainability topics. ILB'S sustainability management was presented at the 2021 ILB Advisory Board Meeting.

The main fields of action for ILB were identified, goals defined, measures developed to achieve these goals and recorded in ILB'S sustainability concept, the business strategy and in the GAP analysis for the introduction of the German Sustainability Code.

Fields of action and key issues	Reference to non-financial aspects
Sustainable banking	
Sustainable funding programmes	Environmental and social concerns
Sustainable treasury business	Environmental and social concerns
Assess sustainability risks	Environmental and social concerns
Sustainable banking operations	
Resource management	Environmental issues
Climate-relevant emissions	Environmental issues
Employees' rights	Employee matters
Family-friendly employer	Employee matters
Equal opportunities	Employee matters
Qualification	Employee matters
Occupational health management	Employee matters
Community	Social issues
Conduct in compliance with laws and directives	Combating corruption and bribery
Information security	Combating corruption and bribery

No risks were identified that have a material impact on non-financial aspects. The results achieved in 2021 are reported below.

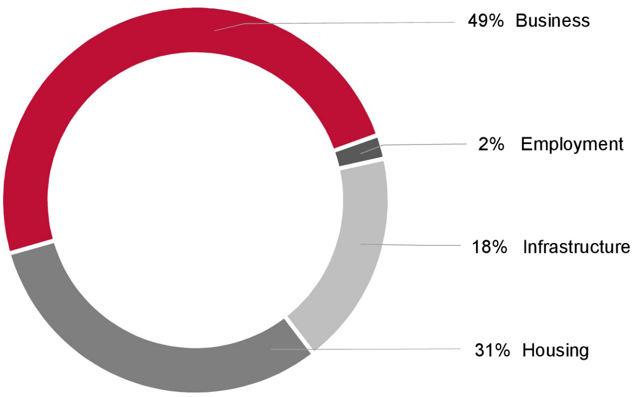
5.2 Sustainable banking

5.2.1 Sustainable funding programmes

At its core, ILB promotes sustainable development in Brandenburg that is equally social, economic and ecological. With its federal state promotional programmes and its own funding programmes, ILB is helping to develop the economy and the labour market, to promote research and innovation, public transport and education infrastructures, social housing and lifelong learning.

The funding volume indicator: In 2021, a total of EUR 2,872m (previous year: EUR 2,275m) was approved for 42,500 projects by municipalities, private companies, social institutions and initiatives in the federal state of Brandenburg.

Breakdown of ILB's promotion business according to commitment volume (2021)

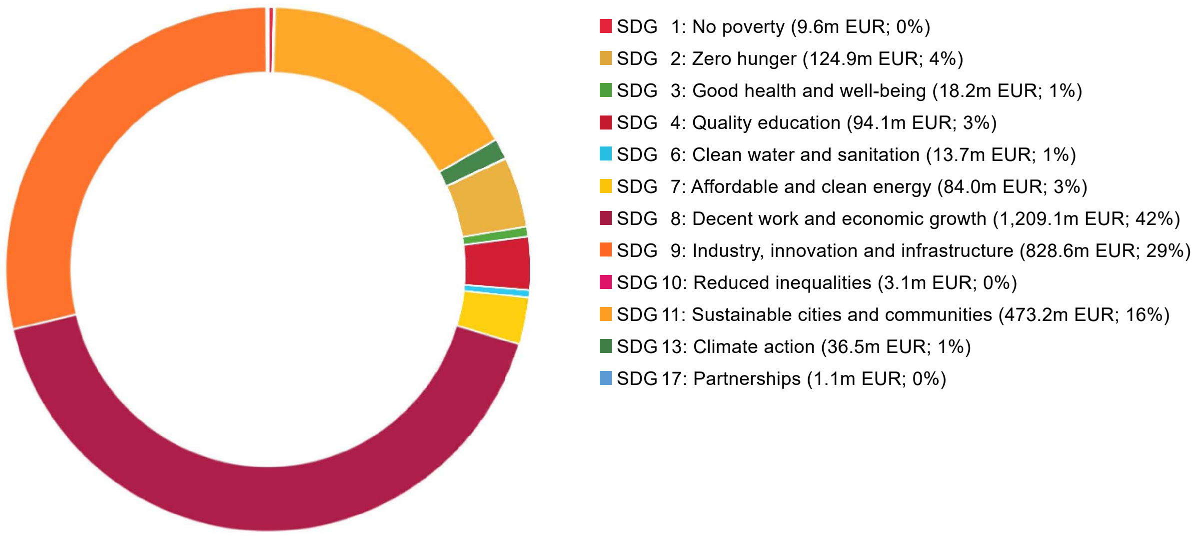


Making sustainable promotion transparent

Since ILB aims to provide a transparent report on its contribution to sustainable development in Brandenburg, it has assigned all pledges for 2021 to the SDGs of the United Nations. Within the framework of SDG mapping, it was possible to assign 99% of federal-state and ILB promotional programmes to a sustainability goal, which corresponds to a commitment volume of around EUR 2,872m (previous year: EUR 2,275m). In 2021, ILB promoted 12 of the total of 17 sustainability goals, primarily the following:

- Decent work and economic growth (SDG 8)
- Industry, innovation and infrastructure (SDG 9)
- Sustainable cities and communities (SDG 11)
- Affordable and clean energy (SDG 7)
- Quality education (SDG 4)

The following chart shows all the SDGs that were promoted in 2021.



ILB has expanded its process for introducing new products. In future, product development will describe the extent to which the products promote sustainable development in the federal state of Brandenburg and how they are helping to achieve the SDGs.

Mitigating the consequences of climate change

Scientific findings provide the basis for political and social requirements and are important external drivers for the expansion of ILB's sustainability management. A public business promotion bank is expected to address the central challenge of our time, i.e., climate change. In order to steer financial flows in Europe in a more sustainable direction, a number of legal and regulatory measures have been adopted in recent years, such as Regulation (EU) 2020/852 (Taxonomy). According to further information and clarification by the European Commission dated 2 February 2022, promotional banks are not subject to taxonomy reporting, since they, by virtue of national law, only fall within the scope of the Corporate Sustainability Reporting (CSR) Directive. Nevertheless, ILB plans to take the Taxonomy Regulation into account in the future. To this end, a project planned for 2021 will pave the way for collecting and processing the required data and for reporting.

Striving for sustainability goals together

The Brandenburg federal-state government is another driver of ILB's sustainability management and has launched support programmes to strengthen the federal state of Brandenburg socially, ecologically and economically. In its sustainability strategy, the federal state government has described how it supports the SDGs of the United Nations. This sustainability strategy was integrated into the development of ILB's own SDG mappings. In addition, work is now underway on the Brandenburg Climate Plan. It will show Brandenburg's path to climate neutrality and thus also have an impact on ILB's future business activities.

5.2.2 Sustainable treasury business

The ILB exclusion list applies to ILB's promotional programmes and treasury bond business. ILB does not promote or invest, for instance, in coal-fired power or armament products. The exclusion list was developed in 2021 and published on ILB's website. In the case of federal-state programmes, the respective guidelines of the ministries apply.

ILB's treasury business is an integral part of its business model and the bank's investment portfolio consists largely of government bonds, covered bonds and bank bonds. It ensures compliance with regulatory requirements (including liquidity, LCR, NSFR), investment of eligible capital, interim investment of promotional funds and the generation of income for promotional business. In the future, sustainability aspects are to be integrated into investment decisions in an even more targeted manner and the portfolio is to be further optimised over time, also with regard to sustainability aspects. For this purpose, ILB has its portfolio evaluated by an external service provider on the basis of sustainability criteria for environment, social and governance (ESG) with a score in order to improve the sustainability of its investments on this basis. As per 31 December 2021, ILB's portfolio had an ESG score of 59.7 points which was up against the previous year (56.9 points).

ILB also wants to support the sustainable development of the federal state of Brandenburg by issuing social bonds. These bonds are intended to create an opportunity for sustainably oriented capital market investors to participate in social investment projects. Both the Social Bond Framework and the issue of socially responsible bonds give ILB the opportunity to make its sustainable business model even more transparent and visible. In 2020, ILB issued its first social bond. The social investment selection process was verified by ESG research and rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH as part of a Second Party Opinion (SPO). ILB's Social Bond Report published in 2021 underlines that it has achieved the goals it set out to achieve.

5.2.3 Assess sustainability risks

Against the backdrop of the BaFin bulletin on dealing with sustainability risks, ILB identified, assessed and reported on sustainability risks in 2021. In order to assess sustainability risks and check the viability of ILB's business model, ILB conducted a sustainability stress test, looking at transitory and physical risks. The stress test shows that it is the transitory risks associated with high economic transformation costs or corresponding market changes that particularly impact ILB's earnings, especially in the case of default risks directly and indirectly in the case of interest rate risks via general economic transmission mechanisms. However, the bank's risk-bearing capacity is still ensured, as all regulatory requirements, including capital buffers, are met even in this stress scenario. In addition, ILB has developed an adverse sustainability scenario for assessing risk-bearing capacity, which is taken into account as part of the capital planning process.

5.3 Sustainable banking operations

5.3.1 Environmental issues

5.3.1.1 Resource management

ILB uses natural resources responsibly. As part of the bank's business strategy, it was determined that ILB will comprehensively record its resource consumption in order to identify reduction targets or improve resource efficiency.

Environmentally friendly mobility

ILB's vehicle fleet consists of 25 vehicles (previous year: 28 vehicles). In 2021, ILB further aligned the company carpool with the goal of carbon neutrality: four combustion vehicles were replaced by two hybrid, one electric and one hydrogen vehicle. In addition, ILB provides five charging stations. In 2021, an app was developed for flexible and optimised use of parking spaces on ILB's premises. ILB subsidises employee tickets for public transport, the bank has also expanded bicycle parking facilities, it promotes job bike leasing and provides two electric bicycles for business trips.

Save resources

As required by law, ILB conducts an energy audit every four years, most recently in 2020. This audit covers over 90% of power consumption in the areas of electricity, district heating and fuel for the vehicle fleet (scope 1 and 2). As part of an established energy review held regularly with technical building management, the potential to optimise electricity, heating energy and water use is continuously identified and then implemented.

Letters to customers and business partners are increasingly sent electronically. The possibilities for reducing or optimising waste are regularly examined.

Resources consumed	2021	2020
Green electricity	1,799 MWh	3,046 MWh
Fuel (petrol/diesel)	29,091 litres	35,431 litres
FSC paper	3.6 million sheets	4.3 million sheets

In 2021, resource consumption decreased significantly compared to the previous year. This was due to the Covid pandemic and teleworking that accompanied it.

Water dispensers are provided at all of ILB's meeting points. The devices are connected directly to the water pipe, have a limescale filter and can add fizz to the water. This means that there is no further need to transport and distribute water bottles.

Sustainable procurement

As a public law institution, ILB puts contracts out to public tender. In doing so, it observes the principles of competition, non-discrimination and transparency. Compliance with environmental standards is taken into account when procuring new IT systems. All video screens, PCs and multifunction devices have at least one Energy Star and/or EPEAT and/or TCO certificate.

5.3.1.2 Climate-relevant emissions

Climate-friendly banking operations

ILB is planning to develop a concept for climate-neutral banking operations in the future. For 2021, scope 1 and 2 emissions were evaluated and the associated carbon emissions identified.

CO_2 emissions	2021
Scope 1	89 tons of CO_2 equivalent
Scope 2	340 tons of CO_2 equivalent
Total (without scope 3)	429 tons of CO_2 equivalent

The renewable energies indicator: Since moving into the new building in 2017, ILB has been using district heating and since 2019 100% green electricity.

Scope 3 emissions have not yet been comprehensively identified. In order to obtain more details about ILB’s scope 3 emissions and to be able to draw up a carbon footprint for ILB, work began in 2021 to compile the available data, for instance, the number of teleworking days and business trips.

Climate-friendly business travel

When it comes to business travel, ILB looks to environmentally friendly mobility. In accordance with internal business travel guidelines, public transport should be used as a matter of principle for business trips. Air travel is only permitted where this cuts time and costs significantly. Taxi rides are only permitted in compelling and justifiable exceptional cases. In the year under review, around 350 business trips took place, around half as many as in the previous year due to the Covid 19 pandemic.

5.3.2 Employee matters

5.3.2.1 Employees’ rights

Working conditions are in accordance with German and European laws, the collective agreement for private and public banks and the service agreements concluded between the Staff Council and the Management Board. Beyond the legal rights to information, participation and co-determination, ILB cooperates with the Staff Council in a spirit of trust and involves it in strategically relevant decisions and projects. Activities to secure employees’ rights are reported to the Management Board.

5.3.2.2 Family-friendly employer

Since 10 December 2018, ILB has been awarded the berufundfamilie audit certificate as a family-conscious employer. In 2021, ILB was recertified by berufundfamilie for another two years. Employees receive support to enable them to balance professional and family commitments. The bank offers, among other things, family-friendly employment models and flexible working hours, counselling and placement services for families with children or with relatives in need of care.

ILB also supports fathers, which is why it promoted the establishment of the ILB Fathers‘ Network in 2021. This network allows fathers to exchange ideas and gain new perspectives on their role as fathers. For women, seminars were offered on “self-marketing and networking“ and on “mental load“, a topic that often – but not only – affects women.

In order to relieve the burden on employees with relatives in need of care, ILB cooperates with a provider who advises on all issues related to care and arranges appropriate services.

5.3.2.3 Equal opportunities

ILB values and promotes diversity and equal opportunities in the professional environment, regardless of gender, religion, nationality, disability, age, sexual orientation and identity. ILB's job advertisements are open to all genders. Severely disabled persons are given preferential consideration in job appointments. The existing inclusion agreement ensures equal employment opportunities for people with disabilities.

Equal opportunities for all

Equality work is part of ILB's self-image and is expressed in the Equality Plan based on the Law on Equality between Men and Women in the Public Sector in the Federal State of Brandenburg ("Gesetz zur Gleichstellung von Männern und Frauen im öffentlichen Dienst im Land Brandenburg"). In 2021, special emphasis was placed on introducing gender-sensitive language, training was provided on this and the language guide was updated.

The target of a 37.5% quota for women in the first management level has been achieved. The goal of increasing the share of women in the third management level to 46% by the end of 2021 has been exceeded.

The number of women and men in the respective management levels as of 31 December 2021 is as follows:

Share of women per management level	2021		2020	
	Women	Men	Women	Men
Management Board	1	2	2	1
First management level	6	10	5	10
Second management level	22	21	22	22
Third management level	5	4	2	4

Equal opportunities indicator: 47% of management positions are held by women (previous year: 44%).

Inclusion

As an important part of its corporate culture, ILB has concluded an inclusion agreement with the Staff Council to support the barrier-free participation of severely disabled people or people at risk of disability. ILB's office building and workplaces are ergonomically designed and equipped for the disabled and as barrier-free as possible.

ILB offers its employees the choice of working at the bank or from home. If required, ILB will equip the teleworking place with appropriate furniture. In this way, ILB offers equal working conditions to all employees and complies with the requirements of the Occupational Health and Safety Act ("Arbeitsschutzgesetz") in teleworking.

Teleworking (pay-scale employees only)	2021	2020	2019
Number of days	71,158	33,283	7,488

5.3.2.4 Qualification

ILB is determined to design future-oriented, sustainable HR work and HR resources support in order to secure the bank's success in the long term. ILB is actively responding to changes in the labour market, demographic change, increasing work demands and changes in business fields.

Staff training is actively promoted and financed. Well over half of the bank's staff take advantage of personal and/or professional development opportunities every year. From certificate courses to Bachelor's and Master's degree programmes, in-service training is supported both financially and through time off.

The professional development indicator: In 2021, staff members attended professional development measures on an average of three days. This corresponds to the level of 2020.

5.3.2.5 Occupational health management

With its occupational health management, ILB helps its employees to actively and responsibly maintain their health. The firmly established services include a comprehensive work-life service, external social counselling, company sports groups with a wide range of sporting activities, the ergonomic design of workplaces, preventive medical check-ups and flu vaccinations, topic-related seminars, health days and monthly health tips.

5.3.3 Human rights

ILB is committed to respect for human rights. However, it is not essential for ILB, as the bank is based and operates exclusively in Brandenburg. This is why the topic of human rights is only briefly covered. ILB observes human rights and complies with all relevant regulations and laws, such as those on working hours and occupational health and safety. ILB is not covered by the Supply Chain Sourcing Obligations Act ("Lieferkettensorgfaltspflichtengesetz"). It considers the observance of human rights in its awards and procurements.

5.3.4 Social issues

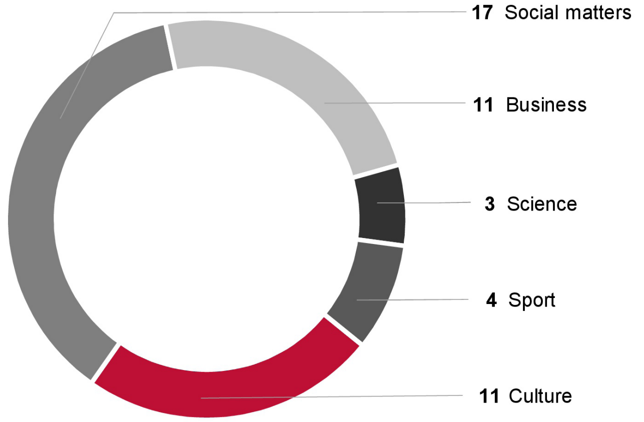
<u>Sponsorships and donations</u>

In accordance with the principles for its commitment to Brandenburg, ILB considers it an important duty to work for the common good and quality of life in the federal state of Brandenburg beyond the scope of the bank's promotional business. It therefore supports projects in culture, social affairs, business, sport and science with sponsorships and donations. ILB concentrates its sponsoring activities on projects with a federal-state focus and works to achieve a balance between long-term cooperation and individual measures.

ILB pays special attention to projects for children and young people – be it through educational initiatives, such as "Rechnen bringt's" ("Mathematics is the Answer"), the promotion of artistic ensembles, such as Junge Philharmonie (Young Philharmonics) or Landesjugendjazzorchester (Federal-state Youth Jazz Orchestra), or by supporting talented young athletes through Sporthilfe Brandenburg. By sponsoring events and business awards, ILB recognises sustainable innovations and companies and contributes to industry networking.

In 2021, ILB supported 46 projects (previous year: 48 projects) in the federal state of Brandenburg with a total of EUR 276,021.53 (previous year: EUR 295,471.54).

Sponsorship and donation projects by fields of action (2021)



Sponsoring and donation commitments carried out during the year are evaluated on the basis of a catalogue of criteria and decided by the Management Board. The commitment is summarised once a year in a report and confirmed by the Management Board. The report is submitted to the Administrative Board.

ILB takes a stand

In 2021, ILB participated in public actions and thus supported the aims of the initiators. The bank supported UNESCO's Clean-Up Day as well as the European Day for the Protection of Children against Sexual Exploitation and Sexual Violence. To coincide with the International Day for the Elimination of Violence against Women, ILB illuminated its building in orange and donated to the women's shelter. ILB recorded its highest ever participation in the city cycling event and donated to the SOS Children's Village in Brandenburg an der Havel as part of the campaign. The bank also makes an annual donation to the Christmas Tour organised by Arbeiterwohlfahrt (Workers' Welfare Association). ILB would like to thank all the organisers for their commitment.

In order to promote business start-ups in the region, ILB organises the German Start-up and Entrepreneur Days (deGUT) and the Berlin-Brandenburg Business Plan Competition (BPW). The bank also participated in the Potsdam Start-up Meeting under the motto “Sustainable start-ups – Growing with the region“.

5.3.5 Compliance

5.3.5.1 Conduct in compliance with the law and directives

As a public law institution, ILB is subject to state supervision and as a credit institution to supervision by the Federal Financial Supervisory Authority BaFin. ILB is therefore also subject to the requirements of the German Banking Act (“Kreditwesengesetz“, KWG) and the Money Laundering Act (“Geldwäschegesetz“, GwG). For this reason, special regulatory requirements are placed on the bank's organisation, which also relate to the prevention of criminal acts, including the prevention of corruption. The prevention of corruption at ILB aims to exclude both active and passive corruption. ILB counteracts criminal acts in a risk-oriented manner through preventive measures, awareness training, controls and audits. To this end, regular training courses and workshops on the prevention of criminal acts are held for all employees. The compliance office keeps a record of participation.

Prevention of criminal acts

The prevention of criminal acts at ILB is a task for the so-called “central office“ pursuant to section 25h (1) of the German Banking Act. This office is part of ILB's compliance office. ILB has appointed a person responsible for the central office who is also a money laundering officer. The compliance office reports directly to the Management Board. Within the framework of the annual risk analysis, the central office surveys the institution-specific risk situation with regard to the risk of criminal acts. Based on this examination, necessary measures are identified and a control plan is drawn up. The compliance office's risk-based controls also relate to compliance with the requirements for the prevention of corruption.

Prevention of corruption

ILB has published rules on the prevention of conflicts of interest and corruption, including detailed rules and examples regarding acceptance and granting of benefits and invitations. These rules can be found in the bank's Corporate Governance Code as well as in internal work instructions, which are available to all employees via the bank's internal sharepoint.

ILB has also set up an external whistleblowing system through a law firm. Both ILB's own staff and external persons can report criminal offences and violations of the law (also anonymously). ILB has published the contact details on its website.

5.3.5.2 Information security

Information security is an essential part of ILB's business policy. Information security management aims to protect the confidentiality, availability, authenticity and integrity of the data and information of ILB and its customers. In order to achieve its security objectives, ILB has implemented an information security management system (ISMS) that is based on the internationally recognised information security standard DIN ISO/IEC 27001 and enshrined in ILB's information security policy.

For more security

The Management Board is responsible for information security. The information security officers perform this task and support the Management Board in implementing the information security management system. To ensure the integrity, confidentiality, authenticity and availability of information, ILB has implemented appropriate security measures based on the protection needs analyses carried out in order to identify and deal with threats at an early stage.

Annual plan for information security

An annual ISMS implementation plan defines measures for the respective fiscal year. This essentially includes:

- awareness and training measures for all ILB employees,
- verification of compliance with information security requirements through audits and
- monitoring the implementation of defined information security measures.

The Information Security Officer worked on the implementation plan for the year under review in close cooperation with the Management Board as well as the compliance, data protection and internal audit functions. The methods of information security management are continuously developed and implemented.

III Report on forecasts, opportunities and risks

1. Risk situation

ILB pursues business as a special lending institution. The bank's risk structure results from the promotional and structure-policy tasks assigned to it by the federal state of Brandenburg. Risks are taken to a very limited extent only. All identifiable risks were taken into account through appropriate evaluation and the formation of risk and general provisions.

Impact of the ongoing Covid 19 pandemic

The social and economic situation in 2021 was once again largely determined by the Covid 19 pandemic, the measures taken to contain it and the related consequences. The SARS-CoV-2 coronavirus is causing an ongoing global pandemic.

The impact on the economy is presented in sections II 1. and II 2. It is not yet possible to fully estimate the consequences and, in particular, the long-term effects on the economy, as the crisis is extremely dynamic and especially because new virus variants (for instance, the current Omikron variant) bring new uncertainty.

ILB is directly affected by the impact of the Covid 19 pandemic at two levels.

As the business promotion institution of the federal state of Brandenburg, ILB has and will continue to have a central role to play in overcoming this crisis situation. ILB sees this task as a permanent one, which is underpinned by the various programmes that have been launched and will continue to be handled, such as bridging aid and new start-up aid.

In addition, ILB itself, as an organisation, has been affected by the current situation. ILB acts in line with its pandemic plan and has set up a crisis team to coordinate further action in the crisis. Measures adapted to the course of the pandemic were continuously taken to prevent infections within the bank. During 2021, several internal ILB measures were taken (for instance, rules for wearing masks, single-person use of office spaces, increased use of mobile working to minimise contact within the ILB building).

The aim of the measures taken is to maintain business operations while taking into account the duty of care and social responsibility towards employees.

ILB's handling of the changing risk situation is presented in section 3 (risk-bearing capacity concept).

Impact of the Russia-Ukraine conflict

With the invasion by Russian troops into the territory of Ukraine on 24 February 2022, the conflict between the two countries, which had been smouldering since the annexation of Crimea in 2014, escalated into a full-scale armed conflict. As a result, extensive sanctions against Russia were initiated by large parts of the global community, especially the EU and the United States of America. These sanctions will probably make economic cooperation with Russia significantly more difficult or even impossible for years to come.

For ILB as a promotional institution, only limited effects are currently to be expected. ILB does not conduct any business affected by the sanctions (such as payment transactions or foreign trade financing) and has no direct exposure to partners in Russia, Ukraine or other potentially affected littoral states.

Limited indirect effects result mainly from the exposure to banks in treasury business as well as from the loan portfolio with private companies. In the banking sector, it is mainly those institutions that maintain more extensive business relations with Russia that are affected. Austrian institutions, in particular, are more affected in relation to their total assets. However, ILB has only a few exposures with Austrian institutions. These are mainly attributable to low-risk bonds or bonds with priority repayment in the event of insolvency. Some companies in ILB's loan portfolio may also be indirectly affected if they maintain extensive business relations with Russia or Ukraine. Following a review of the portfolio, ILB does not currently see any significant risks here either. The effects of rising or volatile energy prices, supply chain difficulties, disappearing sales markets or adjustments in budgetary policy decisions on companies, private individuals and public budgets remain to be seen. Against this background, ILB may be exposed to additional risks that could have a negative impact on its earnings.

2. Risk management

Risk management considers the capability to bear risks and includes the definition of strategies as well as the establishment of an internal control system, the compliance and risk management as well as an internal audit function. The internal control system is made up of rules for structures and processes as well as risk steering and controlling processes. Risks are identified, limited and monitored as part of risk management.

ILB has established an integrated strategy and planning process. Contents and processes of the strategy and target process (including the capital planning process) as well as limitation process are aligned to each other. This interaction essentially includes the process steps of planning, implementing, assessing and adapting the business and risk strategy as well as monitoring targets and analysing deviations.

The risk strategy reflects ILB's individual risk appetite and determines the general handling of risks, forming the basis for ILB's risk structure. Guidelines and measures are laid down for identifying, steering and monitoring risks. The risk strategy is based on continuous adherence to the regulatory requirements, the law and ILB's bye-laws as well as the risk policy issued by the Management Board.

The Management Board revises and adopts the strategy as required, however, at least once a year as part of the strategy process. The Management Board communicates the risk strategy to the Risk Committee of the Administrative Board and discusses this strategy with the latter.

ILB generally pursues a conservative risk policy. The aim of this policy is to diversify between the different types of risks, i.e., knowingly accepting risks but avoiding them in areas outside the bank's core expertise. The principles concerning risk appetite laid down in the risk strategy form the general framework for the bank's business operations.

The risk monitoring system in place is geared towards the existing risk of default, market price risks and operational risks.

Risk monitoring and risk taking are separate functions throughout all levels of the organisation. Risks are identified and assessed and the risk management and controlling processes are developed further by Risk Controlling/Finance as part of the risk controlling function. The risk controlling function additionally includes the ongoing monitoring of the risk situation and risk-bearing capacity as well as reporting in line with the respective risk content and requirements under regulatory law. At operative level, risks are managed by the organisational units responsible for the respective risks.

The risk monitoring instruments for steering the subsidiaries enable timely monitoring and assessment of the risk situation. The subsidiaries are integrated into ILB's planning process. The strategic shareholdings/start-up initiatives and controlling units are responsible for controlling in-year developments at the subsidiaries. Quarterly reports on economic conditions as well as target/actual deviation analyses of the result and risk structure serve to inform the Management Board of developments in shareholdings. As soon as the assessment of the risk situation shows the need for action, the reports are supplemented by proposals for further action.

The Management Board bears the overall responsibility for controlling the risks of the bank and of the institution group. In accordance with the minimum requirements for risk management, the Management Board informs the Risk Committee every quarter in writing of the bank's risk situation. Furthermore, ILB's risk situation is also explained during regular committee meetings to the Administrative Board as the control body of the Management Board.

3. Risk-bearing capacity concept

In addition to defining the risk management process and responsibilities, the underlying processes and parameters that are used to measure and steer risks are also documented. The aim is to secure the bank's business and future success through efficient risk management.

In order to assess the risk profile, ILB obtains a risk overview for the bank as a whole on an annual and/or ad hoc basis as part of a risk stock-taking procedure. The major risks are the starting point for measurement and steering measures and are limited within the scope of the risk-bearing capacity concept.

Risk-bearing capacity is defined as the possibility to compensate for losses in value in the bank's equity. ILB applies as per the reporting date the period-based going-concern approach for its risk-bearing capacity concept. For this purpose, risk capital is determined on the basis of the profit and loss account/balance sheet and compared to the degree of actual risk in the form of negative deviations from the expected result under commercial law. The risk-bearing capacity according to the going-concern approach is ensured if the available risk capital is greater than or equal to the total actual risk. This approach is designed to ensure that the institution can continue operating in conformity with the requirements of regulatory laws even if all items of the risk capital used to cover risks and identified as risk-prone were lost as a result of such risks actually materialising.

In a supplementary analysis, it must be ensured as a secondary condition that the freely available risk coverage capital can cover the increased risk utilisation resulting from an assumed derating of the federal state of Brandenburg to an internal rating of 1(A-). ILB thereby addresses the strategic fact that its risk is concentrated in the federal state of Brandenburg.

Risk-bearing capacity is calculated on the basis of the determination of the risk capital. The risk capital determines the maximum amount of risk that can be taken by ILB. ILB determines its risk capital on the basis of the profit and loss account/balance sheet, by drawing up its balance sheet according to the rules of the German Commercial Code. Accordingly, the risk cover capital is made up of its subscribed capital, reserves, unrestricted reserves according to section 340f and 340g of the German Commercial Code and the net profit forecast for the year after risk provisioning and the formation of reserves as well as planned allocation to the ILB promotional fund. The deductions from the risk-covering capital comprise the value of intangible assets and an amount representing other non-substantial risks. The amount deducted for other non-significant risks is treated as a buffer for reasons of prudence. Hidden liabilities in ILB's portfolio are deducted from the risk coverage capital in as far as such hidden liabilities are significant. They are addressed separately according to their respective causes, i.e., hidden liabilities induced by interest or credit spread. Since ILB reviews the need to set up a provision for impending losses on a monthly basis in the event of risk scenarios occurring, interest-related hidden liabilities are taken into account in full. Furthermore, any significant liabilities resulting from changes in credit spreads are deducted from the risk cover capital in accordance with a rating-dependent graduated procedure. In addition to this, ILB can, when necessary, make use of undisclosed reserves from undervaluations in accordance with commercial law (such as unrealised gains from securities). However, these reserves are not included in the definition of risk capital because they can be subject to fluctuation and are therefore not permanent.

ILB determines the available risk capital on the basis of its risk capital. In this case, the regulatory capital required for going-concern purposes, including the SREP markup and regulatory capital buffers, is deducted from the risk capital. Within the scope of the risk-bearing capacity concept, the available risk capital is the maximum sum available to cover risks.

As part of medium-term planning, the capital requirement will be determined that is needed to ensure the bank's risk-bearing capability and compliance with regulatory requirements. The capital planning process considers future changes in the bank's own business activities and its relevant environment as well as the impact of unfavourable developments. In particular, regulatory developments are examined here with regard to capital requirements. Possible adverse developments are considered in addition to expected ones. The aim is to enable counter-measures at an early point in time in order to secure ILB's capital requirement even under unfavourable conditions. For capital planning purposes, the three-year medium-term planning period is additionally expanded by a two-year forecast horizon.

Depending on the amount of available risk capital, the Management Board determines a maximum loss cap for the bank as a whole. This is based not just on the targets of the bank as described in its strategy and implemented in its medium-term planning, but also ILB's risk appetite and risk-bearing capacity. In line with its bye-laws, ILB generally pursues a conservative risk policy. Its risk appetite thus ranges between risk-averse and risk-neutral. The maximum loss cap at the level of the bank as a whole quantifies the risk appetite as determined by the Management Board and determines the maximum risk capital which is to be applied at the level of the bank as a whole in order to cover all major risks. The loss cap thereby serves to limit ILB's total risk.

In line with the planned utilisation and ILB's strategic orientation, the sum available under the maximum loss cap is then allocated to the major risk types.

These risk caps are the absolute limits for the different risk types and are monitored within the framework of risk control and can be broken down further depending on the structure and degree of complexity of the particular business. This can be achieved either via further limits, threshold values or bandwidths or, if the risk cannot be quantified, in the form of qualitative requirements, by defining minimum standards, etc. Monitoring of the risk-bearing capacity for the bank as a whole is thus replaced by operative steering of individual risks.

The risk level (risk amount) is measured in the risk-bearing capacity concept on the basis of the profit and loss account in line with the period-based approach. This means that the impact of potential risks on certain items of the profit and loss account is analysed. The risk amount is defined as the negative deviation of the profit contribution of the profit and loss account within the risk horizon. A uniform confidence level of 99.0% is used in this context in as far as the model permits this. The basis in each case are the latest extrapolations for the end of the year, related to the current year and the following year. The following year is analysed in order to comply with the regulatory requirement for a period-spanning perspective. By mapping the current year and the following year, ILB thereby applies two review periods in its risk-bearing capacity concept.

Risk-bearing capacity is determined and verified for the bank as a whole on a monthly basis by comparing the actual utilisation rates of the individual risk types to the corresponding individual limits and the maximum loss cap on the level of the bank as a whole. The relevant escalation procedures applicable when defined alert thresholds are reached are applied to the different risk types for the bank as a whole. It is assumed that all the risks add up. Diversification effects which reduce risks are not considered.

Quarterly reports are a control instrument and inform the Management Board of the bank's overall risk situation. Risk-bearing capacity analyses are supplemented by examining the impact of crisis-type developments. For this purpose, scenarios are developed for a range of different risk types to simulate the effects of unusual, yet plausible, events on the bank's overall risk situation (stress tests). This includes, for instance, the annual simulation of the impact of a severe economic downturn.

The aim is to identify possible events or future changes that could have a negative effect on the bank's risk situation and its risk-bearing capacity. The analysis of the stress tests helps to warrant the bank's stability beyond the regular course of business.

Furthermore, the bank's risk-bearing capacity is tested using so-called 'inverse stress tests'. Taking the result of the impossibility to continue ILB's current business model as the basis, this stress test is used to model events that can cause such a condition. The aim is to identify strategically difficult situations which could threaten the institution's existence on a stand-alone basis, i.e., without statutory public-sector responsibility, guarantor's liability and the liability guarantee of the federal state of Brandenburg.

Monitoring of the risk-bearing capacity is supplemented by risk steering at an operational level as well as monitoring of compliance with regulatory requirements. Deviating risk quantification methods are sometimes used in this context. Steering at an operational level is in line with the risk-bearing capacity concept and the limits determined there. The limits of the risk-bearing capacity concept and the limits of operational steering must be adhered to at the same time.

Outlook

The going-concern approach to risk-bearing capacity applied as per the reporting date adequately meets the regulatory requirements.

As per 1 January 2022, the risk-bearing capacity concept was converted to the normative and economic perspective in order to meet the requirements for risk-bearing capacity in future in accordance with the realignment for the regulatory assessment of bank-internal risk-bearing capacity concepts.

In 2021, the effects of the new risk-bearing capacity approach were already considered parallel in both perspectives. The risk-bearing capacity was always ensured on the individual reporting dates of the parallel phase. The result showed that

- ILB's risk-bearing capacity will be ensured in both perspectives,
- the normative view, taking into account regulatory capital requirements, will continue to be the bottleneck and
- the introduction does not result in any significant changes to ILB's business policy objectives and management.

Dealing with the Covid 19 pandemic

In the base scenario, ILB initially assumes a 'constant level of risk'. Due to the persistently dynamic situation with the Covid 19 pandemic, it cannot be ruled out that the economic crisis will increasingly be reflected in the KPIs of commercial enterprises. This will probably also impact ILB's risk-bearing capacity since the risk parameters (for instance, ratings) can sometimes only respond to the current situation after a certain delay. However, no significant crisis-related increases in risk have been observed so far when considering risk-bearing capacity in its entirety. That being said, in view of the possible re-emergence of the Covid 19 pandemic and its direct and indirect economic consequences, deteriorations in the risk structure are possible in principle.

In addition to the basic scenario, ILB also considered a stress scenario which assumes a significant worsening of the Covid 19 pandemic compared to the basic scenario and a deep and long-lasting global economic crisis as a result of this (most recently as per 31 March 2021). Very far-reaching deteriorations of the current situation are simulated in the stress scenario. Even in the stress scenario of a “Global economic crisis due to the Covid pandemic“, the bank’s risk-bearing capacity is ensured and all regulatory requirements can be met in full.

4. Different types of risks

Risk stock-taking is carried out within the scope of risk-bearing capacity as per 31 December of each year as the reporting date and as required by circumstances. Risk stock-taking as required by circumstances can, for instance, be triggered by new product introductions or changes in environmental conditions. Based on the results of the previous year‘s risk stock-taking, the risks already identified are reassessed with regard to their risk relevance for ILB. Depending on their significance, they are classified as relevant or not relevant. To this end, ILB has established a quantitative materiality criterion. A risk is relevant if it is explicitly defined as such in the minimum requirements for risk management (MaRisk) or if its impact exceeds the quantitative materiality threshold for a risk to be relevant. In addition, a comparison is made with conceivable risks which are then assessed to see whether they could be considered at all for ILB. The identified risks are then assessed in accordance with the defined materiality criterion.

The result of risk stock-taking is transferred to a risk matrix in which all significant risks are identified. The results derived are partially documented in separate evaluations for risk stock-taking. The result of risk stock-taking is presented to the Management Board by the head of the risk controlling function in order to assess the overall risk profile and is centrally stored in the controlling unit.

The risks identified as material in risk stock-taking are generally included in the risk-bearing capacity concept.

The following risks are considered to be relevant for ILB:

- Default risk
- Market price risk
- Liquidity risk
- Operational risk

Concentration risks, for instance, revenue concentration, are considered as part of the stock-taking process. The relevant risks identified during the stock-taking process are monitored and managed in accordance with the principles laid down in the risk strategy, the loss cap and loss limits for the individual risk types within the scope of the risk management process.

ILB is aware that sustainability risks can have a significant impact on the known risk types, even though they do not represent a separate risk type. In particular, known risk factors of credit risk can be negatively impacted by sustainability risks. Against this backdrop, ILB conducts stress tests related to the sustainability risk in order to show the effects across different risk types.

4.1 Default risk

Default risk describes the risk of partial or complete default on a contractually agreed service by a business partner. It includes default risks from on-balance sheet and off-balance sheet transactions (credit risk/shareholder risk), replacement and settlement risks (counterparty risk), issuer risks and country risks.

Default risks arise in proprietary lending business (ILB promotional programmes), which is conducted to fulfil ILB's business and development policy tasks. Furthermore, default risks arise in treasury business. The focus here is essentially on ECB-eligible investments.

ILB generally pursues a conservative risk and investment policy.

The bank does not bear any default risks for lending business and assets managed on a trust basis for the federal state, such as the State Housing Construction Fund ("Landeswohnungsbauvermögen", LWV), a special-purpose federal-state fund managed by the bank on the basis of approved budgets and management principles on behalf of the Brandenburg Ministry for Infrastructure and Regional Planning.

4.1.1 Steering/monitoring

Default risks are managed on the basis of the separate default risk sub-strategy. This is updated at least once a year and, in addition to strategic risk objectives and risk appetite, primarily defines the guidelines for default risk management, sub-loan portfolio limits and material credit requirements for ILB's lending business (ILB promotional programmes/treasury).

ILB has established a working group to steer default risks. The working group is the central body for steering the bank's default risks. It advises the Management Board and prepares resolutions by the Board. The meetings are attended by the members of the Management Board as well as the heads of the risk controlling function, treasury management as well as heads of front and back office.

The working group for default risks meets regularly before the quarterly reports are due and during the course of the planning process. This body is additionally convened in response to decision-relevant issues and at the chairperson's request or in the case of important forthcoming individual decisions at the request of the manager responsible for the product area concerned.

Furthermore, the rolling one-year default risk utilisation has been limited as part of operative management.

Default risks with sub-loan portfolios are monitored by back office/loan management in cooperation with ILB's risk controlling.

At the end of each quarter, a comprehensive analysis and assessment of the default risk for the entire bank is carried out for business involving loans guaranteed by ILB. The result of this analysis forms part of risk reporting to the Management Board and the risk committee of the Administrative Board. Besides presenting the loan portfolio, the risk report also assesses the default risk and, if applicable, recommends risk steering measures.

The most important implications of default risks according to the bank's risk-bearing capacity are additionally compiled in a monthly "ILB risk report".

4.1.2 Measurement/valuation

To quantify the risk of default for the bank as a whole, a rating-based method is applied to ILB's entire portfolio in analogy to the IRBA (Internal Ratings Based Approach) concept provided for in regulatory law.

Internal ratings are used as a basis for the risk-sensitive evaluation of items which are then consistently integrated into ILB's risk-bearing capacity concept. Risk concentrations at the borrower end in the portfolio are also taken into account. Furthermore, risk buffers are used to reflect migration and sector risks in the portfolio.

With this method, the decline in the value of ILB's portfolio caused by defaulting debtors can be assessed which, statistically, will not be exceeded in 99.0% of all possible cases (Value at Risk (VaR) with a confidence level of 99.0%). This total portfolio loss represents the risk amount for default risks and can also be split up into sub-portfolios and/or portfolio items for steering purposes.

It is not possible to apply this method in the case of sub-portfolios with a minor volume. If the items concerned are subject to a default risk, they are then valued according to the credit risk standardised approach as provided for by the regulator.

The default risk determined in this way applies to ILB's portfolio on the day of the analysis for a one-year risk horizon. The risk-bearing capacity concept requires consistent periodisation of risks. As the year progresses, the period during which potential risks can materialise becomes shorter. In the determination of default risks, this is achieved by scaling default probabilities. The following year is analysed on the basis of the planned stocks at the end of the year assuming an unchanged risk structure in the planning items and for the bank as a whole.

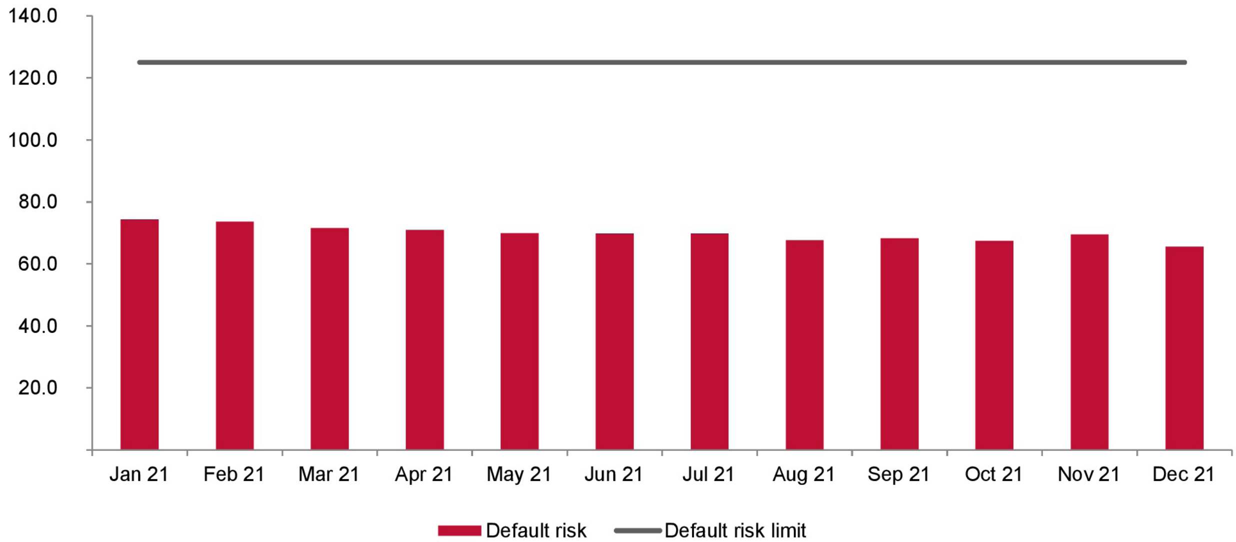
Default risks are reflected in the valuation result of the profit and loss account. As part of planned risk provisioning, the planned net earnings for the year and therefore the entire risk capital are burdened accordingly.

Risks that have materialised during the current year are represented by itemised allowances or write-offs to the lower going-concern value, direct write-downs or provisions and are also reflected in the latest extrapolation of net earnings for the year. Planned and actual default risks are therefore already included in the planned net earnings for the year and reduce risk capital. In order to cover latent credit risks, general loan loss provisions are formed, the amounts of which are consistently derived from the internal risk measurement method.

Any default risks over and above this within the meaning of a loss for the portfolio as a whole must be covered by available risk capital and are limited (risk utilisation amounting to the unexpected loss).

Risk utilisation for default risks is represented by the following curve over the year:

Development of default risk per the reporting date for the one-year horizon (in million EUR)



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e., 2022, is shown which refers to the one-year horizon throughout. In the period under review, risk utilisation has consistently moved within a corridor of between EUR 66m and EUR 74m. During the further course of 2021, a year strongly impacted by the Covid 19 pandemic, positive and negative effects of individual exposures at ILB's portfolio level neutralised each other and/or diversified in the overall portfolio, so that the previous risk structure can be assessed as stable despite the economic downturn.

As per the reporting date of 31 December 2021, risk utilisation amounted to EUR 66m, corresponding to a utilisation rate of 52% in relation to a limit of EUR 125m.

The default risk cap was adhered to at all times during the year under review.

Risk classification method

Standardised rating procedures recognised by the regulatory authorities and applied by Sparkassen Rating und Risikosysteme GmbH (S-Rating) are used to assess the risk of default at individual borrower level.

The following methods are used:

- Sparkassen-Immobiliengeschäftsrating (SIR) mainly in real estate customers/leasehold property business
- Sparkassen-Standardrating (STR) mainly in commercial and public customer business
- KundenKompaktRating (KKR) mainly for borrowers in non-risk-relevant lending business of the business areas of economy, infrastructure financing and residential construction (real estate financing/rented apartments).

For municipal loans and financial institutions, ratings are assigned to the uniform DSGV master scale in accordance with the SR system.

The risk classification methods are applied on a regular basis and/or as required in loan approval and loan monitoring processes. The procedures are also validated on a regular basis.

4.1.3 Loan risk

Loan risks result from the bank's own lending business within the framework of ILB's promotional programmes (economy, infrastructure, housing construction, business start-ups) as well as treasury business.

In keeping with ILB's conservative risk culture, the risk structure of the bank's loan portfolio can be classified as low-risk.

ILB's own lendings portfolio totalled EUR 13,347m as per the 31 December 2021 reporting date. 82% of the loans in ILB's own lending portfolio (excluding special funds) were rated excellent (SR ratings 1-2) or collateral was provided (usually public guarantees or collateral in rem).

ILB's promotional programmes

Borrowers are primarily the public sector (federal states, municipalities, public service companies), banks, housing associations and, to a lesser extent, commercial borrowers. The focus is on the federal state of Brandenburg.

Due to inter-state fiscal adjustment, the law on general fiscal adjustment with municipalities and the municipal associations in the federal state of Brandenburg as well as the “debt brake“ laid down in the constitution (including the suspension of the debt brake since March 2020 in conjunction with the Covid 19 pandemic), ILB continues to see only a slight default risk in public-sector loan business as the bank's largest loan sub-portfolio.

In lending business with banks, loans are passed on to the final borrower's bank without any risk for ILB with regard to the default risk of the final borrower. In the case of such bank-to-bank loans, ILB bears the default risk of the applicant's bank which is additionally secured by assignment of the final borrower's claim.

Housing finance is largely extended to borrowers with unblemished credit ratings (such as municipal housing associations and cooperatives) and with standard bank collateral. A high share of collateral is generally targeted, which has a credit risk-reducing effect on this sub-loan portfolio.

Credit risks from off-balance sheet transactions consist primarily of irrevocable loan commitments and contingent liabilities in the form of risk sub-participations in syndicated loan business.

Lending business in 2021 was also marked by the Covid 19 pandemic. As per 31 December 2021, deferments were granted for 351 contracts with a remaining capital debt of EUR 34.6m, among other things, to reduce the default risk of certain borrowers in conjunction with the Covid 19 pandemic. 240 of these contracts with a residual total capital debt of EUR 31.0m were attributable to house bank business. According to current estimates, these are neither forbearance measures nor early warning indicators for impending defaults since there is basically no deterioration in the economic situation of the house banks.

The (possible) effects of the increase in default risks resulting from the Covid 19 pandemic were once again continuously monitored in 2021 and have so far proven to be only minor.

Treasury

In treasury business, credit risks arise primarily from the purchase of securities for ILB's banking book. In addition, money market transactions are concluded to a small extent. Securities purchased are mainly from the public sector and banks, as well as bonds and, to a lesser extent, corporate bonds.

In 2014, ILB set up a special corporate bond fund (minimum rating: investment grade). The limit for the special fund was increased from EUR 200.0m to EUR 350.0m in 2021. Since June 2021, corporate bonds have been purchased only through the special fund. Residual holdings in the banking book were either transferred to the special fund or expire at maturity in the banking book. The limit for the special fund also serves to cover ILB's legacy holdings in the banking book.

ILB also pursues a fundamentally conservative investment policy in the area of treasury and strives for broad diversification of credit risks in the portfolio.

Default risks are evaluated taking into account the rating by external rating agencies (Standard & Poor‘s, Moody‘s, Fitch) and on the basis of our own assessments. Purchases are contingent upon a minimum 'A' rating of the security concerned by one of the rating agencies (Moody's, Standard & Poor's or Fitch). An external minimum BBB rating is accepted for a limited part of the portfolio.

4.1.4 Counterparty risk

Counterparty risks (replacement risks and settlement risks) also arise in treasury business from the conclusion of derivatives or repo transactions.

Counterparty risk is of relatively minor importance for ILB. Derivatives are only concluded to hedge interest rate and currency risks and only with selected market partners (“A“ rating as a minimum).

ILB also clears standardised OTC derivatives via central counterparties. Non-clearable derivative transactions are typically collateralised bilaterally on the basis of collateralisation annexes. Regulatory netting applies to existing business.

Due to the protection mechanisms, such as a default management process, a margin process, margin calculation methods as well as general risk control methods of the central counterparties, the default risk is considered to be mostly secured and low.

As existing business is phased out and cleared new business and/or business with bilateral collateral is developed, counterparty risk for derivatives will decline.

4.1.5 Country risk

Country risks in the narrower sense include, as part of default risk, the risk of partial or complete default on a contractually promised performance by a business partner due to an external transfer event (for instance, a government payment moratorium). In a broader sense, country risks represent a level of concentrated risk management in the loan portfolio.

In line with ILB’s business strategy, country risks are of limited relevance to the bank’s portfolio, both in the narrower and broader sense.

Within the framework of ILB’s promotional programmes, ILB focuses its business almost exclusively on Germany and, in this regard, on the federal state of Brandenburg. In this respect, country risks occur to a limited extent, mainly in treasury business (banking book and special funds).

Here, too, investments are made predominantly in securities from the European Economic Area or the Eurozone. Country risks in the narrower sense exist to a limited extent with counterparties in the UK and Poland.

The country risk outside Germany is limited by country caps. These caps are determined on the basis of external ratings, as well as the gross debt and GDP of the country in question. In order to avoid risk clusters, country limits are additionally determined for direct country risks and included in the respective limits. The adequacy of the limit is reviewed semi-annually.

4.1.6 Shareholder risk

Shareholder risk is the risk that losses may be incurred due to the provision of equity for third parties.

In the performance of its statutory obligations, ILB holds strategic shareholdings only. It acquires shareholdings primarily in order to pursue important interests of the bank or to assume tasks resulting from federal state structure policy. ILB also provides national co-financing as part of EU financing instruments.

ILB holds equity interests in capital investment companies (providing equity capital for companies in the federal state of Brandenburg), a real estate company (developing real estate projects in the federal state of Brandenburg) and other companies (supporting ILB’s other activities).

As of 31 December 2021, ILB’s total corporate investments had a book value of EUR 113.0m. Large parts of ILB’s equity investments are secured by guarantees or financed by grants from the federal state of Brandenburg, so that ILB is not exposed to any significant potential loss from these commitments.

Sufficient risk provision has been made for the risks attached to the remaining shareholdings.

4.1.7 Opportunities/risks

In line with its business policy mission, ILB accepts default risks to a very limited extent only. ILB receives margin contributions for the risks it assumes.

As part of its annual planning process, the bank addresses any uncertainties regarding the development of the value of its lendings through value adjustments based on conservative estimates.

Opportunities result from positive deviations of the defaults actually materialising as compared to estimates.

4.2 Market price risk

Market price risk is generally the risk which negative developments on a market can pose to the bank. Market risks include interest rate risks as well as the exchange rate risk, currency risk and other price risks.

In order to fulfil its promotional and structure-policy tasks for the federal state of Brandenburg, ILB must carry out typical banking business, such as:

- Loan business with small volumes and varying terms
- Prefinancing until refinanceable lot sizes are reached at acceptable prices
- Adherence to offer deadlines in customer loan business and the resultant market price fluctuations
- Investment of free liquidity necessary due to the delayed application of funds in loan business (such as EIB refinancing) on money and capital markets in conformity with general market conditions

The resultant term and deadline mismatches lead to market price risks under unfavourable market conditions characterised by high volatility and market distortions. This can have an adverse impact on ILB’s revenue situation.

The following types of market risks were identified for ILB:

- Interest change risk
- Market price risk
- Currency risk
- Risk from implicit and explicit options (caps, floors, swaptions)
- Plans are in place to take on a small amount of share price risk in the future

Market risks are steered by risk management based on the minimum requirements for risk management. ILB does not enter into positions with a trading intention pursuant to Art. 4 No. 85 CRR and hence does not maintain a trading book.

4.2.1 Interest rate risk

Interest rate risks exist for ILB with a view to different fixed-interest rate periods in lending and borrowing business. ILB's transformation function in conjunction with interest rate change risks is geared towards ensuring a long-term and stable contribution towards the bank's net interest income. Treasury is responsible for steering the interest rate risk. The interest rate risk is covered by transactions with a direct balance sheet effect as well as swaps, forward rate agreements, swaptions and caps.

The interest rate risk is calculated and limited in the risk-bearing capacity risk by measuring the periodic interest rate change risk.

From the perspective of the profit and loss account, interest changes have a direct impact on interest income. The risk is defined here as the negative deviation between forecast and actual interest income. The last day of the current year and the last day of the following year are considered here. Interest changes particularly affect variable-interest business as a result of interest rate adjustment and the terms and conditions of new business. These influences are quantified by analysing the impact of potential interest rate developments. The basis for this is the interest rate trend according to latest forecasts which is varied within the scope of scenario analyses. The scenarios applied are derived from history and represent interest rate developments in all possible directions (parallel shifts, rotation, etc.). These scenarios, which are derived from historical data, are supplemented by six additional scenarios which were selected based on the banking supervisory early warning indicators in conjunction with the Interest Rate Risk in the Banking Book (IRRBB).

It must also be noted that changes in interest rates also influence the cash value of ILB's interest ledger. This influence can have a direct impact on net income if a potential reduction in cash value leads to a provision for anticipated losses for ILB's interest ledger. A provision must be formed if the book value of ILB's interest ledger exceeds the cash value minus future administration and risk costs. ILB takes this aspect into account when calculating the risk capital, taking account of interest rate risk scenarios.

In addition to monitoring the periodic interest rate risk in risk-bearing capacity, operative interest rate risk management is carried out by ILB by valuating the cash value of the payment flows of all transactions with interest rate change relevance. This addition enables adequate operative management combined with consistent consideration of interest rate risks in the risk-bearing capacity analysis. In determining risk, the bank considers all interest-bearing items in the interest ledger up until their respective fixed-interest period. ILB does not have any variable-capital products with an indefinite term in its books. This means there is no need to integrate maturity scenario models into the bank's interest ledger. The effects of implicit options from customer business are taken into account depending on the respective interest rate scenarios.

The software used at ILB permits integrated interest ledger management. Besides period-based measurement of the interest rate risk in order to calculate risk bearing capacity, operative measurement of the cash value of interest rate risks is also possible in this way. The transfer of profit and loss for the period to cash-value based presentation is thus consistently possible with a single steering system.

The amount of the maximum cash-value interest rate risk to be taken is limited via the value-at-risk (VaR) on the basis of a historical simulation and a holding time of one month in line with the requirements of the periodic view. This is based on the impact which real changes in interest rates observed over a 10-year period have on the bank's interest ledger cash value by reference to 2,500 historical interest rate curves. In order to prevent one-sided historical trends, yield curve developments are also mirrored. The bank has determined a 99% confidence level as the parameter.

Besides limiting interest rate risks, the efficiency of the open items entered through matching maturities is measured and steered by reference to a benchmark. The aim is to optimise ILB's opportunities-to-risk ratio in accordance with this benchmark and by observing a specified tolerance band.

In order to assess the impact of extraordinary market changes on the interest rate risk, hypothetical extreme or worst-case interest rate scenarios are additionally simulated.

The limits determined by the Management Board in order to limit interest rate risks were generally adhered to during the 2021 financial year. The interest rate risk was steered to a very low level in 2021. In November and December 2021, it was also briefly lowered below the tolerance range (lower leverage limit), which is not considered critical. This did not have any effect on net interest income planning. From 2022 onwards, a further reduction of the interest rate term transformation will be permitted, because the interest rate term transformation from the continued flat yield curve is not very attractive.

In addition to this absolute and relative value-at-risk-based management of interest rate risks, further management scenarios result from the regulatory requirements in accordance with “Circular 06/2019 (BA) - Interest rate risks in the banking book“. This involves measuring the potential effects of sudden and unexpected interest rate changes in different directions (parallel shifts, rotations). The quantification of these variables (in particular, the standard scenarios with parallel shifts of +/-200 base points) is also the basis for determining the interest rate risk component when calculating ILB’s SREP premium.

The interest rate risk is supervised by Risk Controlling/Finance. On every trading day, the value at risk, the supervisory standard scenarios and the benchmark lever are determined and checked for adherence to the applicable requirements as part of operative management. The monthly risk report submitted to management by the head of risk controlling contains details of the interest rate risks taken from the perspective of operative management and with a view to risk-bearing capacity. Furthermore, extreme and worst-case scenarios are simulated in order to assess the impacts of extraordinary market changes on the interest rate risk.

When limits are exceeded, the Risk Controlling/Finance function immediately informs the Management Board and the Treasury function.

4.2.2 Market risk

ILB does not enter into positions with a trading intention pursuant to Art. 4 No. 85 CRR and hence does not maintain a trading book. This means that the bank does not actively trade any securities, fund shares, currencies, derivatives or raw materials in order to generate profit. ILB generally buys securities with the intention of holding them until final maturity (long-term portfolio). The investment horizon of the special fund is also orientated towards the long term. ILB therefore carries all securities and the special fund as investment holdings. The securities and the special fund are valued according to the diluted lower of cost or market principle, changes in market price thus have no effect on ILB’s valuation result unless permanent impairment is to be assumed.

ILB pursues a differentiated approach to addressing risks arising resulting from credit spread changes in period-orientated risk-bearing capacity:

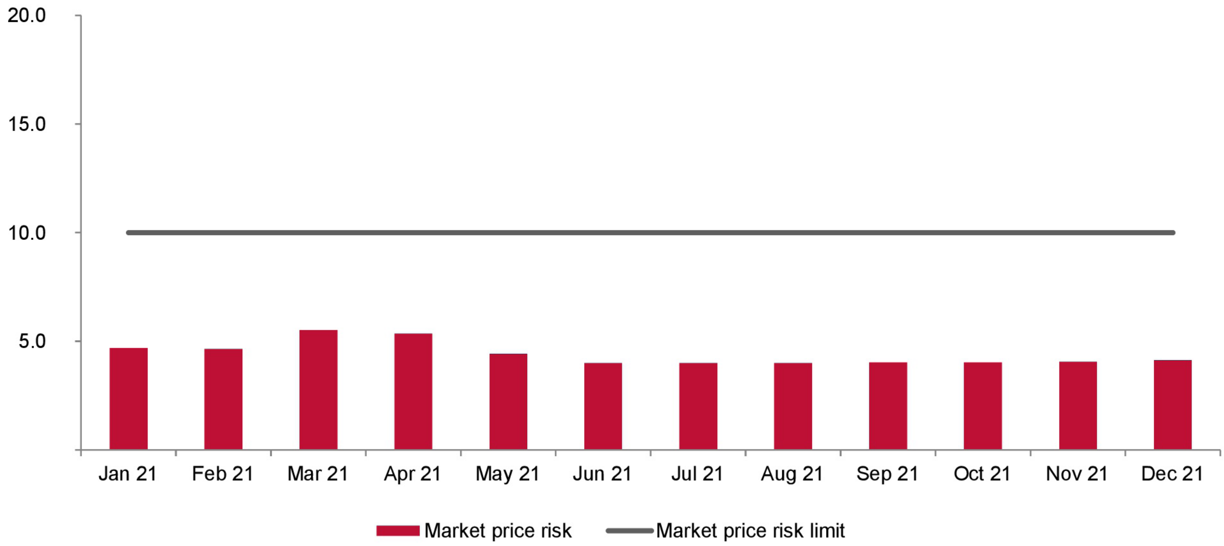
Hidden liabilities resulting from changes in credit spreads as per the reporting date are already taken into account as a deduction when calculating the risk capital using a rating-related method. There is also a risk that credit spreads in the investment portfolio may change during the observation period. As per the reporting date, ILB does not maintain a separate model for determining this risk, but has analysed the potential effects of credit spread changes on the basis of a scenario analysis. On the basis of these results, ILB addresses the credit spread risk in the form of a risk buffer of EUR 4m as utilisation of the market price risks in its risk-bearing capacity. The risk buffer is not period-related.

Furthermore, changes in the market price of securities are monitored by ILB as early warning indicators in order to assess risks from a possible reduction of the refinancing potential of open-market securities and to identify latent credit risks.

Due to the Covid 19 pandemic and its possible impact on financial markets, reporting on trading transactions at ILB was temporarily shortened to a weekly cycle in order to ensure a timely information basis. In February 2021, the rotation was adjusted back to the pre-crisis frequency (twice monthly) after no steering-relevant market movements were observed. If necessary, reporting intensity can be readjusted again at short notice.

Risk utilisation for market price risks is represented by the following curve over the year:

Development of the market price risk per the reporting date for the one-year horizon (in million EUR)



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e., 2022, is shown which refers to the one-year horizon throughout.

Utilisation of the credit spread risk and interest rate risks is counted towards the periodic limit for market price risks to the amount of EUR 10.0m. The credit spread risk is taken into account via the risk buffer at a constant level of EUR 4.0m. The periodic interest rate risks were consistently at a low level of between EUR 0 and EUR 1.5m. Fluctuations during the course of the year are mainly due to changes in short-term cashflow structures which are primarily influenced by interest rate fixings in variable-interest business. The long-term cashflow structure of this investment is orientated towards the benchmark structure set for strategic reasons and is therefore relatively stable. Accordingly, the fixed interest rates and dates of future fixed interest rates on the assets and liabilities side in the short-term area and the yield curves existing at these points in time have a significant impact on periodic interest rate risks.

Overall, it can be stated that the limit for market price risks was adhered to at all times. At the end of 2021, it was utilised to 41% for the following year 2022.

4.2.3 Currency risk

Transactions in foreign currencies are fully secured immediately on closing through foreign currency interest swaps so that ILB does not incur any currency risks in conjunction with these transactions.

4.2.4 Option risk

Options can generally take different forms (explicit and implicit options) and they can be contained in different products. An option is the right of a party to perform a certain action (for instance, early redemption), whereby the counterparty is obliged to follow this action. Option-related risks can arise if this leads to obligations on the part of ILB (writer of an option).

Explicit options include, in particular, options from customer business where the customers have a right, but not an obligation, to terminate their (loan) agreement or to make unscheduled repayments. ILB generally refrains from such agreements, but special repayment agreements are conceivable in exceptional cases. However, the total lending volume is insignificant here, and new business is practically non-existent. There are currently no plans to issue callable bearer bonds, so there is no call risk. The risk from explicit options in customer business is hence insignificant.

On the other hand, options can exist as part of a financial product, including caps, floors and swaptions. All such financial instruments held by ILB primarily serve the purpose of hedging and – just like securities without termination rights, for example – are fully included in the bank's management systems and therefore do not require separate monitoring as a specific risk category. ILB pursues a holistic management approach.

Implicit options in the interest ledger are termination rights which customers have under the German Civil Code. This is an option or right, but not an obligation, to terminate the loan and to redeem the outstanding balance ahead of schedule. This right is a risk for ILB. Each time such an option is exercised, this constitutes a deviation from regular redemption payments and has implications especially for net interest income, cash value and the interest rate risks measured. Due to persistently extremely low interest rates, customers increasingly ask for and agree upon long-term fixed-interest periods which are subject to statutory termination rights pursuant to section 489 of the German Civil Code. The implicit options resulting from these transactions are fully included and monitored in the interest ledger management. A limit system ensures a threshold for risks.

4.2.5 Other price risks

During the period under review, ILB did not hold any shares and was hence not exposed to any share price and other price risks.

In order to stabilise earnings for the bank as a whole, asset classes are to be expanded to include equities beginning 2022. To achieve an efficient diversification of risks, the aim is not to invest directly in individual shares, but in share portfolios that are as diversified as possible (for instance, through ETFs). The new asset class will be entered into via a savings plan, so that risks will increase moderately in line with the gradual entry while gradual integration into the overall bank management will take place.

4.2.6 Intra-risk concentrations

Interest rate risk concentration can arise when open positions in individual maturity bands accumulate due to steep changes in interest rates there. Open positions in long maturity segments have a particularly negative impact on the interest rate risk since the effects of interest rate changes on the present value increase as fixed-interest periods increase. The interest rate risk is distributed relatively evenly across the maturity bands. The remaining risk concentration is considered to be easily monitorable. A reduction of concentration is possible through suitable derivative transactions. Due to the benchmark-orientated investment strategy, there is no need for additional management of interest risk concentrations.

ILB is exposed to a market value risk in the case of a declining market value of assets that can be valued at market prices and losses in the interest ledger. There is a risk concentration in that ILB's securities portfolio consists of bonds with the highest security requirements the value of which can decline if interest rates generally rise or if the liquidity or credit rating spread widens. This has direct effects in as far as it reduces the value of collateral for ILB's refinancing possibilities. A lower market value hence leads to lower collateral potential for open market transactions or for repo transactions. In addition to securities, ILB also has receivables suitable for MACCs in its portfolio as open-marketable material. No risk concentration therefore exists with regard to market value risks within the scope of open-market-enabled collateral. Market value risk concentrations can therefore be classified as insignificant.

4.2.7 Opportunities

ILB's transformation function in conjunction with interest rate change risks is geared towards ensuring a long-term and stable contribution towards the bank's net interest income. ILB therefore accepts interest rate risks to a limited extent only. This means that the volume of both risks and opportunities is generally limited. Additional opportunities arise if the interest structure becomes steeper with persistently low money market interest rates. ECB projections as well as the current economic situation, including the significant fiscal and monetary policy measures to cushion the Covid-19 crisis, however, suggest a persistently low and flat interest rate landscape. The ECB does not expect monetary policy pressure from inflation developments and expectations to be of a lasting nature. The framework conditions for maturity transformation are perceived as permanently restricted. Against this backdrop, ILB already began reducing maturity transformation at the end of 2020. In the event of increasing attractiveness due to a steepening yield curve, ILB is always in a position to take advantage of the associated opportunities for maturity transformation and to adjust its positioning to market conditions.

Changes in prices in ILB's securities portfolio (price risks) do not have any direct impact on the bank's earnings due to its intention to hold such securities for the long term, so that price changes do not result in any direct opportunities for ILB.

4.3 Liquidity risk

Liquidity risks can be distinguished in two dimensions. Liquidity risk in the narrower sense typically refers to the risk that the bank may not be able to meet payment obligations in full when they become due (illiquidity risk). However, there is also a liquidity spread risk (liquidity risk in the broader sense). This risk materialises when the bank, as a result of a change in its own credit standing, can obtain the required funds only subject to changed terms and conditions.

ILB is generally risk-averse with regard to liquidity risks. However, liquidity transformation is permitted in order to differentiate contributions to profit on condition that liquidity is ensured at all times.

4.3.1 Liquidity risk in the narrower sense (illiquidity risk)

The following types of illiquidity risks were identified for ILB:

- Refinancing risk: follow-up refinancing risk due to different capital commitment periods on the assets and liabilities sides of the balance sheet
- Maturity risk: delayed repayment in loan business
- Call risk: immediate utilisation of open payment obligations, unexpected withdrawal of deposits
- Market value risk: value losses of open-market assets that can be used for refinancing purposes
- Market liquidity risk (risk of being unable to sell positions when scheduled or at a discount only)
- Intra-risk concentration (risk of concentration of liquidity potential)

Maturity risks and call risks are of minor importance at ILB. There is no passive call risk because ILB is not engaged in deposit business and because bearer bonds issued do not have any premature return options or because repurchases are not permitted. The market value risk is of secondary importance for ILB due to the high diversification of assets eligible for the open market.

ILB ensures its liquidity through long-term refinancing planning. Bank refinancing continues to account for the majority of refinancing sources. The largest refinancing partners are publicly owned and can be regarded as very reliable. ILB also issues bearer bonds in order to diversify its sources of financing on the capital market. Issue planning is part of refinancing planning and supplements it with regard to the diversification of refinancing sources. Should cluster risks nevertheless arise in conjunction with the issue of bearer bonds, it can be assumed that any resultant refinancing gaps can be closed due to ILB's high credit rating and the existence of other well-diversified refinancing possibilities and liquidity potential – the risk is considered to be low. Fitch's "AAA" rating awarded in June 2021 confirms this opinion.

ILB's treasury steers the bank's liquidity through its daily transactions. Funds are raised and invested on the basis of expected incoming and outgoing payments in order to meet the bank's contractual obligations and in accordance with the reports by the specialised departments. In line with its operations, ILB has a high share of payment flows that are fixed and can therefore be planned.

Due to the different nature of the risks compared to the period risk-bearing capacity calculation, illiquidity risk is measured and managed on the basis of a comparison of the refinancing demand with the existing refinancing potential in a dedicated steering process. The focus is on warranting liquidity at all times.

In order to ensure that ILB can meet its payment obligations at all times, the bank has money market lines available with commercial banks and institutional investors, a portfolio of ECB-enabled securities, loans and advances that can be used in open-market transactions for short-term funding through Deutsche Bundesbank and/or the European Central Bank or through repo transactions. Normally, ILB also has loan commitments and the issuance of bearer bonds at its disposal as sources of refinancing. ILB has a sufficient, sustainable liquidity reserve in the form of securities eligible as collateral at the central bank. This liquidity reserve enables the bank to cover additional liquidity requirements which may arise under stress conditions. This means that ILB has an extensive refinancing potential that enables it to generate sufficient liquidity, even under extreme circumstances and largely independent of the general market situation. If fixed limits are exceeded, appropriate measures are introduced in order to improve the liquidity situation depending on its severity. Risk Controlling/Finance is responsible for monitoring and issues a monthly risk report as part of monthly risk reporting to the Management Board. Reporting on the short-term liquidity situation is supplemented by a long-term forecast over a 10-year period as well as a report on compliance with the regulatory liquidity indicators.

In order to measure the liquidity risk, ILB uses a software that enables integrated interest rate and liquidity risk management. The effects of changes in business can hence be evaluated on a budget and actual basis from a revenue, interest risk and liquidity risk perspective.

The Covid 19 pandemic has created a global crisis situation. Since the crisis began, the insolvency risk has therefore been managed using the “macroeconomic crisis“ stress scenario by assuming far-reaching, exacerbating effects on liquidity potential and refinancing requirements. However, no restrictions have in fact arisen for ILB with regard to refinancing options, which is why the normal scenario will probably be used again in 2022.

In the year under review, ILB was always able to provide itself with sufficient liquidity, both on the interbank market and through repo transactions. ILB has further expanded its refinancing base by issuing bearer bonds. In September 2021, a bearer bond of EUR 500.0m was issued at attractive terms. ILB has also signed comprehensive contracts with German and European development banks to secure long-term refinancing options. ILB had sufficient unused liquidity potential at all times during 2021, even under the more stringent assumptions of the “macroeconomic crisis“ stress scenario.

The regulatory liquidity requirements in their current version were met with a substantial buffer: According to the monthly regulatory reporting, the liquidity coverage ratio, which represents the short-term liquidity risk, ranged between 428% and 2,383% (required: minimum of 100%) during the financial year. The requirements for the net stable funding ratio were also met at all times with values above 112%.

4.3.2 Liquidity risk in the broader sense (liquidity spread risk)

Even when liquidity is maintained, liquidity costs constitute a risk. Given an incomplete match between the maturities of incoming and outgoing funds, there is a risk that follow-up business will be subject to higher refinancing costs should ILB‘s creditworthiness decline (expansion of the liquidity spread). When ILB’s liquidity spreads increase, the existing refinancing gap must be closed at higher cost. This risk is reflected in the period-related risk analysis by declining net interest income.

The bank’s liabilities are secured by statutory public-sector responsibility, guarantor’s liability and the liability guarantee of the federal state of Brandenburg and are subject to an external long-term issuer default rating of AAA issued by Fitch.

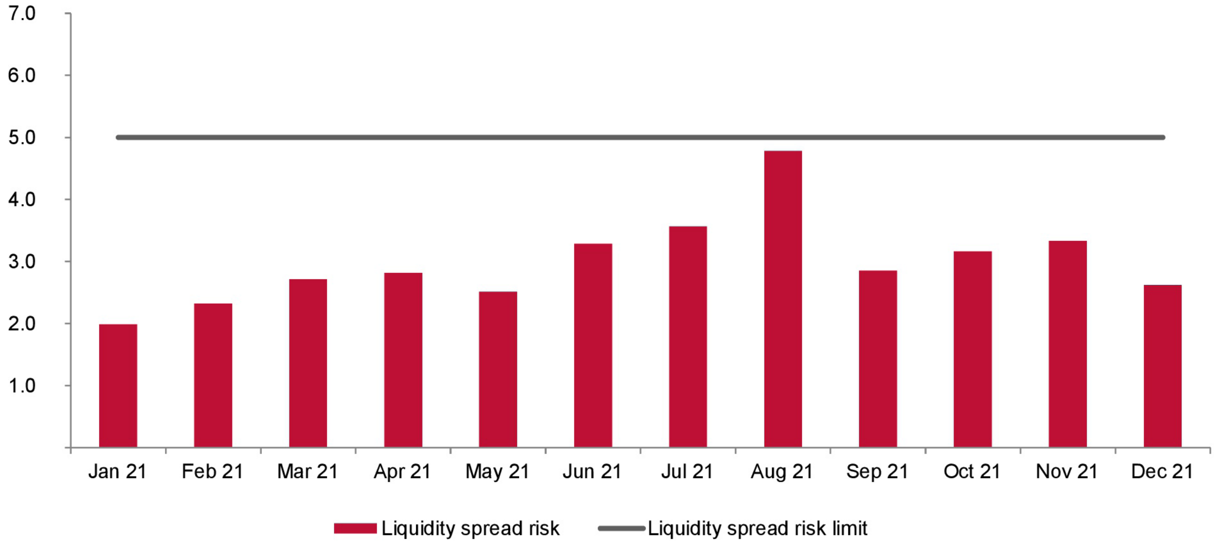
ILB is hence able to obtain liquidity at competitive terms because counterparties regard its creditworthiness to be comparable with that of the federal state of Brandenburg.

The bank hence expects to be generally able to obtain refinancing at prime terms in the future.

The risks of potential and realistic increases in liquidity spread are considered to be low. However, the risk-bearing capacity concept includes a model for quantifying this risk type. On the basis of historical changes in ILB’s liquidity spreads, this model simulates the impact of potential increases in refinancing costs on net interest income for the current and for the next year. Monitoring is carried out on a monthly basis and is integrated into the risk report for the bank as a whole as well as the monthly risk report.

Risk utilisation for liquidity spread risks is represented by the following curve over the year:

Development of the liquidity spread risk per the reporting date for the one-year horizon (in million EUR)



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e., 2022, is shown which refers to the one-year horizon throughout. The limit of EUR 5.0m for the liquidity spread risk was adhered to at all times during the year under review, with maximum utilisation for 2022 totalling EUR 4.8m. The maximum utilisation of EUR 4.8m took place immediately before the planned issuance of the bearer bond and decreased significantly as a result of the successful placement. When measuring risk, ILB also takes planned new business into account. Overall, liquidity spread risks continue to be a minor risk.

4.3.3 Opportunities

Thanks to its status as a promotional bank and the liability guarantee of the federal state of Brandenburg, ILB is in a position to refinance its activities at favourable terms and conditions on money and capital markets. As already seen when financial markets were tight, additional opportunities result from a further reduction of the bank's own risk spread whilst at the same time expanding the refinancing spread in the finance environment. The external Fitch rating increases the attractiveness of issued bonds on the capital market and gives ILB access to a wider circle of investors.

Furthermore, ILB can avail itself of the attractive conditions of targeted public refinancing programmes by central banks to make its own contribution towards securing the liquidity of the economy in the federal state of Brandenburg.

4.4 Operational risk

Operational risk (OpRisk) is the risk of losses due to the unsuitability or failure of internal procedures, people and systems or due to external factors. The legal risk is included in this definition, strategic risks are excluded. Reputational risks are also taken into account within operational risk.

ILB cannot rule out operational risks as part of its business. Risks that would jeopardise the continued existence of the bank are generally avoided, or appropriate provision is made by passing on the risks (for example, through insurance) or reducing the risks (through loss prevention measures).

In order to manage operational risk, ILB has established an OpRisk controlling function to co-ordinate the entire management of operational risks. OpRisk controlling belongs to the bank's Risk Controlling/Finance function. All queries regarding the bank's operational risks are generally forwarded to this organisational unit. Furthermore, responsibility for partial risks has also been defined and assigned within the bank. Those in charge of partial risks ensure that these are suitably assessed and that measures are initiated according to the risk type concerned. This takes place as part of the annual risk stock-taking procedure, quarterly evaluation of risk indicators as well as membership in the expert committee. The expert committee meets every quarter and addresses, for instance, losses/risk cases reported for the previous quarter. Furthermore, useful information for OpRisk controlling and its further optimisation is discussed. These meetings are attended by those in charge of partial risks as well as employees from exposed organisational units at the bank where indications of operational losses/risks could become apparent: information security, data protection, risk controlling, customer accounting, compliance and internal auditing. The method employed to manage operational risks is backed by transparent communication and documentation throughout the bank. Avoiding operational risks is always a top priority for ILB.

ILB has basically implemented general control systems, such as the four-eyes principle or competence rules, written procedures as well as a cautious risk policy. This reduces the risk of losses, a fact that is also reflected by occurrence probabilities which are mostly rated “very low“ to “low“ as well as loss levels which are also rated “very low“ to “low“ in most cases. Concepts for IT security and contingency plans are additionally in place. The specific problems of the areas are known. Suitable measures are taken and/or developed.

ILB uses an integrated IT system based on SAP. Operational risks are therefore managed and minimised, amongst other things, on the basis of IT systems with comprehensive checks and controls as well as connections to management systems with special monitoring, steering and information logic. An information security management system (ISMS) is at the heart of IT governance. This ISMS is the basis for standards and responsibilities for the management of authorisations, change processes, IT security and contingency plans, events and problems. Risks remaining despite comprehensive IT risk management processes are addressed as part of operational risk within the scope of the risk-bearing capacity.

The implementation of legal and supervisory requirements for outsourcing and other external procurement of IT services is ensured by central outsourcing management. Consideration of resulting risks is ensured through close integration of central outsourcing management and OpRisk controlling.

As part of the annual risk stock-taking procedure, an overall assessment of ILB's operational risks is carried out as per the reporting date. Based on scenario analyses of specific sub-risks, OpRisk Controlling identifies the potential damage of the respective sub-risk together with those responsible for the sub-risk. This damage is translated into a monetary assessment by means of a risk matrix, analysed and evaluated with regard to its risk potential. Self-assessments are additionally conducted with the heads of all divisions and staff units. Besides the central assessment by those responsible for sub-risks, self-assessment enables a decentralised view of potential risks.

In addition to its risk stock-taking, ILB regularly compiles information on operational risks and losses. All employees must carefully monitor their environment for operational risks and losses. ILB records risks and losses in an event database, and analyses its operational risk using risk inventories, risk maps or risk indicators in order to identify risk potential at an early point in time.

As a business development and promotional bank, ILB is directly involved in dealing with the economic and social consequences of the Covid 19 pandemic. No damage was reported in this regard for 2021. OpRisk controlling can use various assessment tools to collect, analyse and evaluate the resulting risks (see above). ILB is aware of these risks and incorporates them into the operational management of operational risks.

The Management Board is informed of any loss events of more than EUR 200,000 and, in the case of risks that jeopardise the continuation of business operations, in ad-hoc reports. OpRisk Controlling also informs the Management Board of current losses on a monthly basis as part of the risk report. A detailed assessment of ILB's operational risks is included in the report on a quarterly basis. The Management Board is informed of the results of the stock-taking of operational risks as part of risk stock-taking for the bank as a whole.

In order to map operational risks within the scope of the bank's risk-bearing capacity, the loss potential is determined using the base indicator approach pursuant to the CRR. The calculation is carried out each month on the basis of the extrapolated result for the current year. The analysis of the current year's risk-bearing capacity includes operational risks already carried in the profit and loss account as expenditure so that the extrapolated net earnings for the year and hence risk capital are reduced. The damage potential determined in the scenario analysis and the total damage potential determined therefrom serve to verify the basic indicator approach and support its validation.

Operational risk utilisation is represented by the following curve over the year:

Operational risk development as per the reporting date for the one-year horizon (in million EUR)

In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e., 2022, is shown which refers to the one-year horizon at all times. The limit for operational risks of EUR 20.0m was adhered to with throughout. The operational risk level generally remains very constant over time due to the calculation method and the stable results forecast for ILB. As per the reporting date, 92% of the current limit of EUR 20.0m was utilised.

The loss and risk events identified in 2021 did not reveal any risks that could jeopardise the bank's existence and their monetary impact was below the risk utilisation assumed within the scope of the risk-bearing capacity.

5. The risk situation in summary

The maximum loss cap at the level of the bank as a whole quantifies the risk appetite as determined by the Management Board and determines the maximum risk capital which is to be applied at the level of the bank as a whole in order to cover all major risks.

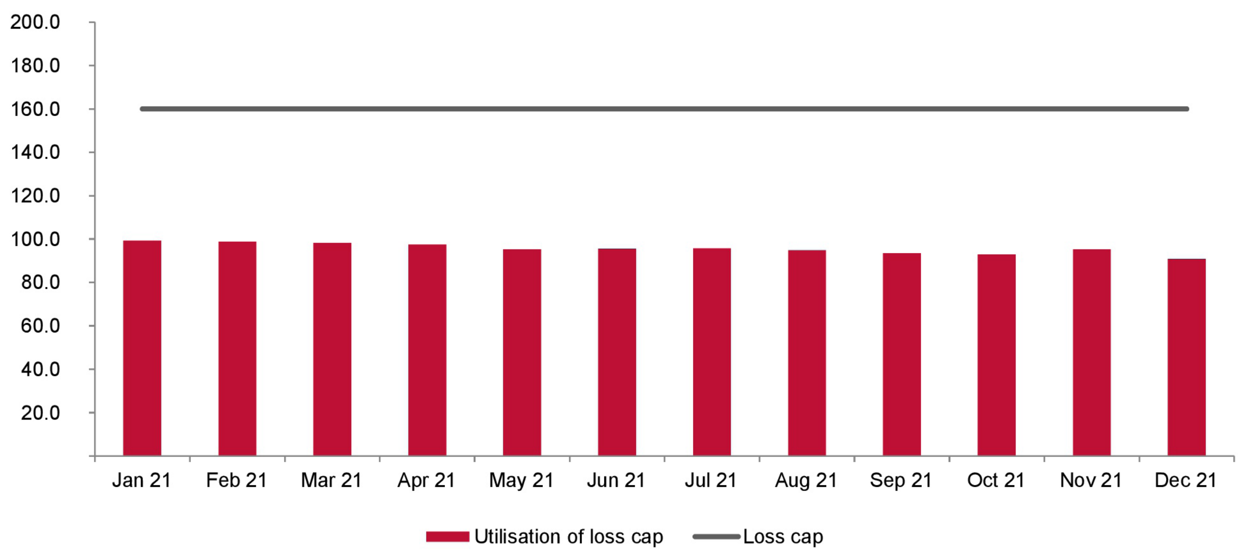
The maximum loss cap thus serves to limit the overall risk for ILB and must be adhered to both in the current and the following year.

The following table shows the development of the loss cap and the limits for individual risks since the last reporting date.

Figures in million EUR	31 December 2021	31 December 2020
Default risk limit	125	125
Market price risk limit	10	10
Liquidity spread risk limit	5	5
Operational risk limit	20	20
Loss cap	**160**	**160**

The loss cap in the year under review totalled EUR 160.0m and was thus flat against the previous year. The risk caps are the absolute limits for the different risk types and are monitored within the framework of risk control. In line with ILB's business and risk strategy, default risks are of utmost importance, with a limit of EUR 125.0m. Other significant risk types are market price risks, liquidity spread risks and operational risks arising from the functions and operation of the banking business.

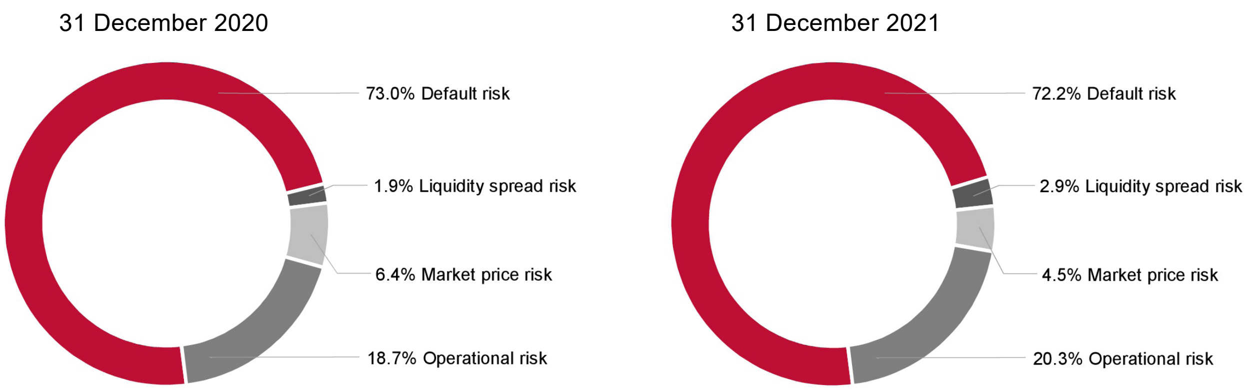
Development of the utilisation of the loss cap as per the reporting date for the one-year horizon (in million EUR)



In order to ensure the comparability of risks over the course of the year, total risk utilisation for the following year, i.e., 2022, is shown which refers to the one-year horizon throughout. The limit to ILB's risk items laid down in the loss cap amounting to EUR 160.0m was adhered to at all times during the 2021 financial year. Utilisation was between EUR 93.0m and EUR 99.0m. In January 2021, when the loss cap was at capacity, the utilisation rate was thus 62%. The results of the individual risk types show that there was no significant increase and therefore no volatility in the risk situation due to the Covid 19 pandemic. At overall bank level, risk-increasing and risk-reducing events have so far largely neutralised each other.

The risks taken were hence consistent with ILB's risk strategy. Utilisation generally corresponded with the bank's willingness to take risks as laid down in its risk strategy.

Share of risk types in total utilisation of the loss cap in a reporting date comparison for the respective following year



Default risk, which accounts for 72.2% of overall utilisation of the maximum loss cap, continues to be the most important risk. This is in line with ILB's business model and its focus on business promotion tasks.

The loss potential from operational risks, calculated on an all-included basis, accounted for 20.3% of ILB's total risk.

The market price risk, consisting of interest rate risk and credit spread risk, accounts for 4.5% of total risk utilisation.

The liquidity spread risk still appears to be of minor importance due to the low utilisation level. However, utilisation of this risk type depends on the respective cash flow and business structures on the reporting date as well as planned new business, which is why the periodic effects of the risks may vary.

Compared with the previous year's figures, the utilisation ratios of the individual risk types as per 31 December 2021 have not changed significantly, reflecting ILB's constant risk profile.

In the year under review, ILB examined various scenario-based and cross-risk-type stress scenarios in addition to the ongoing risk-bearing capacity assessment. Besides the possible effects of the Covid 19 pandemic and a severe economic downturn, the examination focused strongly on the effects of sustainability risks. The risk-bearing capacity was also ensured at all times in these analyses.

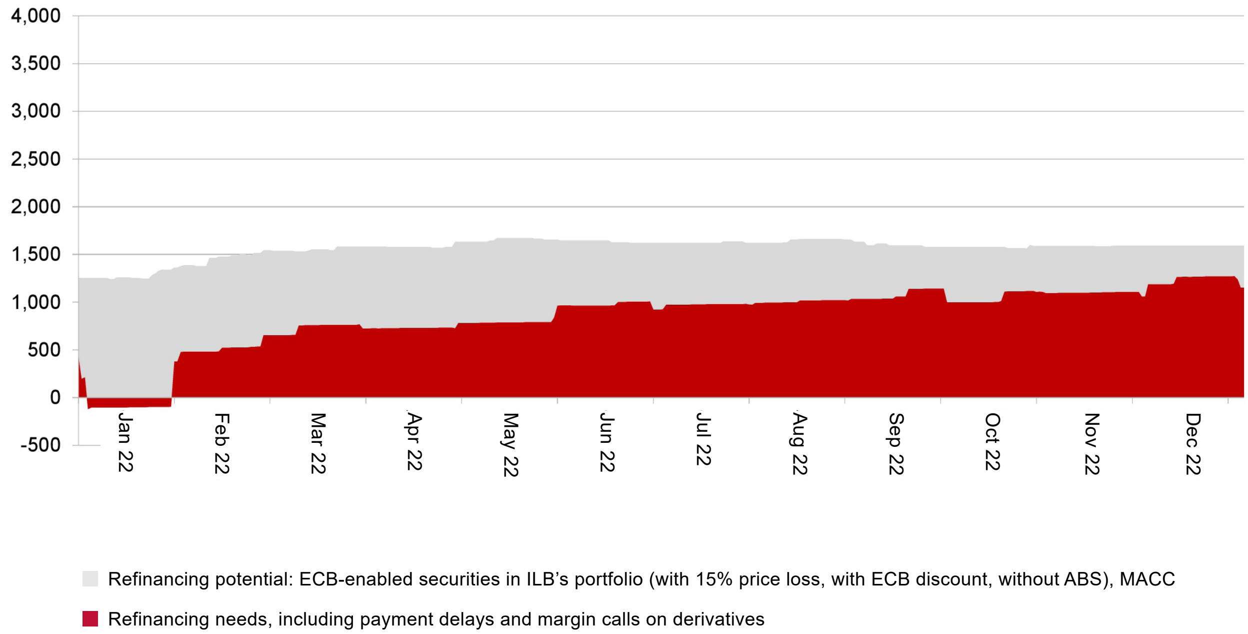
Liquidity risk in the sense of insolvency risk is limited in a separate management process by comparing refinancing requirements and refinancing potential. In the base scenario, maximum utilisation of the refinancing potential by the refinancing requirement totals 28% in 2022, 38% after deducting the liquidity reserve.

Since the beginning of the Covid crisis, risk management has been based on the 'macroeconomic crisis' stress scenario by assuming far-reaching crisis-related effects on liquidity potential and refinancing needs. In particular, the following less favourable assumptions are made:

- Elimination of the collateralised interbank market
- Elimination of the non-collateralised interbank market
- Payment arrears on the part of borrowers with increased risks
- 15% price decline in securities
- No possibility to dispose of securities through early sale, only use as a refinancing facility at the ECB
- Additional liquidity outflows due to margin calls on collateral in derivatives business

Under these significantly less favourable assumptions, the liquidity situation is as follows:

"Macroeconomic crisis" scenario (in million EUR)



Refinancing demand never exceeds the refinancing potential. It led to a maximum utilisation of 80% of the refinancing potential after deduction of the liquidity reserve. The extrapolation suggests that ILB has a sufficiently large liquidity buffer which is made up of an unused refinancing potential of at least EUR 320.0m. Liquidity is thus assured for the entire 2022 year, and the survival horizon is at least one year.

Since the Covid 19 pandemic did not lead to any restrictions whatsoever for ILB with regard to its refinancing options or to significant burdens on the refinancing requirement, the normal scenario will be used again for liquidity risk management from 2022 onwards.

IV Outlook

1. Economic factors

The economic development forecast for 2022 is once again subject to significant uncertainty.

Any new, comprehensive pandemic-related restrictions (for instance, due to new virus variants) or longer-lasting supply and capacity bottlenecks could have a strong impact on expected developments.

Added to this are the imponderables of the dynamically developing political crisis in the wake of the Russia-Ukraine war. This is having a negative impact on companies doing business in these countries or this region (loss of sales markets/disruption of supply chains). What's more, this conflict has the potential to lead to a sustainable, lasting increase in the prices of commodities and energy for all market participants, thus entrenching increased inflation.

If it is possible to overcome these uncertainties faster, pent-up consumer and investment demand could lead to a more dynamic upswing.

Regardless of the Covid 19 pandemic and the Russia-Ukraine conflict, the German economy continues to face a variety of long-term structural changes and challenges. In addition to demographic change, the transformation towards a climate-neutral and digital economy should be mentioned here. Accelerated digitalisation, in particular, offers enormous potential, and sustainability must be ensured in various dimensions.

Accordingly, much is expected of the new federal government elected in 2021, with a view to both pandemic control and elimination of the reform backlog perceived in important areas of policy. Although the coalition agreement sets the course for the future, it has not yet been concretised.

In addition, the Russia-Ukraine conflict has already led to significant changes in political priorities and necessities, which will impact important reform projects and initiatives by the German government (for instance, energy security/defence).

Omitting the possible negative effects of the Russia-Ukraine conflict, gross domestic product (GDP) is expected to reach the pre-crisis level from the fourth quarter of 2019 during the course of the first quarter of 2022. For the year 2022, the German Council of Economic Experts assumes economic growth of 4.6%. The federal government itself foresees a more conservative 3.6%. There is an expectation that supply bottlenecks will be resolved by the end of 2022.

Accordingly, the positive trend on the labour market should continue in 2022. For 2022, the German Institute for Economic Research (DIW) expects the number of people out of jobs in Germany to fall to about 2.29 million with a corresponding further decline in short-time work.

Fiscal policy will remain supportive and rather expansionary in 2022. However, as macroeconomic activity recovers, the use of pandemic-related support measures is expected to decline.

The ECB's monetary policy is also expected to continue supporting the economy in 2022 by contributing to favourable financing conditions. However, with the announced termination of the Pandemic Emergency Purchase Program (PEPP) at the end of March 2022, there are signs that the monetary policy turnaround is gradually being initiated. However, a final departure from the expansionary monetary policy is only expected if the high inflation rates seen in 2021 become sustainable and the ECB considers its long-term inflation target to be at risk.

For 2022, the ECB forecasts a further increase in inflation to 3.0%, but still sees long-term inflation below 2.0%.

The economy in the Berlin-Brandenburg metropolitan region should also follow the general trend of economic recovery in 2022. Due to the structure of the economy, however, the forecasts for eastern Germany are somewhat more restrained at 3.6% (ifo Dresden/IWH).

As the service sector accounts for approx. 71.7% of economic output in Brandenburg, the risks from any comprehensive restrictions that may become necessary again as a result of the pandemic are particularly relevant for forecasts, while supply and capacity bottlenecks have less of an impact.

The Russia Ukraine conflict should have a manageable impact on Brandenburg's economy. Neither of these countries are major export countries for companies from the region. The situation is somewhat different when it comes to imports. Russia accounts for about 20.5% of imports, due to high imports of oil and natural gas.

The economic situation and expectations in the Berlin-Brandenburg metropolitan region are correspondingly diverse, depending on the size of the company and the respective sector.

The economic climate in the metropolitan region is cooling down at the beginning of 2022. Compared to last autumn, the economic climate index fell by six points to 116. While the mood in the economy has brightened slightly from survey to survey since autumn 2020, it is now being dampened with business losing some of its momentum compared to autumn 2021. The economic recovery of the last twelve months came to a halt at the beginning of the year.

Especially with a view to business expectations, today's widespread uncertainty about future developments is dampening the mood. In all sectors in Brandenburg, business expectations have worsened compared to 2020. Overall, 13% of companies consider the business situation to be rather favourable, 62% to be rather unchanged and 25% to be rather unfavourable.

However, the direct effects of the pandemic are less decisive for the economy than they were a year ago: Apart from the hospitality and personal services sectors, which are shouldering the greatest burden of the anti-Covid measures, the business climate in the remaining sectors is less affected by Covid developments. Construction and industrial companies are currently struggling with extended delivery times. Practically all companies are experiencing rising costs and are more frequently unable to fill vacancies, making it necessary to reject new orders or leading to delayed order processing. This costs companies revenue, which affects their investment and personnel plans – and thus growth in the entire region.

2. Major influences

ILB considers the following influence factors to be important for its business activities in the 2022 financial year:

- ILB expects a commitment volume of between EUR 1.1bn and EUR 1.3bn for 2022, including between EUR 0.6bn and EUR 0.7bn from federal state promotional programmes and between EUR 0.5bn and EUR 0.6bn from ILB's promotional programmes.
- With a view to the Covid 19 pandemic, ILB will continue to support the federal state government in implementing special Covid 19 mitigation programmes. ILB assumes that further assistance programmes will be offered in 2022.
- All in all, ILB expects a stable volume of promotional programmes in 2022. With a view to the transition from the EU programming period 2014-2020 to the new EU programming period 2021-2027, ILB assumes that the current programming period will end as planned and that the operational programmes for the new EU programming period will be adopted at the end of 2021/beginning of 2022. In addition, dealing with the still relevant topic of sustainability – as a current megatrend – is an important aspect for ILB's orientation.
- Digitalisation, another megatrend for the coming years, is another item on ILB's agenda. ILB will position itself for the future and make the necessary future investments for the digital transformation, including, for instance, the introduction of a new customer portal.

Economic environment/risk provisioning:

- The year 2021 was marked by economic recovery following a severe recession in 2020. The extensive economic support measures introduced through federal government and federal state policies continued to take effect. The previously discernible downward trend in corporate insolvencies reversed beginning in autumn 2021. Some of the regular insolvency proceedings filed from November 2021 increased significantly compared to the respective previous month.
- Due to the ongoing pandemic and growing uncertainty regarding the economic impact of the Russia-Ukraine conflict, ILB expects economic conditions to remain complicated in 2022, especially for small and medium-sized enterprises, despite the generally expected overall economic recovery. In addition, ILB expects at least moderate catch-up effects in corporate insolvencies.
- With regard to the structure of its loan portfolio, ILB sees risks primarily in the area of commercial corporate financing. In this respect, ILB expects a moderate increase in risk provisioning for 2022, starting from a still very low level. In view of forecast uncertainty, ILB is also planning general contingency reserves for special risks from lending business in accordance with sections 340f and 340g of the German Commercial Code.

Regulatory framework conditions:

- The regulatory requirements for the amount of eligible capital to be held will continue to increase in the medium term. Against this background, ILB is continuing to increase its eligible capital from its own revenues.
- In the medium term, ILB expects a further expansion of supervisory regulations and associated high investment costs despite the exemption of promotional banks from the CRD. The level of detail of regulatory requirements continues to increase and will continue to entail substantial implementation work for ILB due to direct supervision by the German Federal Financial Supervisory Authority.

Liquidity situation:

- The bank obtains short-term liquidity from the ECB (European Central Bank) and/or the German Bundesbank through securitised borrowings in the form of repo transactions as well as open-market transactions. It also raises money unsecured as time deposits and call money. In light of ILB's good refinancing possibilities, the bank has a comfortable liquidity situation even in the current situation.

- The bank sources long-term financing mainly from national and supranational business development banks (KfW, European Investment Bank, Landwirtschaftliche Rentenbank, Council of Europe Development Bank) and through bearer bond, note loan and registered bond issues. The share of own bearer bonds with a Fitch's "AAA" rating will be further expanded.
- ILB's refinancing demand can be covered at all times even taking current developments into account.

3. Development of income situation and net worth

ILB is subject to the regulatory provisions applicable to credit institutions, primarily the German Banking Act and indirectly the CRR. In the medium term, ILB anticipates a further tightening of supervisory regulations. In order to be able to continue offering ILB promotional programmes in the future and to ensure a corresponding risk-bearing capacity, it is necessary to continue building up eligible capital. In the coming years, however, the build-up of equity will be caught between rising costs (upcoming modernisation of ILB's IT architecture, investments in digitalisation) and declining income due to the low interest rate environment.

ILB's strategic goal is to generate total bank earnings before risk provisioning of at least EUR 30.0m annually by 2023. Irrespective of this fundamental objective, ILB will make strategic investments in the bank's future viability in the coming years (IT transformation roadmap), which will limit the funds available for equity retention in the short and medium term from 2022 onwards, but will ensure the continuation of ILB in the long term. In this context, there are plans to review and, if necessary, adjust the above earnings target for annual net earnings for the bank as a whole before risk provisioning of EUR 30.0m by 2023. The following budget calculation is based on the information available to ILB at the end of the third quarter of 2021 and represents the planned development of ILB's earnings without compensatory entries of the ILB promotional fund and the Brandenburg fund.

The current economic environment is shaped by the Covid 19 pandemic. It has impacted all sectors of the economy, and will continue to do so in 2022, but its extent is difficult to forecast based on current information. Overall, therefore, the need for state support for the economy is expected to continue. ILB's business model is not directly affected by the impact of the Covid 19 pandemic described earlier. It can be assumed that there will even be a crisis-related expansion of funding programmes in the business area of "federal state funding programmes".

A normalisation trend was assumed in the planning for ILB's general business operations. Similar unforeseeable tasks, like the implementation of the relief measures to overcome the Covid crisis in the first half of 2020, were not taken into account in the present planning, but cannot be ruled out. A one-time increase in staff is planned for 2022. This is designed to manage not just the special Covid programmes, but also the promotional programmes belonging to both the expiring and the new programming periods that must be carried out parallel. There is also continued uncertainty regarding the assessment of risks that could have an adverse effect on further economic developments. In stress tests, ILB simulated possible effects of the Covid 19 pandemic on ILB's earnings and risk-bearing capacity. The results showed that the risk-bearing capacity is also ensured under the conditions of the stress scenario.

Even considering the latest developments, ILB still expects to generally achieve its targets planned for the 2022 financial year. However, taking into account the IT investments needed to implement the IT roadmap, earnings before risk provisioning in 2022 are expected to be slightly below the target of EUR 30.0m. ILB does not expect any significant negative deviations from plan in terms of net interest and commission income or administrative expenses. However, due to the still unclear economic impact of the Covid 19 pandemic, value adjustment of receivables could become necessary, which would burden earnings after risk provisioning. ILB has already made provisions for this by forming additional contingency reserves according to section 340f of the German Commercial Code to cover possible unexpected default risks in 2021.

Item	2021 Thousand EUR	Budget 2022 Thousand EUR	Change in %
Net interest income	65,268	62,201	-4.7
Net commission income	60,184	68,740	14.2
Other operating net income*	1,721	1,307	-24.1
Personnel expenses	54,957	63,025	14.7
Material expenses	19,574	34,804	77.8
Depreciation on operating equipment	5,420	5,811	7.2
Profit before risk provisioning/formation of reserves	**47,222**	**28,608**	**-39.4**
Value adjustment of receivables	288	-5,589	-2,040.6
Valuation result securities	-1,096	354	-132.3
Allocation to provident funds	-1,635	-1,900	16.2
Result after risk provisioning	**44,779**	**21,473**	**-52.0**
Formation of reserves	-33,500	-10,000	-70.1
Addition to ILB promotional fund	-5,000	-5,000	0.0
Net income for the year	**6,279**	**6,473**	**3.1**

* Including other taxes

ILB expects the income situation and net worth to decline in 2022.

Earnings before risk provisioning and the formation of reserves are expected to total around EUR 28.6m in 2022 and will therefore be EUR 18.6m below the previous year's figure. Slightly higher income from commission business is offset by rising administrative expenses in all areas.

With a total of EUR 62.2m, net interest income is below the previous year's figure. ILB assumes that the overall low interest rate environment will continue in 2022 despite the current trend towards interest rate increases so that interest rates will remain at a low level. Negative interest rates are therefore expected in the planning period up to the medium maturity range and only slightly positive interest rates for maturities beyond this. ILB is benefiting from this trend in the short term in the form of favourable refinancing conditions. Benefits due to negative interest rates can still be realised in this context. In future, however, the interest situation will enable positive effects from matching maturities only to a limited extent. Therefore, in accordance with the valid risk strategy, a very low maturity transformation ratio was assumed in planning. With limited earnings potential resulting from the expected interest rate environment, this further reduces the interest rate risk. The narrow spreads resulting from the ECB's securities purchase programme and, in particular, the declining return on equity due to the low interest rate environment are exerting pressure on the Treasury's profit contribution.

The possible effects of strong sudden changes in the planned interest curve of between one and two percentage points for the following year were simulated as part of scenario analyses.

Net interest income planned for 2022 will range between EUR 55.0m and EUR 77.0m. A strong increase in the interest rate structure in the short maturity range (short-term shock upwards) has a negative impact on net interest income. In contrast, positive effects compared to initial planning can be observed in the case of a parallel increase and an inversion of the interest rate structure. The changes in interest rates assumed are extreme scenarios which are unlikely to occur. For more moderate interest rate scenarios, the budget estimate for 2022 is essentially confirmed.

A major factor influencing the earnings situation is net commission income, which is expected to amount to EUR 68.7m in 2022 and thus be EUR 8.6m higher than in 2021 (EUR 60.2m). Planning is based on the assumption that more staff will be needed in cost reimbursement, because the old and new programming periods have to be managed parallel while also taking into account the work needed to process the Covid aid programmes. Net fee and commission income largely results from fees for the management of promotional programmes. Close to 15% of this income is from administrative cost contributions in conjunction with the granting of loans from trust funds and around 80% from the handling of grant programmes, and a small amount from the management of guarantees, loan processing and other services.

The current political agendas at EU, federal-government and federal-state level are dominated by the Covid 19 pandemic. In addition, the topics of climate change and a digital future are extremely important. With a view to support policy, ILB does not expect to see a decline in business promotion programmes and volumes despite increasing public debt. However, there may be other topics which ILB will address in a flexible manner. The focus here is on the transition period between the expiring EU programming period and the start of the new programming period.

Increasingly complex promotion processes are also currently vetted with a view to cost and efficiency. In line with the prevailing cost reimbursement structure in this business segment, declining revenues are offset by correspondingly lower processing costs, so that no significant negative effects on ILB's result are expected. On the other hand, revenues are generated from loans granted in the past from trust funds in housing and from ongoing fee payments on the basis of foreign exchange. Due to the continued low interest level, additional extraordinary redemption payments cannot be ruled out above and beyond the special redemption payments already included in the planning scenario. A scenario simulation suggests a decline in fees of EUR 0.5m.

Other operating result is expected to amount to EUR 1.3m in 2022, which is below the previous year's level of EUR 1.7m. One of the reasons for the expected decrease is the return to normal level in other operating expenses once the Covid restrictions have been lifted. On the other hand, planned income is lower because, among other things, possible income from the release of provisions is not included in planning.

In 2022, administrative expenses (personnel, material expenditure as well as depreciation and amortisation in the operating area) are expected to rise by EUR 23.7m against the previous year to an expected EUR 103.6m. This development is due to rising expenses in all areas.

The EUR 8.1m increase in personnel expenses compared to the previous year reflects the planned expansion of staff capacity by an average of over 100 in 2022. The largest share of new staff will handle federal state promotional programmes and thus cost reimbursement. In addition, vacancies must be filled in bank operations and organisation resulting from the 2020 reorganisation as well as the bank's assumption of new tasks.

Planning assumes material expenses and depreciation in the operating area amounting to EUR 40.6m, which are thus EUR 15.6m up against the previous year's figure. This significant additional expense is mainly due to consulting and licensing expenses. The implementation of the IT transformation roadmap as part of the bank's IT strategy is to take place over the next five years. It will secure the bank's future operational and competitive capacity and especially its IT infrastructure. Furthermore, higher external consulting services are planned for the new programming period 2021-2027, which are related to support for specialised applications and basic IT operations. Rising licence expenses, due to the further expansion of staff capacity, the acquisition of additional hardware and software as well as the pandemic-related postponement of individual projects to the following year, will also lead to higher IT expenses.

Deviations from planning can occur if the actual expenses of projects involving the use of external services do not correspond to those planned.

Based on the loss expected, EUR 5.6m is taken into account for value adjustment of receivables in 2022. This estimate is based on the risk structure of the planning date of 30 September 2021. In view of the continuing crisis situation due to the Covid 19 pandemic and its strong economic impact, the assumed risk structure could deteriorate, although the effects on default risks during the course of the crisis have not been significant up to now. This means that value adjustments above the planned amount cannot be ruled out in 2022.

Securities held by the bank are valued according to the diluted lower of cost or market principle. According to the principle of prudence, the need for valuation adjustments for securities totalling EUR 0.6m is recognised as an expected loss. Taking into account redemption earnings of expiring securities, a positive valuation result of EUR 0.4m is expected.

In order to consider implicit options due to statutory termination rights within the scope of loan business, EUR 1.9m is allocated to provident funds.

Despite growing challenges, ILB's earnings will remain satisfactory in 2022, creating the basis for further successful business by the bank to the benefit of the federal state of Brandenburg. In light of this, ILB plans to step up the ILB promotional fund in order to offer attractive loan products by drawing on its own revenues. In line with demand, a sum of EUR 5.0m is planned for the ILB promotional fund for 2022.

The expected earnings development in 2022 includes a reserve of EUR 10.0m and profit for the year of EUR 6.5m.

According to the 2022 budget, the balance sheet total will be in the order of around EUR 14.8bn.

By the end of 2022, the number of employees will increase once again. The share of female employees and the share of part-time employees will remain largely unchanged. The share of fixed-term employees will be close to the previous year's level.

The number of employees in the passive phase of semi-retirement, early retirement, parental leave or other forms of passive employment will remain constant at the previous year's level.

The contents of professional development courses will be further expanded, and the number of seminar participations will continue at the same level.

The number of students in cooperative study programmes will increase to 24.

V System of internal control and risk management for the accounting process

The system of internal control for accounting includes, in particular, organisational rules for structures and processes with clear differentiation between areas of responsibility as well as processes, methods and measures to ensure the correctness and reliability of internal and external accounting.

Accounting-related business transactions are mostly handled by the respective units and departments. ILB's Management Board is responsible for the design and effectiveness of a reasonable system of internal control for accounting. Risk Controlling/Finance is responsible for implementation in cooperation with Internal Administration and Strategy and Communication. The respective areas are responsible for complete and correct recording and for performing and documenting the necessary related controls. The Risk Controlling/Finance function is in charge of accounting rules, posting methods, balancing and definition of valuation rules. The Risk Controlling/Finance function is responsible for transaction-independent valuation and the determination of earnings.

The annual financial statements are prepared by the Risk Controlling/Finance function and set up by the Management Board. The Administrative Board elects an Audit Committee from among its members. According to the business rules, the tasks of the Finance Committee include, but are not limited to, resolutions regarding accounting, the selection and monitoring of the necessary independence of the auditor, the appointment of the auditor, the determination of key audit tasks and fee agreements. The Audit Committee also supervises the accounting process as well as the effectiveness of the risk management system, especially the internal control system and internal auditing. The Audit Committee controls the Management Board's prompt elimination of points of criticism identified by the auditor. ILB's general meeting approves the annual financial statements pursuant to its articles of association. The auditor attends the discussions of the Administrative Board and of the committees regarding the annual financial statements and reports on the key results of the audit. The auditor is elected by the general meeting at the recommendation of the Administrative Board/Audit Committee.

In light of the business model of ILB and its affiliated companies to pursue tasks in the public interest, a more in-depth analysis of the market compliance of transactions with related persons was not carried out.

ILB's accounting process has been laid down in manuals and procedures in its written rules which are updated on a continuous basis.

In the standardised management and monitoring process for new products and processes, the Risk Controlling/Finance function is responsible, amongst other things, for the accounting-related analysis and the assessment of risks related to new products in order to ensure adequate presentation in the books.

In addition to the minimum requirement of the four-eyes principle, the use of standard software, which is protected against unauthorised use by competence-related authorisations, is another key element of the system of internal control for accounting. The functions and organisation of the market areas are separate from the areas responsible for handling, supervision, control and accounting.

The functioning of the accounting-related internal control system is monitored by the Internal Audit function in the form of regular, process-independent audits according to the minimum requirements for risk management (MaRisk) published by the Federal Financial Supervisory Authority (BaFin). The Management Board and the Administrative Board are informed promptly and regularly about the results of the audit.

Potsdam, 14 April 2022

Management Board of Investitionsbank des Landes Brandenburg

Tillmann Stenger Chairman of the Board	Christian Kistner Member of the Board	Kerstin Jöntgen Member of the Board

Annual Balance Sheet as of 31 December 2021

Investitionsbank des Landes Brandenburg

Assets	EUR	EUR	31 Dec 2020 Thousand EUR
1. Cash			
a) Cash in hand	6,885.98		5
b) Balances with central banks	331,205,700.86		76,069
of which:		331,212,586.84	76,074
at Deutsche Bundesbank EUR 331,205,700.86 (previous year: EUR 76,069,000)			
3. Loans and advances to banks			
a) Payable on demand	87,823,899.14		161,220
b) Other loans and advances	2,390,317,926.17		2,168,090
		2,478,141,825.31	2,329,310
4. Loans and advances to customers		6,202,860,137.68	5,897,940
of which:			
Secured by liens: EUR 866,132,192.96 (previous year: EUR 856,548,000)			
Public-sector loans EUR 3,288,081,133.67 (previous year: EUR 3,164,861,000)			
5. Bonds and other fixed-income securities			
b) Bonds and notes			
ba) Issued by public institutions	1,722,648,633.84		1,628,375
of which:			
eligible as collateral at Deutsche Bundesbank EUR 1,705,636,113.76 (previous year: EUR 1,591,271,000)			
bb) from other issuers	1,328,147,632.12		1,589,257
of which:		3,050,796,265.96	3,217,632
eligible as collateral at Deutsche Bundesbank EUR 1,245,817,083.36 (previous year: EUR 1,517,031,000)			
6. Stocks and other variable-income securities		268,383,789.05	199,679
7. Shareholdings		30,000.00	30
of which:			
to financial services institutions EUR 0.00 (previous year: EUR 0.00)			
to securities institutions EUR 0.00 (previous year: EUR 0.00)			
8. Shares in affiliated companies		113,129,732.68	101,383
of which:			
to financial services institutions EUR 0.00 (previous year: EUR 0.00)			
to securities institutions EUR 0.00 (previous year: EUR 0.00)			
9. Trust assets		1,980,245,390.38	2,018,684
of which:			
Trust loans EUR 1,980,082,690.58 (previous year: EUR 2,018,522,000)			
11. Intangible assets			
b) Acquired concessions, industrial property rights and similar rights and values as well as licenses thereto		2,938,647.44	2,003
12. Tangible assets		84,202,970.79	86,558
14. Other assets		277,365,885.37	313,434
15. Prepaid expenses		117,594,749.19	69,183
Total assets		**14,906,901,980.69**	**14,311,910**

Liabilities	EUR	EUR	EUR	31 Dec 2020 Thousand EUR
1. Liabilities to banks				
a) Payable on demand		690,227.10		158
b) With an agreed term or notice period		10,036,407,272.89		9,626,026
			10,037,097,499.99	9,626,184
2. Liabilities to customers				
b) Other liabilities				
ba) Payable on demand		405,128,649.08		529,735
bb) With an agreed term or notice period		541,317,403.70		681,337
			946,446,052.78	1,211,072
3. Securitised liabilities				
a) Bonds issued			975,098,630.00	575,034
4. Trust liabilities			1,980,245,390.38	2,018,684
of which:				
Trust loans EUR 1,980,082,690.58 (previous year: EUR 2,018,522,000)				
5. Other liabilities			17,223,451.48	40,036
6. Prepaid expenses			115,528,574.05	69,830
7. Provisions				
a) Provisions for pensions and similar obligations		2,770,473.00		2,742
c) Other provisions		8,048,666.15		6,215
			10,819,139.15	8,957
8. Special item for investment allowances			49,496,533.33	25,415
11. Funds for general banking risks			536,717,699.28	498,748
12. Equity				
a) Subscribed capital		110,000,000.00		110,000
c) Revenue reserves				
ca) Statutory reserve	11,000,000.00			11,000
cd) Other revenue reserves	110,000,000.00			105,000
		121,000,000.00		116,000
d) Net retained profit		7,229,010.25		11,950
			238,229,010.25	237,950
Total liabilities and shareholders‘ equity			**14,906,901,980.69**	**14,311,910**
1. Contingent liabilities				
b) Liabilities in relation to guarantees and warranties			86,773,301.19	55,342
2. Other obligations				
c) Irrevocable loan commitments			475,827,535.36	361,750

The annual financial statements of ILB for 31 December 2021 were prepared according to the relevant regulations of the German Commercial Code (HGB), the Regulations on the Accounting of Banks and Financial Institutions (RechKredV) and the German Stock Corporation Act (AktG).

Profit and Loss Account for the period 1 January to 31 December 2021

Investitionsbank des Landes Brandenburg

	EUR	EUR	EUR	1 Jan - 31 Dec 2020 Thousand EUR
1. Interest income from				
a) lending and money-market transactions	71,467,360.56			91,515
minus negative interest from money-market transactions	1,354,276.91			2,737
	70,113,083.65			
b) fixed-income securities and debt register claims	7,155,635.66			7,272
minus negative interest from fixed-interest securities and debt register claims	0.00			0
		77,268,719.31		96,050
2. Interest expenditure				
Interest expenditure from banking business		30,209,062.44		44,260
minus positive interest from banking business		18,207,944.39		9,321
		12,001,118.05		34,939
			65,267,601.26	61,111
5. Fee and commission income		60,782,812.94		60,745
6. Fee and commission expenses		599,119.10		552
			60,183,693.84	60,193
8. Other operating income			9,637,009.26	12,421
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	45,778,068.54			42,430
ab) Social security contributions and expenditure on pensions and other benefits				
of which: for pensions EUR 66,284.00 (previous year: EUR 244,000)	9,178,539.16			8,472
		54,956,607.70		50,902
b) Other administrative expenses		19,573,858.34		21,078
			74,530,466.04	71,980
11. Depreciation, amortisation and write-downs on intangible assets and tangible assets			5,419,852.06	5,008
12. Other operating expenses			9,035,112.53	4,303
13. Amortisation and write-downs on accounts receivable and certain securities as well as additions to reserves in loan business			240,879.89	7,095
15. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets			1,538,046.72	1,491
18. Allocations to the fund for general banking risks			37,969,827.02	32,616
19. Results from ordinary activities			6,354,120.10	11,232
24. Other taxes			75,364.99	78
27. Net income for the year			**6,278,755.11**	**11,154**
28. Profit brought forward from the previous year			950,255.14	796
34. Net retained profit			**7,229,010.25**	**11,950**

The annual financial statements of ILB for 31 December 2021 were prepared according to the relevant regulations of the German Commercial Code (HGB), the Regulations on the Accounting of Banks and Financial Institutions (RechKredV) and the German Stock Corporation Act (AktG).