

Management Report 2023

Investitionsbank des Landes Brandenburg

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 also authorised to issue administrative acts as part of business management. 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.

ILB is an intermediary for the federal state of Brandenburg. ILB approves funding for the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Just Transition Fund (JTF) as an intermediary and acts as an approval authority for INTERREG European Territorial Cooperation programmes and the European Agricultural Fund for Rural Development (EAFRD). 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 and policies.

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. ILB actively solicits customer feedback. 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. Financing the transformation in the federal state of Brandenburg is an important focus in this context. 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 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 (such as social bonds) and by raising refinancing funds from the European Investment Bank, the Council of Europe Development Bank, Landwirtschaftliche Rentenbank and Kreditanstalt für Wiederaufbau (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 Compliance¹

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 2022 Corporate Governance Report and the Declaration of Compliance were drawn up in April 2023 and approved by ILB's Administrative Board on 16 June 2023. The 2022 Corporate Governance Report and the Declaration of Compliance are published on ILB's website.

¹ This information has not been verified.

II Economic Review

1. Economic conditions in Germany

The German economy was predominantly in a downturn in 2023. Skyrocketing energy prices in 2022 quickly put an end to the recovery that began after the pandemic. The core inflation rate peaked at 7.8% in March 2023. This deprived private households of purchasing power. Key interest rates have risen by over four percentage points since July 2022. This development hit the construction industry particularly hard.

The business mood deteriorated in 2023, with political uncertainty being one contributing factor. However, wages rose due to inflation, energy prices fell and exporters passed on some of the higher costs, meaning that purchasing power is now returning. It is therefore likely that the downturn will be over by the end of 2023 and the level of capacity utilisation in the economy will rise again during the further course of the year.

The ifo Business Climate Index for Germany fell from 92.7 to 87.8 points in March 2024 compared to the previous year.

All in all, price-adjusted gross domestic product fell by 0.3% on average in 2023, forcing the economic research institutes to take a significant downward revision of their spring 2023 forecast.

The labour market data remains relatively stable despite the weak economic situation. A slightly improved unemployment rate of 5.7% is reported for 2023.

Consumer prices rose by 5.9% in 2023 as a whole, primarily due to the high price increases that were still seen in the spring of last year. The core inflation rate (excluding energy and food prices) totalled 5.1% in 2023.

Beginning in mid-2022, the European Central Bank (ECB) raised key interest rates sharply in order to counter historically high inflation. Monetary conditions in the eurozone deteriorated further during the course of 2023 as a result of monetary tightening in line with the central bank's mandate to combat rising inflation which was driven by sharply rising energy costs.

2. Economic conditions in the federal state of Brandenburg

The economic surveys conducted by the Chambers of Industry and Commerce (IHK) in Brandenburg in autumn 2023 show that the business climate has deteriorated further compared to the previous survey. The balance for the current business situation was down compared to the survey in early summer 2023.

The outlook for the coming months is also gloomy. Business expectations deteriorated noticeably on balance.

Companies continue to identify energy and raw material prices as the biggest risk for their business, as well as the shortage of skilled labour. Companies fear rising labour costs and a strain on their workforce, as vacancies cannot be filled over longer periods of time.

In contrast, companies in the mining, quarrying and manufacturing industry with 50 or more employees reported a 13.4% increase in sales year-on-year in 2023. Foreign sales increased significantly more strongly by 43.0%. The construction industry also recorded a 1.4% increase in sales in 2023 compared to the previous year.

The following areas, however, saw real sales declining in 2023: services by -2.9% and retail by -2.6%. Real sales in the hospitality industry also fell by 5.5% in 2023.

In 2023, exports of goods and services from Brandenburg fell by 1.3% against the previous year. Imports fell noticeably by 10.8% during the same period.

Considering the price increases, however, the nominal sales figures currently provide very little insight. The development of working hours in the construction industry is therefore also analysed. In 2023, working hours decreased by 6.2% compared to the previous year.

In Brandenburg, an average of 78,996 people were unemployed in 2023, 4,754 (6.4%) more than in 2022. The unemployment rate for the entire civilian labour force rose to 5.9% in 2023.

In 2023, business registrations were 1.3% below the previous year's figure. During the same period, business deregistrations fell by 1.9%.

In 2023, 3.1% fewer insolvencies were reported in Brandenburg than in the previous year. Projected creditors' claims fell from EUR 261.0m to EUR 196.9m.

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 2023, ILB pledged a total volume of around EUR 1,603m.

Promotional and development business in 2023 included, for instance, the following:

- The EUR 1,475m to EUR 1,603m envisaged for 2023 was achieved, coming in at EUR 1,603m.
- Compared to the previous year, the volume pledged fell as planned from EUR 2,032m in 2022 by around EUR 429m (-21%) in 2023 to a total of EUR 1,603m.
- With EUR 780m planned, a total of EUR 808m was pledged in the ILB funding programmes (+EUR 28m or +4% compared to the plan). Compared to 2022 (EUR 924m), the amounts pledged decreased, mainly due to a decline in demand for the Brandenburg loan for promoting rural development.
- ILB's promotional programmes accounted for a share of around 50% in the total sum pledged in 2023.
- All the support areas in federal-state promotional programmes recorded good demand. Pledges totalled EUR 795m (2022: EUR 1,107m). This corresponds to a decrease of EUR 312m or 28%, respectively, which is mainly due to the decline in Covid-19 business assistance commitments.
- The volume pledged under federal-state promotional programmes was down EUR 29m or 4%, respectively, against the budgeted value of EUR 824m. Pledges increased in the labour support area, while they remained stable in residential construction. The business and infrastructure support areas recorded a lower volume of pledges.

3.2 Earnings development

ILB can look back over a successful 2023 financial year.

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

Earnings before risk provisioning totalled EUR 36.9m and were hence EUR 11.4m above budget.

Earnings after risk provisioning also surpassed expectations and, at EUR 32.4m, were EUR 15.0m higher than budgeted for 2023.

As per 31 December 2023, return on assets totalled 1.78% for ILB.

4. Income, financial position, and net worth

ILB's balance sheet total increased slightly in the 2023 financial year by EUR 282.1m to EUR 15,337.5m (previous year: EUR 15,619.6m).

The bank's income, financial position and net worth continue to be satisfactory and stable.

4.1 Income position

2023 was a successful year for ILB despite the challenging economic environment caused by persistently high inflation combined with a further rise in interest rates in the first half of the year. In addition to achieving a funding volume at the planned level, ILB not only managed to successfully conclude the previous funding period in the past financial year, but started the current funding period in full.

In 2023, ILB's profit for the year totalled EUR 6.4m (previous year: EUR 6.3m).

In 2023, significantly lower material expenses than planned and higher-than-expected net interest income were offset by lower net commission income and higher personnel expenses.

Earnings before and after risk provisioning were thus above budget.

In detail, development was as follows:

Net interest income totalled EUR 69.1m (2022: EUR 57.2m) and was significantly above previous year's level. In line with the rise in the general interest rate, higher margins were achieved on average in lending and treasury business in the past year compared to the same period of the previous year. Likewise, a distribution from the special corporate bond fund was recognised in net interest income for the first time in the past financial year as current income from other non-fixed-interest securities in the amount of EUR 5.0m. The background to this is the one-sided recognition of refinancing expenses for the investment in the special fund in ILB's net interest income. These are not offset by corresponding interest income, but by current income from other non-fixed-interest securities. ILB plans to continue making moderate distributions from the special fund in the future and to recognise these distributions economically in net interest income. The inflow of liquidity from short-term investments by the municipal sector and the federal states to ILB also had a positive effect on the development of net interest income in 2023. On-lending and investment of the funds with the ECB are associated with a margin advantage for ILB. On the other hand, the changes made to the TLTRO III programme in the 4th quarter of 2022 led to a significant reduction in the beneficial effect of this refinancing source for ILB in 2023. A decision was therefore made to return these funds before maturity. ILB has no longer held any corresponding refinancing in its portfolio since mid-2023.

Current income from shares in affiliated companies totalling EUR 11.0m from the partial distribution of reflows from subsidies from the profit carried forward by BFB Frühphasenfonds Brandenburg GmbH is offset by expenses of EUR 9.3m from the contractually agreed reflows from the profit carried forward by BFB Frühphasenfonds Brandenburg GmbH to be transferred to the federal state of Brandenburg and income tax expenses of EUR 1.7m incurred in this context.

Net fee and commission income of EUR 71.4m (previous year: EUR 59.8m) largely results from management fees for funding 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. The increase is mainly due to higher income from grant processing as part of cost reimbursement, in particular the further expansion of business management for the state of Brandenburg.

ILB's **personnel expenses** totalled EUR 68.7m in 2023 (previous year: EUR 58.9m). The EUR 9.8m increase reflects the increase in the number of employees in the financial year. For example, a new unit was created to process Covid-19 business assistance defaults, and vacancies were filled in funding programme processing. It was also possible to fill vacancies in IT support. The bank also paid employees an inflation compensation bonus of up to EUR 3,000 in December 2023 to mitigate the significant rise in the cost of living due to inflation.

At the end of 2023, ILB employed a staff of 805 (previous year: 729) in active permanent jobs and 61 under fixed-term contracts (previous year: 94).

Other administrative expenses (operating costs), including depreciation, amortisation and write-downs on intangible and tangible assets totalled EUR 36.2m (previous year: EUR 28.8m).

Operating costs totalled EUR 30.1m and were thus EUR 6.9m up against the previous year.

This is due in particular to the fact that ILB's auditing and consulting costs were significantly higher than in the previous year. This is partly due to the fact that, in addition to the project consulting budget planned for 2023, projects from previous years, primarily to bolster regulatory requirements and strategic measures, will only be finalised in subsequent years. Parallel processing of programmes from previous and current funding periods was very capacity-intensive and one of the main reasons for the delayed implementation of projects. The current funding period also led to higher costs for setting up several funding policies in the IT systems. Unexpected costs were generated by an audit conducted by the Bundesbank with regard to ILB's proper business organisation in accordance with section 44 of the German Banking Act (KWG, Kreditwesengesetz) and, in this context, the audit of the appropriate and effective procedures for determining and ensuring ILB's risk-bearing capacity. The audit confirmed the bank's proper business organisation.

Furthermore, increased material costs are also due to the modernisation and expansion of the IT infrastructure as well as inflation-related cost increases.

Depreciation on tangible assets totalled EUR 6.1m and was higher than the previous year's figure (EUR 5.6m).

In principle, additional IT licences became necessary due to the increase in the number of employees compared to the previous year. Additional licence extensions for the FGCenter (web-based application that supports house banks in applying for promotional loans) and the establishment of the digital invoice workflow were also responsible for the increase compared to 2022. Investments were also made in the IT transformation roadmap, in particular, in the new customer portal and in network renewals. The construction of the new building at Havel Quartier Potsdam continued to progress in order to reflect the forecast increase in the number of employees and the resulting rise in the bank's own requirements for additional office space. However, the building will only have an effect on depreciation after its completion and will therefore not burden the income statement in 2023.

Total **risk provision** for the 2023 financial year amounts to EUR 4.5m.

Lending business recorded only minor expense of EUR 0.4m due to the increase in risk provisions at exposure level. This is more than offset by income from the reversal of existing risk provisions totalling EUR 0.5m. Overall, necessary risk provisions from the valuation of receivables therefore remain low in line with ILB's conservative risk policy. The valuation requirement of the past business year is significantly below the expected values. The various trouble spots around the world continued to have no direct impact on ILB's portfolio. However, risks exist in conjunction with the political and economic consequences of the current crises.

Latent credit risks are taken into account through the formation of general allowances. General allowances were determined in accordance with the requirements of IDW BFA 7. On the basis of the simplified procedure, the general allowances are generally determined via the one-year expected loss (EL). For positions for which significantly higher default risks must be assumed over time, the calculation is carried out using the present value expected lifetime loss (ELL).

When determining the general allowances, ILB additionally considers a scenario with rating downgrades due to the current crisis situation. This was used to provide for possible deteriorations in the risk structure in 2024. Negative developments on the banking market resulting from property risks are also taken into account in this context. Since ILB has already increased general loan loss provisions in recent years and the risk structure in the portfolio has improved slightly, there is no need for any further additions as per 31 December 2023. Instead, general value adjustments totalling EUR 0.1m were reversed.

The high quality of the loan portfolio also allows the pro rata release of EUR 2m in unallocated contingency reserves recognised in previous years in accordance with section 340f of the German Commercial Code (HGB, Handelsgesetzbuch).

Fixed-asset securities are generally valued according to the diluted 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. Expenses totalling EUR 4.8m were incurred as part of maturity restructuring in the securities portfolio, but were more than offset by corresponding income from micro-hedges released in this context in net interest income.

With regard to long-term loan business with fixed-interest periods of more than ten years, allocated provident funds of EUR 2.0m were formed pursuant to section 340f of the German Commercial Code 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 1.2m in 2023 and was thus below the previous year's figure (EUR 1.6m) as a result of higher expenses for semi-retirement.

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 figures were roughly flat against the previous year's level.

With a view to the allocations to the ILB promotional fund and to the Brandenburg fund, other operating net income also included expenditure for earmarked funds of the ILB promotional fund of EUR 4.6m that became necessary due to funds and support pledged in 2023. On the other hand, other operating net income included revenues of EUR 5.7m 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 2023. This means that since 2006, EUR 120.0m 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 21.0m was allocated to the fund for general banking risks from current net earnings (previous year: EUR 12.0m).

4.2 Financial position

In the 2023 financial year, ILB's balance sheet total of EUR 15,337.5m was slightly below previous year's level (EUR 15,619.6m).

The business volume, comprising, in addition to business recorded in the balance sheet with current customers, contingent liabilities and other obligations, fell slightly by EUR 277.9m to EUR 15,974.7m as per the end of the 2023 financial year (previous year: EUR 16,252.6m).

Loans and advances to banks fell by 20.8% to EUR 2,775.5m (previous year: EUR 3,503.5m). The decline is mainly due to the reduction in open market transactions with the Bundesbank, as a result of which short-term deposits with the Bundesbank fell by EUR 639.7m as per the balance sheet date compared to the previous year.

At a high level of EUR 6,611.9m, ILB's **loans and advances to customers** increased slightly compared to the previous year (EUR 6,407.2m). As in the previous year, non-programme-linked financing accounts for the largest share (around 38%). The share of note loans/registered bonds (around 16%) and housing promotion (around 17%) did not substantially change compared to the previous year.

At EUR 1,735.5m, **trust assets** are roughly at the previous year's level (previous year: EUR 1,725.6m).

At EUR 3,512.3m, the **portfolio of bonds and other fixed-interest securities** increased moderately by EUR 396.5m compared to the previous year (previous year: EUR 3,115.8m).

Stocks and other variable-income securities amounted to EUR 279.9m (previous year: EUR 274.1m). These exclusively concern 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. A distribution of EUR 5.0m was made from the fund assets for the first time in 2023.

Of **other assets** totalling EUR 76.4m (previous year: EUR 270.7m), EUR 40.9m relates to margin payments to central counterparties and EUR 30.0m to the adjustment item from currency translation.

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 17,283.0m (previous year: EUR 15,811.8m).

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 2023 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 bearer bonds. In the year under review, a further issue amounting to EUR 500.0m took place on the Berlin over-the-counter market.

Liabilities to banks fell by EUR 1,557.4m to EUR 8,254.1m (previous year: EUR 9,811.5m) as per the balance sheet date. EUR 7,918.9m thereof related mainly to loans taken out (previous year: EUR 8,104.3m). The overall decline in liabilities to banks was primarily due to the reduction in open market transactions.

Liabilities to customers as per 31 December 2023 totalled EUR 2,420.6m and were thus EUR 876.0m above the previous year's figure. The increase mainly consisted of EUR 491.5m in money due on demand and EUR 467.0m in liabilities with a residual maturity 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 150.0m). The portfolio therefore amounted to EUR 1,639.1m as per the balance sheet date (previous year: nominal amount of EUR 1,126.1m).

Other liabilities amounted to EUR 328.8m (previous year: EUR 467.6m), in particular due to the liability from margin calls of EUR 314.5m (previous year: EUR 459.8m).

Off-balance sheet liabilities increased by a total of EUR 4.1m in 2023 mainly due to the EUR 6.5m increase in irrevocable loan commitments to EUR 555.1m. Liabilities from sureties and guarantees remained roughly at the previous year's level of EUR 82.1m (previous year: EUR 84.4m). Utilisation of guarantees from contingent liabilities is not expected. ILB's liquidity was secured at all times. At the end of 2023, the bank had open loan commitments from other promotional banks that had not yet been drawn down totalling EUR 6.0m.

The **fund for general banking risks** according to section 340g of the German Commercial Code was increased to EUR 587.8m, including EUR 478.5m which must be classified as liable core capital.

ILB's **equity**, including the fund for general banking risks, together totalled EUR 826.6m as per the balance sheet date (previous year: EUR 799.2m). The increase compared to the previous year results primarily from the allocations to the fund for general banking risks, which totalled EUR 34.2m, including EUR 21.0m designed to strengthen liable hard core capital.

This includes a demand-based appropriation to the ILB promotional fund with a budgeted sum of EUR 5.0m. Since 2006, EUR 120.0m 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 2023	22,622	80,554
Appropriations	5,000	8,156
of which:		
Brandenburg Kredit Mezzanine		221
Brandenburg Kredit Mezzanine II		5,298
BFB III Frühphasen- und Wachstumsfonds		1,041
Mikrokredit Brandenburg		786
Corona Mezzanine Brandenburg		810
Reversals	4,628	2,411
of which:		
Brandenburg Kredit Mezzanine		29
Brandenburg Kredit Mezzanine II		436
Mikrokredit Brandenburg		67
KBB mbH		6
BFB IV equity fund		776
Corona Mezzanine Brandenburg		1,097
As per 31 December 2023	22,994	86,299

Due to the resolution regarding the appropriation of profits from the year 2022 adopted at the shareholders' meeting on 16 June 2023, a dividend of EUR 6.0m was distributed to the shareholders. The remaining EUR 1.5m was carried forward.

In the 2022 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 8.25% 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% was set in 2019, which was still applicable for the 2022 financial year. For 2023, the Federal Financial Supervisory Authority (BaFin) ordered an increase of 0.7 percentage points to 2.0%. The SREP capital buffer can be offset against the capital maintenance buffer of 2.5%, so that the SREP capital buffer does not result in an additional capital requirement for ILB. The new SREP decision issued in 2023 will apply from the 2024 financial year.

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 18.46% and 19.30% in 2023. This was well above the bank's total capital requirement of 8.25% and the capital conservation buffer of 2.5%.

In 2023, ILB's total capital ratio according to CRR ranged between 17.35% and 18.14%.

4.4 Financial and non-financial performance indicators

The key financial performance indicators for ILB are earnings before and after risk provisioning and the return on assets as well as the funding volume.

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.

The measure of ILB's financial success in 2023 is earnings after risk provisioning and reserve formation with a target of EUR 15.0m. Without compensatory entries of the ILB promotional fund and the Brandenburg fund, ILB recorded good earnings of EUR 32.4m in 2023 before risk provisioning and the formation of reserves.

Earnings before risk provisioning totalled EUR 36.9m and after risk provisioning EUR 32.4m. The return on assets amounted to 1.78%.

In the 2023 financial year, ILB pledged promotional funds amounting to EUR 1.6bn, including EUR 795m for products related to federal-state promotional programmes and EUR 809m for ILB's own programmes.

ILB's non-financial performance indicators result from employee issues such as the number of fixed-term and permanent employment contracts as well as the quota of women.

805 people were actively employed in permanent jobs on 31 December 2023 (previous year: 729). The number of employees in temporary jobs fell from 94 to 61.

At the end of 2023, female employees accounted for 67.1% (previous year: 67.6%) of the workforce.

5. Non-financial Declaration

Context

This 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 earnings and position of ILB and the impact of the business activities on non-financial aspects.

Since the 2021 financial year, ILB has been using the German Sustainability Code (DNK, Deutscher Nachhaltigkeitskodex) as a framework for its sustainability reporting. The structure of the Non-financial Declaration is partly based on the structure of the German Sustainability Code. Use of the German Sustainability Code makes ILB's sustainability reporting more transparent and comparable.

5.1 Responsible corporate governance

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.

In 2020, the concept for expanding ILB's sustainability management was developed and approved by the Management Board. The sustainability working group developed the sustainability guidelines in 2023 on the basis of this concept. The sustainability guidelines define ILB's understanding of sustainability and serve as a guide for the bank's orientation towards greater sustainability. The guidelines refer both to international goals, such as the Paris Agreement and the Sustainable Development Goals (SDGs), and to the sustainability goals of the federal state of Brandenburg. The sustainability guidelines define guiding principles and lay the foundation for future sustainability goals and measures.

Business strategy and strategic goals

Since 2021, ILB has been pursuing the strategic goal of systematically expanding its sustainability management and making it a firm part of its processes. In its business strategy for 2023, ILB set itself the annual goal of developing a concept for climate-neutral banking operations. The ILB climate plan was then drawn up during the year and approved by Management Board in the 4th quarter. The climate plan and the interim targets identified therein were incorporated into ILB's business strategy. According to its climate plan and business strategy, ILB aims to achieve climate neutrality for its banking operations by 2030 in line with the principle: avoid, reduce, compensate. In order to achieve this overarching goal, interim targets have been identified and incorporated into the annual strategy process.

ILB's 2024+ Business Strategy also states that ILB will continue to drive forward its sustainable transformation by

- offering its own financing schemes to support the climate policy goals of the federal state of Brandenburg associated with the energy transition and
- implementing an ESG module that supports the calculation of the greenhouse gas footprint (Scope 1-3) and hence CSRD reporting in the future. The module was acquired in the year under review.

The 2024+ business strategy was discussed and acknowledged by the Administrative Board. In monthly meetings, the Management Board is informed about the implementation status of the annual targets.

Bank-wide responsibilities

Responsibility for sustainability management at ILB lies with the entire Management Board. The Sustainability Manager coordinates the expansion of sustainability management throughout the bank. He is assigned to the strategy and communication function. As part of the sustainability management group, the Management Board, the heads of functions and the Sustainability Manager discuss current sustainability issues. At the end of 2022, the management group decided to establish the sustainability working group to raise awareness of sustainability and ESG issues throughout the bank and to support the expansion of sustainability management. The working group was set up in early 2023 and is made up of experts from all areas of the bank. They met once a quarter, drew up ILB's sustainability guidelines and supported the Sustainability Manager in preparing the initial materiality analysis in preparation for sustainability reporting in accordance with the Corporate Sustainability Reporting Directive (CSRD).

Materiality analysis

As part of the materiality analysis, key ILB business documents such as business and resource strategies, environment and business analyses, the sustainability roadmap and the regulatory screening were analysed in 2022 and potentially material topics for ILB identified. The results of the materiality analysis are still valid as ILB's business model has not changed since 2022 and because no new external factors relating to sustainability issues have had an impact on ILB according to the regulatory screening and ILB environment analysis. As a result of the previous materiality analysis, the following topics have also been considered to be material since the 2022 reporting year: customer service and complaint management as well as sustainability in credit decisions.

All material topics are shown in the table below.

Fields of action and material issues	Reference to non-financial aspects
5.2 Sustainable banking	Environmental and social concerns
5.2.1 Sustainable funding programmes	
5.2.2 Sustainable treasury business	
5.2.3 Assess sustainability risks	Environmental and social concerns
5.3 Sustainable banking operations	
5.3.1 Resource management	
5.3.2 Climate-relevant emissions	Employee matters
5.3.3 Customer service and complaint management	
5.4 Employee matters	Social issues
5.4.1 Employees' rights	
5.4.2 Family-friendly employer	
5.4.3 Equal opportunities	
5.4.4 Qualification	
5.4.5 Company health management	Combating corruption and bribery
5.5 Social issues	
5.6 Compliance	
5.6.1 Conduct in compliance with laws and directives	
5.6.2 Information security	

Although ILB is not covered by the Supply Chain Due Diligence Obligations Act (Lieferkettensorgfaltspflichtengesetz), it goes without saying that ILB is committed to respect for human rights. It observes all regulations and laws in this regard. However, this aspect is not material for ILB's business activities as the bank is based and operates exclusively in Brandenburg with the exception of treasury business. Operating on a regional level means that the direct or indirect connection to the federal state of Brandenburg ('Brandenburg connection') has a crucial role to play. A direct connection to Brandenburg exists, for instance, if an applicant has its company headquarters or permanent establishment(s) or investment location in Brandenburg. An indirect connection to Brandenburg can be derived, for instance, from significant value creation or employment effects. In the Berlin-Brandenburg metropolitan region and the Lusatia region, the direct connection to Brandenburg results from the close geographic ties.

5.2 Sustainable banking

5.2.1 Sustainable funding programmes

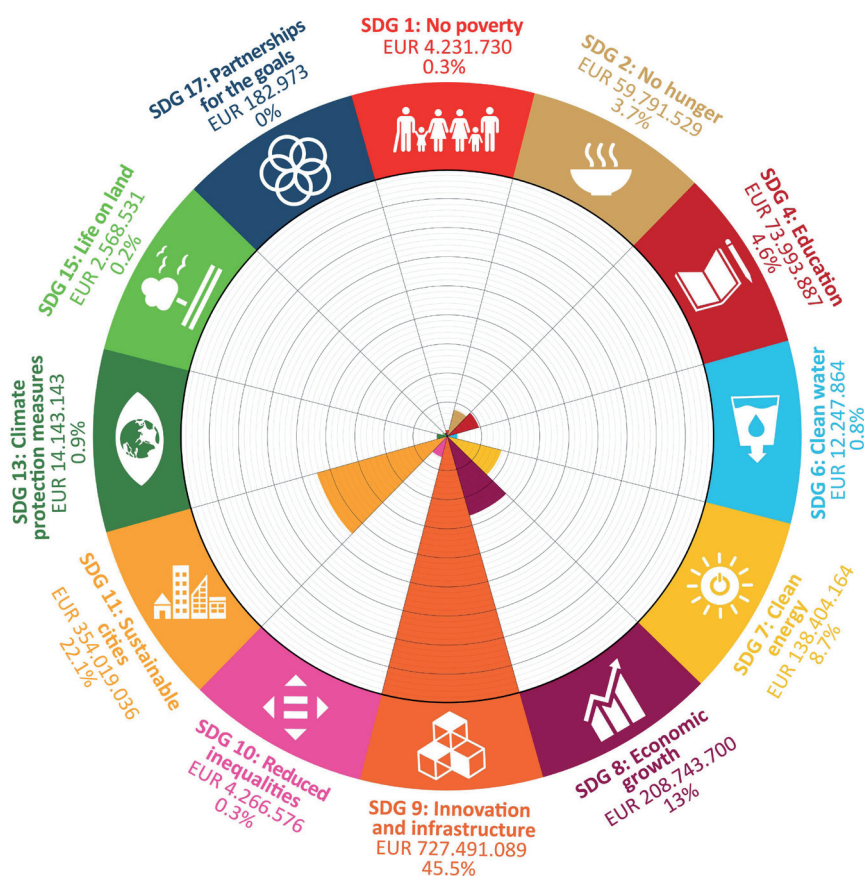
ILB promotes sustainable development in Brandenburg that is equally social, economic and ecological. ILB contributes to the development of the economy and the labour market with its development programmes at federal-state, federal and EU level as well as its own promotional loans. The activities supported by ILB include, for instance, measures for

climate protection and adaptation to climate change, thereby promoting society's transition towards CO₂ neutrality. ILB also promotes lifelong learning, research and innovation and, last but not least, social housing, public transport and social infrastructures such as schools, daycare centres and hospitals.

In 2023, ILB provided of EUR 1,603m (previous year: EUR 2,032m) in funding for more than 13,000 projects (previous year: 15,000 projects), thereby supporting municipalities, companies, scientific and research institutions, associations and private individuals in the federal state of Brandenburg.

Making sustainable promotion transparent

ILB is determined to provide a transparent description of how the funding programmes of Brandenburg's federal state government and ILB's funding programmes contribute to promoting sustainable development in Brandenburg, and since 2021 has therefore published its SDG mapping for new commitments in the financial year. This illustrates which Sustainable Development Goals of the United Nations are financially supported by ILB. As part of SDG mapping, all funding programmes of the federal state and ILB were allocated to a sustainability goal. In the allocation, each of the types of measures of the funding programmes were assigned to an SDG that is mainly achieved without double counting. Funding programmes that could not be assigned to any SDG did not exist as of the reporting date of 31 December 2023. ESG controversies or negative effects of individual projects are not considered in this methodology. The diagram below shows all the SDGs that were promoted in 2023.



In 2023, ILB provided funds for twelve of the total of 17 Sustainable Development Goals, with the following sustainability goals accounting for more than 90 percent of funding:

- Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation (SDG 9)
- Make cities and human settlements inclusive, safe, resilient and sustainable (SDG 11)
- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8)
- Ensure access to affordable, reliable, sustainable and modern energy for all (SDG 7)
- Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all (SDG 4)

Slowing down climate change

The objectives of the EU's Sustainable Finance Action Plan (2019) and the Green Deal (2020) are to slow down climate change, strengthen climate protection, and steer financial flows in Europe in an environmentally sustainable direction. In order to achieve these goals, a whole raft of regulations, directives and laws were passed, many of which are also directly or indirectly relevant and applicable to ILB or have been transposed into German law, such as the Corporate Sustainability Reporting Directive (CSRD), the European Single Access Point Regulation, the Corporate Sustainability Due Diligence Directive, and the amendments adopted with the 7th amendment to the minimum requirements issued by the Federal Financial Supervisory Authority (BaFin) for risk management, which in particular also implement the guidelines of the European Banking Authority (EBA) for lending and monitoring in Germany.

One driver of the transformation is the Taxonomy Regulation (EU) 2020/852 which aims to give European financial flows a more sustainable direction. According to the European Commission's publication in the Official Journal of 6 October 2022, companies that fall within the scope of the Non-Financial Reporting Directive only by force of national law are not subject to taxonomy reporting requirements. This also applies to business promotion banks and hence also to ILB.

The CSRD must be transposed into German law by July 2024. ILB expects that it will fall within the scope of application of the German CSRD Implementation Act. In the year under review, ILB began preparing an initial materiality analysis in order to identify the European Sustainability Reporting Standards that are material to it. In 2024, a GAP analysis will be carried out as part of a project to prepare for the implementation of the CSRD. In this context, the extent to which the Taxonomy Regulation is applicable will also be examined.

Striving for sustainability goals together

In addition to the above-described goals and the applicable regulatory requirements, the efforts by the government of the federal state of Brandenburg are also driving ILB's sustainability management. The federal state government has launched support programmes to strengthen Brandenburg socially, ecologically and economically. In its sustainability strategy, the federal state government outlines its understanding of the SDGs of the United Nations and how it supports the achievement of the goals with the federal state's funding programmes. Its sustainability strategy thus formed a basis for the development of ILB's understanding of the SDGs and was incorporated into the development of ILB's SDG mapping.

In 2023, the federal state parliament adopted the Brandenburg Climate Adaptation Strategy and continued its work on an ambitious climate plan for Brandenburg. This was adopted by Brandenburg's federal state government on 5 March 2024. The holistic strategy will make a significant contribution to achieving climate neutrality in the federal state of Brandenburg and reducing climate-damaging CO₂. In order to achieve these goals, over 100 measures have been identified in the areas of energy, industry, transport, forest reorganisation and construction. These measures now need to be financed. This is an opportunity for ILB to support the federal state government in the implementation of existing funding programmes and to offer supplementary ILB funding programmes.

Sustainable lending

Since 2022, ILB has been maintaining an exclusion list for its own lending and treasury business that defines already at business strategy level those transactions which ILB will not finance because they are not compatible with its claim to promote sustainable development in Brandenburg.

According to the exclusion list, ILB does not finance transactions related to armament products or coal-fired power, for instance. The exclusion list is published at www.ilb.de/nachhaltigkeit.

Compliance with the exclusion list is verified as part of the loan decision process for both lending and treasury business. In the 2023 financial year, no transactions were conducted that violate the exclusion list.

5.2.2 Sustainable treasury business

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 Union Investment 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 2023, ILB's portfolio had an ESG score of 62.3 points which reflects a positive trend since 31 December 2022 (60.6 points). According to Union Investment, comparable assets have an ESG score of 55.4 points.

In addition to establishing sustainability in ILB's securities portfolio, ILB plans to create an opportunity for capital market investors to participate in social investment projects by issuing social bonds. Both the Social Bond Framework and the issue of socially responsible bonds give ILB the opportunity to make its sustainable business model even more visible.

The social bonds issued in 2020 and 2022, for example, contributed to the financing of well over 3,000 social housing units and 1,000 school places, as can be seen in the Social Bonds Reports published in 2023. The ESG research and rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH verified the social investment selection process as part of a Second Party Opinion (SPO).

5.2.3 Managing sustainability risks in banking

As part of the implementation of the regulatory requirements from the 7th amendment of the minimum requirements for risk management (MaRisk), ILB reviewed and expanded its approach to managing sustainability risks from banking business and issued its guideline on 'Managing sustainability risks' as a central document.

ILB addresses sustainability risks in the environmental, social and corporate governance areas and distinguishes between physical and transitory risks. It thereby follows the industry standard and classifies sustainability risks as a driver of traditional risk types.

Sustainability risks and opportunities are integrated into the bank's existing risk management processes, always with a view to ILB's specific business model.

Appropriate measures and procedures for identifying, measuring, managing and monitoring sustainability risks are regularly reviewed and adjusted as required. The aim is to further increase transparency regarding the impact of sustainability risks on the bank's overall risk profile and to generate corresponding momentum for both strategic and operational overall bank management.

In ILB's lending business, the measurement of ESG risks will be supported in future by a scoring tool from S-Rating GmbH that was acquired in 2023 for this purpose. Plans for 2024 include integration into ILB's system and process landscape and, based on the results of the scoring, further expansion of the management approach for sustainability risks.

Sustainability risks are quantified across all risk types as part of ESG stress tests and/or adverse ESG scenarios. The simulations are based on forward-looking stress scenarios that take into account current social, political, regulatory and ecological developments as well as scientific findings. The result shows that sustainability risks as risk drivers have a significant impact on default risk and market price risk (interest rate risk and credit spread risk). These impacts can occur both in the short and in the medium to long term. The risk-bearing capacity is ensured since all regulatory requirements, including the capital buffers, are met in both the stress and the adverse scenario.

In future, the approaches may need to be further honed by incorporating the latest scientific findings and quantitative studies. Against this backdrop, ILB had its first dialogue with the Potsdam Institute for Climate Impact Research and the Federal State Office for Environmental Protection in 2023. This involved identifying opportunities for cooperation and the availability of specific climate and environmental data for the federal state of Brandenburg.

5.3 Sustainable banking operations

5.3.1 Resource management

ILB uses natural resources responsibly and its business strategy provides for comprehensive recording of the bank's resource consumption in order to identify reduction targets and increase resource efficiency.

Environmentally friendly mobility

ILB's vehicle fleet includes 27 vehicles (previous year: 25 vehicles). These include three combustion engine vehicles (previous year: 12), 23 hybrid or electric vehicles (previous year: 12) and one hydrogen vehicle. There are five charging points for electric vehicles on ILB's premises. Since 2022, a dedicated app has enabled flexible and optimised use of parking spaces on ILB's premises. ILB subsidises public transport tickets for its employees, including the Deutschlandticket. In 2023, the German Cyclists' Association (Allgemeiner Deutscher Fahrrad Club) also certified ILB as a bicycle-friendly employer. In 2023, ILB again participated in the 'City Cycling' campaign of the Climate Alliance of European cities with indigenous peoples of the rainforests, thereby setting an example for the change in transport policy and for climate protection.

Saving 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).

ILB increasingly sends letters to customers and business partners electronically. In order to further reduce paper consumption and speed up processes, ILB is introducing a digital invoice workflow.

In 2023, electricity, fuel, and paper consumption decreased slightly compared to the previous year.

Resources consumed	2023	2022	2021
Green electricity	1,678 MWh	1,789 MWh	1,810 MWh
Fuel (petrol/diesel)	29,273 litres	31,461 litres	29,091 litres
FSC paper	1.7 million sheets	2.2 million sheets	3.6 million sheets

Sustainable procurement

As a public law institution, the ILB puts procurements out to tender in accordance with public procurement law. In doing so, it observes the principles of equal treatment, non-discrimination and transparency in order to ensure fair competition among all market participants. Since mid-2023, every major procurement item has been vetted to determine which sustainability aspects can be reasonably demanded from bidders. The following are just a few examples:

- Submission of a carbon footprint report with a certificate according to ISO 14.001 or equivalent
- Indication of the carbon emissions caused by the item purchased
- Use of recycled plastic or biologically produced and biodegradable plastic
- Total share of recycled material in production and disposal
- Certificates such as EU Ecolabel, EMAS (Eco Management and Audit Scheme), FSC (Forest Stewardship Council), PEFC (Programme for the Endorsement of Forest Certification), Oeko Tex 100, Blue Angel, TÜV tested for harmful substances
- Coordination/consultations/clarifications should take place using remote formats whenever possible
- Regionality and seasonality of fruit and vegetables used
- Avoidance of waste and rubbish

The plan for 2024 is to systematically document the sustainability criteria applied in order to be able to make further statements regarding possible positive effects in the future.

5.3.2 Climate-relevant emissions

Climate-friendly banking operations

The following direct (scope-1) and indirect (scope-2) carbon emissions were caused by ILB's business operations in 2023. Scope-1 emissions result from the electricity and fuel consumption listed above. Scope-2 emissions result from the purchase of district heating services.

The carbon emissions caused were calculated using the CO₂ calculator of the Environment Agency Austria (<https://secure.umweltbundesamt.at/co2mon/co2mon.html>)

Carbon emissions in tonnes of CO ₂ -equivalent	2023	2022	2021
Scope-1	84 t	88 t	89 t
Scope-2	213 t	223 t	340 t
Total (without scope-3)	297 t	311 t	429 t

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

ILB's scope-3 emissions were determined in part in 2023. To date, scope-3 emissions can be determined in the areas of business travel, heat (upstream), electricity (upstream), electricity used when working from home, waste (in parts) and paper consumption. In 2024, ILB will continue to work on determining its carbon footprint. According to the Green House Gas Protocol, an internationally recognised standard for balancing greenhouse gas emissions, this includes emissions caused, for instance, by

- commuting employees,
- purchases or leasing of goods,
- services used as well as
- financed issues associated with financing from the ILB's own funding programmes.

Climate-friendly business travel

When it comes to business travel, ILB looks to environmentally friendly mobility. In accordance with the internal business travel policy, 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, 474 business trips were made (previous year: 313).

5.3.3 Customer service and complaint management

Customer satisfaction is an important concern for ILB. ILB gives its customers the opportunity to express dissatisfaction and criticism and has maintained a central complaints management system since 2018, thereby implementing the minimum requirements of the German Federal Financial Supervisory Authority (BaFin) for complaint management.

The Management Board and relevant functions receive quarterly reports on the complaints received. The reports include recommendations for action to reduce or eliminate the causes of complaint. A total of 92 complaints were received in 2023. After consultation with the specialist departments, these were all fully answered. The main reasons for complaints in 2023 were processing times that were perceived as too long and decisions made by ILB during the application process as well as, in some cases, the framework conditions of funding programmes.

ILB takes every single complaint seriously. It examines and processes complaints promptly in order to systematically optimise the bank's own products and processes or to pass on feedback for optimising the funding programmes of the federal state of Brandenburg to the ministries in charge of setting the relevant guidelines.

To further increase customer satisfaction, the thematic customer service hub was introduced on 1 January 2023. The task of the thematic hub is to continuously collect customer feedback, identify potential for improvement, recommend actions, and implement improvements together with the specialist departments. In 2023, 3,634 customers were contacted and asked for their feedback. ILB received and analysed 601 cases of feedback, corresponding to a response rate of 17%. As a result, initial measures have already been implemented to help improve customer satisfaction, such as the screen sharing function for case managers to resolve customer concerns directly and efficiently. In addition, ILB-wide telephone accessibility was improved and a clear guide to the application process piloted.

5.4 Employee matters

5.4.1 Employees' rights

Working conditions at ILB are in accordance with German and European laws, the collective agreement for 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, such as negotiations on service agreements, are reported to the Management Board.

5.4.2 Family-friendly employer

Since 2018, ILB has been awarded the berufundfamilie audit certificate as a family-conscious employer. In 2021, ILB was recertified by berufundfamilie for another three years. This is also due to the framework conditions which ILB has created for a family-friendly corporate culture in all walks of life. It supports all employees in balancing professional and private commitments. It offers family-friendly employment models with variable working hours, various options for location-flexible working, and through its cooperation partners provides places in daycare centres as well as counselling and placement services for families with children or with relatives in need of care.

ILB supports the networking of employees under the patronage of board members. Regular exchanges over lunch, at presentations or family events in both the women's and fathers' networks provide space for compatibility issues such as role perception and family organisation. ILB's fathers' network was honoured by conpadres with the Fathers' Award as Measure of the Year 2023 for the bank's fathers' lunch format. The issue of a good work-life balance is part of ILB's corporate culture.

We were particularly pleased to note that women with part-time contracts or parents with young children in particular are taking part in our personnel development programmes.

5.4.3 Equal opportunities

ILB 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. In order to reduce the underrepresentation of women in certain remuneration and function groups, women are given preferential consideration when filling corresponding vacancies. An inclusion agreement ensures equal employment opportunities for people with disabilities. Severely disabled persons are given preferential consideration in job appointments. The representative body for severely disabled persons is involved in the recruitment process.

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 2022, ILB laid down measures and goals for the next four years in its second gender equality plan. The core objectives of the gender equality plan are to achieve equal career opportunities for women and men, support variable role models and a family-friendly corporate culture in all walks of life.

The bank already reached its target of 50 percent women across all management positions by the end of 2022, and this share was increased once again at the end of 2023. In the year under review, 53% of all management positions were held by women (previous year: 51%). This has to be maintained in the coming years. ILB is determined to actively support the expansion of the proportion of women especially in the first management level.

The number of women and men in the respective management levels as of 31 December 2023 is as follows:

Number of women and men in the management levels	2023		2022	
	Women	Men	Women	Men
Management Board	1	2	1	2
First management level	7	10	6	10
Second management level	27	24	24	21
Third management level	7	1	7	4

ILB's Administrative Board, with its 17 members, also has equal representation (8 women, 9 men).

ILB also places special emphasis on networking and the further development of women. For example, it organised a women's assembly in 2022 and founded the ILB Women's Network. The women of the network have since regularly met at a ladies' lunch to exchange ideas on various topics with a focus on personal development, but also on career opportunities and work-life balance. For example, a speed dating event was organised with colleagues who made their career at ILB, development opportunities at ILB were presented, and best practice examples of reconciliation of work and private life were presented.

Inclusion

The inclusion agreement concluded with the Staff Council to support the barrier-free participation of severely disabled people or people at risk of disability is a measure that IBB considers to be an important part of its corporate culture. 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 option of working at the bank, mobile within Germany or from home. If required, it 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. The number of teleworking days has steadily decreased slightly since 2021.

Teleworking (pay-scale employees only)	2023	2022	2021	2020	2019
Number of days	66,622	68,525	71,158	33,283	7,488

5.4.4 Qualification

ILB actively finances and promotes the further training of its employees in order to increase qualifications and satisfaction and to ensure the bank's future. Well over half of the bank's staff take advantage of personal and/or professional development opportunities every year. The bank supports in-service training, from certificate courses to bachelor's and master's degree programmes, both financially and through time off.

In 2023, staff members attended professional development measures on an average of more than three days, remaining flat against the previous year.

5.4.5 Occupational health management

With its occupational health management, ILB helps its employees to maintain their health actively and responsibly. 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. Vaccination programmes, blood donation campaigns and a cooperation project with Urban Sports are also part of the offer to promote the health ILB's employees. In addition, topic-related seminars and workshops were held, for instance, as part of the 2023 Health Week. The online health platform 'ilb@gemeinsamgesund' offers regularly updated information and suggestions on healthy diet, physical exercise and mental health.

A sustainable diet is important to us, which is why we ensure that our company restaurant offers regional, seasonal and vegetarian options, and we subsidise meals for our employees. The company restaurant is run by a Potsdam-based company.

5.5 Social issues

Donations and sponsorships

In accordance with its principle for its commitment to Brandenburg, ILB considers it its 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 on projects with a federal-state focus and works to achieve a balance between long-term cooperation and individual measures.

ILB pays particular attention to projects for children and young people – be it through the promotion of artistic ensembles such as the Young Philharmonic Orchestra and the Brandenburg Youth Jazz Orchestra, support for young sporting talent through Sporthilfe Brandenburg, or by sponsoring moderated film screenings on social issues at schools. The bank also donated to the food banks in the federal state of Brandenburg. By sponsoring events and business awards, ILB also recognises sustainable innovations and companies and contributes to industry networking.

In 2023, ILB supported 65 projects (previous year: 89 projects) in the federal state of Brandenburg with a total of EUR 355,030.86 (previous year: EUR 337,921.20).

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.

Projects

In order to promote business start-ups in the region, ILB also organises the German Start-up and Entrepreneur Days (deGUT) together with Investitionsbank Berlin (IBB) and also organises the Berlin-Brandenburg Business Plan Competition (BPW) together with IBB and the Berlin-Brandenburg business associations (UVB). Sustainability aspects are firmly anchored in the deGUT seminar programme and in the seminars of the Business Plan Competition. The presentation of the Sustainability Award also raises awareness for sustainable business start-up activities and management among the participants of the Business Plan Competition. Both initiatives are organised by the Berlin Senate Department for Economics, Energy and Business and the Brandenburg Ministry for Economics, Labour and Energy, and are co-financed by the European Union.

5.6 Compliance

5.6.1 Conduct in compliance with laws 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) and the Bundesbank. ILB is therefore also subject to the requirements of the German Banking Act and the Money Laundering Act (GwG, Geldwäschegesetz). 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, the bank holds regular training courses and workshops for all employees on the prevention of criminal acts. 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.

5.6.2 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 the so-called protection goals, ILB has implemented an information security management system (ISMS) that is based on the internationally recognised information security standard DIN ISO/IEC and enshrined in ILB's information security policy.

According to the IS guideline, sustainability is one of the essential goals within the framework of the future orientation of information security as well as the related technical and personnel measures.

For more security

The Management Board is responsible for information security. The information security officer performs this task and supports the Management Board in implementing the information security management system. In order to achieve the above-described protection goals, 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. ILB's employees are also regularly trained and informed with regard to current cyber threats in order to keep the associated information security risks at a level that is acceptable for ILB.

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. The identifiable risks were taken into account through appropriate evaluation and the formation of risk and general provisions.

The general economic conditions and prospects are outlined in the economic and forecast report. The impact of the developments on the different risk types is discussed in section 4 and elsewhere.

2. Risk strategy and risk management

ILB's business strategy and risk strategy are closely interconnected. The business, risk and IT strategies are reviewed and decided upon by the Management Board on an ad hoc basis, but at least annually as part of the strategy process, and are noted by the Administrative Board.

An essential task of risk management in this context is to evaluate the specifications of the business strategy with regard to their risk impacts and to set guidelines for the development of the business units with regard to risk and income developments. The risk strategy defines the basic handling of risks and reflects the bank's specific risk appetite.

Risk management considers the bank's capability to bear risks and includes the definitions of sub-risk 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.

The framework conditions are the regulatory requirements, including the specific requirements regarding the risk-bearing capacity of banks as well as the applicable laws and ILB's articles of association.

This also covers all outsourced processes and activities. In addition to measuring, assessing and limiting risks, ILB ensures the development, promotion and integration of an appropriate risk culture through a variety of regulations and measures. This will ensure the long-term fulfilment of its tasks as a development bank.

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.

Although generating profit is not a primary objective of the bank's business, taking into account the risk and earnings potential and in line with the continuation premise, the aim is to permanently strengthen equity capital from the results generated by ILB.

Risk appetite is the bank's willingness to take risks and expresses the maximum risk that ILB will accept in order to achieve its business and income targets. 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.

At overall bank level, the upper loss limit of the economic risk-bearing capacity operationalises ILB's risk appetite. It represents the upper limit of risk assumption in the economic perspective and, at EUR 500m, means that even major fluctuations in the economic risk coverage potential and expected developments in risk utilisation can be covered.

In the normative view, ILB also signals its risk appetite via an internal normative capital buffer. This serves to cushion possible adverse developments through freely available risk coverage capital.

The risk appetite is further specified for the main risk types and may vary depending on different business and risk types.

The risk monitoring system in place is geared towards the existing major risk types, i.e., default, market price 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.

ILB holds strategic investments to perform its statutory obligations. The risks arising from ILB's equity investments are limited overall and not material. The equity financing 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 earnings and risk structure serve to inform the Management Board of developments in shareholdings.

The Management Board bears the overall responsibility for controlling the risks of the bank. 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. In addition, ILB's risk situation is explained to the Administrative Board at regular board meetings.

3. Risk-bearing capacity concept

The ICAAP (Internal Capital Adequacy Assessment Process) fleshes out the risk management process and pursues the following business objectives in particular as manifestations of the commercial principle of prudence:

- Ensuring that ILB is able to cover losses that occur in business operations at short notice
- Ensuring ILB's long-term viability and task fulfilment
- Ensuring stability even in macroeconomic crisis situations

The ongoing process in its entirety leads to an appropriate allocation of capital by ensuring the long-term continuation of the bank's activities on the basis of its own substance and earning power.

These going-concern requirements are concretised and operationalised via risk-bearing capacity management. In general, risk-bearing capacity is given if the risks can be covered by the available coverage potential. An adequate proportion of capital and risks is ensured.

The insolvency risk is additionally managed and limited by a dedicated management process (Internal Liquidity Adequacy Assessment Process, ILAAP), see 'liquidity risk' section.

In accordance with the requirements of the guideline on risk-bearing capacity, ILB has considered two perspectives of risk-bearing capacity since 1 January 2022, i.e., normative and economic risk-bearing capacity.

Both perspectives can influence each other, so that cross-effects between these perspectives are taken into account.

Stress tests are another cornerstone of risk management. They are used to analyse scenarios that deviate from the status quo and, in particular, their impact on ILB's risk situation.

These bank-wide observations are in part supported by operational management of the respective risk types (see presentation of risk types).

In 2023, business operations were audited by Deutsche Bundesbank in accordance with section 44 of the German Banking Act. As a result, no significant or serious findings were made, and ILB's business organisation was found to be correct.

Normative risk-bearing capacity

Normative risk-bearing capacity includes, in particular, capital planning in the sense of the minimum requirements for risk management (MaRisk). Compliance with the regulatory requirements is reviewed over the period of ILB's medium-term planning. Both the planned scenario (base scenario) and the occurrence of adverse scenarios are analysed.

The bank's ability to continue as a going concern is checked in the normative risk-bearing capacity assessment in particular by transferring the planned business development for each scenario, including its effects, on ILB's P&L and the regulatory requirements. ILB's ability to continue as a going concern is given if it can meet the supervisory requirements by virtue of its own financial strength. Consideration of external support, in particular, inclusion of the guarantor's liability of the federal state of Brandenburg, is not permissible.

As a result of the annual normative risk-bearing capacity analysis, the effects of the adverse scenarios are assessed. An internal normative capital buffer is defined by the Management Board on this basis.

A forward-looking view enables bottlenecks in ILB's capital resources or business structure to be identified at an early stage. This results in direct management implications for the bank's business orientation. Capital planning is interwoven with the bank's strategy process, resulting in regular reconciliations between planned business development and compliance with regulatory requirements.

For capital planning purposes, the three-year medium-term planning period is additionally indicatively expanded by a two-year forecast horizon.

Normative risk-bearing capacity is analysed once a year as part of capital planning. During the year, ILB's capital requirements are presented as of the reporting date, and a check is conducted as to whether the internal normative capital buffer can be maintained.

Economic risk-bearing capacity

Economic risk-bearing capacity is based on an asset-oriented, present value view as per the analysis date, where the bank's existing risk cover assets are compared to the material risks, irrespective of accounting regulations or regulatory capital requirements.

From an economic perspective, the risk-bearing capacity and thus the bank's ability to continue as a going concern is ensured by ensuring that its economic assets exceed the existing risks. This ensures that the bank has a positive net asset value even if risks materialise.

Economic risk-bearing capacity is given if the economically identified risk coverage potential exceeds the material risks in its economic manifestations. In each case, present value views of all positions are taken over the entire term. The internal methods used are detached from external regulatory conventions and supervisory law, although these can serve as a conservative benchmark.

ILB calculates the risk coverage potential close to present value, meaning that hidden reserves and charges are added on the basis of balance sheet capital figures in order to obtain an asset value close to present value. As far as technically possible, the expected risks are included in the modelling of the risk coverage potential. Non-material risks are considered in the determination of the risk coverage potential after subtraction of a non-material risk amount.

The concrete measurement and consideration of risks is carried out separately for all of ILB's significant risk types. Diversifications between risk types are neither modelled nor taken into account in a risk-reducing manner.

Measurement of present value risks includes the economic losses in value/loss of assets that can occur due to the bank's material risks within one year and are not exceeded in 99.9% of the cases.

Implementation depends on the risk type (see presentation of risk types). The methods and models used are subject to regular review (validation).

At overall bank level, the upper loss limit of the economic risk-bearing capacity operationalises ILB's risk appetite and represents the upper limit of risk assumption. The upper loss limit as per the reporting date totalled EUR 500m (previous year: EUR 600m). The background of the reduction as per 1 June 2023 was a review of the upper loss limit during the year against the backdrop of declining risk coverage potential in the economic derivation and partially lower limit utilisation (particularly of default risk). As a result, it was determined that a reduction in the upper loss limit to EUR 500m and a recalibration of the limits for the risk types are appropriate. While this described ILB's risk appetite more appropriately, it also improved the steering effect of risk limits.

The upper loss limit is allocated to the main risk types as follows:

in million EUR	until 31 May 2023	from 1 June 2023
Loss cap	600	500
Default risk limit	375	300
Market price risk limit	150	150
Operational risk limit	25	25
Liquidity spread risk limit	50	25

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.

Quarterly reports are a control instrument and inform the Management Board and the Risk Committee of the Administrative Board of the bank's overall risk situation.

Stress tests

In stress tests, unexpected scenarios and events are assumed beyond the usual risk measurement methods and their impacts on the capital and liquidity situation are considered. This also allows potential events to be analysed that are not or not sufficiently represented in a probability-based risk quantification.

Scenario-based stress tests also show the impacts of a scenario across risk types.

Among all regular stress tests at overall bank level, special emphasis is placed on the analysis of the impacts of a severe economic downturn. In contrast, inverse stress tests are used to examine which events could lead to the business model no longer being sustainable, thus endangering the bank's long-term viability. This identifies strategically problematic framework conditions.

Stress tests are another focus that can be triggered by sustainability risks, with the impacts being felt in the individual risk types.

The stress tests are also used to analyse the impacts of further exacerbations of these crises in crisis-ridden environmental situations. During the Covid-19 pandemic, for instance, the impacts of a deep and prolonged global economic crisis triggered by the pandemic were analysed. In 2022 and 2023, the focus was on stress tests in conjunction with the Ukraine war and the resulting stagflationary developments.

Supplementary operational steering

The limits for risk-bearing capacity are set at bank level as a whole and according to risk types and can be broken down further depending on the structure and degree of complexity of the particular transaction and the risk impacts. This can be achieved either via further limits, steering parameters, threshold values or bandwidths or, if the risk cannot be quantified, in the form of qualitative requirements, by defining minimum standards, etc. Regulatory requirements are also monitored.

ILB refers to this additional and/or supporting level of risk management as operational management. 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.

4. Different types of risks

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. Depending on their significance, risks are classified as material or not material: In addition to the risk types defined as material by the supervisory authority, ILB classifies risks as material if they exceed the normative or economic materiality threshold defined by ILB.

The following risks are considered to be material for ILB:

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

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.

Material risks are managed in accordance with the principles and limits defined in the risk strategy as part of the risk management process and are taken into account when assessing ILB's risk-bearing capacity.

Concentration risks, for instance, revenue concentration, are considered as part of the stock-taking process.

ILB is also aware that sustainability risks (and ESG risks), even though they do not represent a separate risk type, are risk drivers that can have a significant impact on the known risk types. In particular, the default risk and the market price risk can be adversely affected by various sustainability risks. Against this backdrop, ILB conducts stress tests related to the ESG risks 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 (default 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 (LWV, Landeswohnungsbauvermögen), 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 default risk sub-strategy, which is part of the bank's risk strategy. This is updated at least once a year and, in addition to strategic risk objectives and risk appetite, primarily defines the gui-

delines for default risk management, sub-loan portfolio limits and management parameters as well as material credit requirements for ILB's lending business (ILB promotional programmes/treasury).

The working group for the management of default risks at Investitionsbank des Landes Brandenburg (in future: risk management working group) is the central body for bank-wide risk steering and specifically for steering default risks. It facilitates department-spanning discussions, advises the Management Board and prepares Management Board resolutions as required. The regular 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.

In addition to the present value-oriented measurement of the default risk of economic risk-bearing capacity, the periodic rolling one-year risk utilisation of default risks is also limited within the framework of operational management.

Default risks 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.

4.1.2 Measurement/valuation

Mapping in normative risk-bearing capacity

Default risks come into play at various points in the normative perspective and are determined and taken into account depending on the respective scenario.

Effects on risk coverage capital result from P&L burdens due to default risks, in particular, due to the risk provision to be formed, the need for valuation and direct write-offs. The expected losses calculated for each scenario and calendar year are determined in this context. In addition, a review is carried out to determine whether adjustments to general allowances are necessary. Unexpected default risks arise in the adverse scenarios due to changes compared to the base scenario.

Regulatory requirements for ILB are additionally dominated by default risks. ILB applies the credit risk standard approach, which results in a conservative but comparatively static capital commitment. In conjunction with the bank's portfolio planning, the scheduled committed capital requirements from the bank's counterparty default risks are included. In the base scenario, constant risk structures are assumed for the respective plan positions. In the case of adverse scenarios, assumptions regarding deviating risk structures are also used.

Mapping in economic risk-bearing capacity

The bank's present value counterparty default risks are included in economic risk-bearing capacity. The expected lifetime loss (ELL) of all the bank's positions is taken into account as a reduction when determining the risk coverage potential.

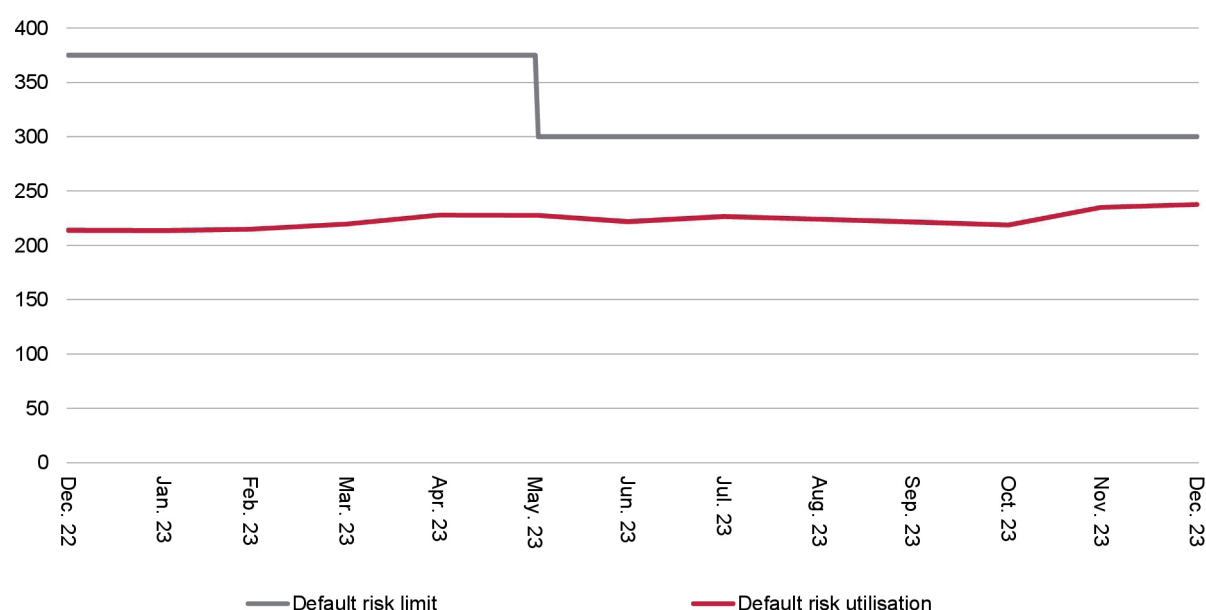
An unexpected loss is defined as a loss from default risks that exceeds the expected loss (EL) in the one-year view and is not exceeded in 99.9% of cases.

A simulation-based loan portfolio model is used to quantify default risks, which takes into account country risks and risk concentrations as well as migration risks. Realisation risks from defaulted positions are also taken into account.

In addition to receivables from lending business, the portfolio considered also includes treasury transactions (including securities and the special fund in the look-through) as well as equity investment positions. This ensures a consistent valuation at overall bank level.

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

Development of default risks in economic risk-bearing capacity (in million EUR)



Utilisation of default risks totalled between EUR 214m and EUR 238m during the course of 2023. The risks measured tended to increase, mainly due to new business in the loan and securities portfolio. Increases in risk were observed in the fourth quarter of 2023 in particular as a result of large-volume new business. Interest rate cuts in the medium and long maturities also had the effect of increasing risk over the year as a whole since present value risk exposures rose as a result.

In some cases, rating downgrades caused the risks measured to increase. On the other hand, no significant crisis-related deterioration was observed in the risk structure at overall bank level as before.

As part of the reduction in the upper loss limit as of 1 June 2023, the limit for default risks was reduced from EUR 375m to EUR 300m. This improved the steering effect since the previous free limit of around EUR 150m had signalled too high a risk appetite. Since then, risk utilisation has ranged between 76% and 79% (until 31 May 2023: 57% to 61%).

Operational management at overall bank level

ILB additionally limits possible P&L effects of counterparty default risks through operational management with a periodic perspective. The same loan portfolio model and the same data set are used as in present value measurement.

By restricting itself to default and realisation risks and by determining exposure on the basis of book values, this perspective makes it possible to estimate ILB's periodic portfolio loss (commercial law) at overall bank level. In contrast to economic management, this approach does not react to interest rate developments and thus generates additional management information. The expected loss determined in this way forms the estimator for ILB's risk provision planning for P&L planning, which ensures consistency with risk and earnings management.

The monthly 'ILB Risk Report' summarises the main implications of counterparty default risks according to economic and normative risk-bearing capacity as well as operational management.

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-Immobilien-Geschäftsrating (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 DSGVO master scale in accordance with the SR system.

The risk classification methods are included 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 13,625m as per the 31 December 2023 reporting date. 89% of the loans in ILB's own lending portfolio (excluding special funds) were either rated excellent (SR ratings 1-2) or high-grade 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.

In municipal lending business, the bank's largest sub-loan portfolio, ILB continues to see only a low default risk due to the Act on the Reorganisation of the Federal Financial Equalisation System (Gesetz zur Neuregelung des bundesstaatlichen Finanzausgleichssystems), the Act on General Financial Equalisation with Municipalities and Municipal Associations in the Federal State of Brandenburg (Gesetz über den allgemeinen Finanzausgleich mit den Gemeinden und Gemeindeverbänden im Land Brandenburg) and the constitutionally regulated 'debt brake'.

In lending business with banks, loans are passed on to the final borrower's bank without any risk for ILB with regard to the counterparty default risk of the final borrower. In the case of such bank-to-bank loans, ILB bears the counterparty 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. As a matter of principle, high real estate loan shares are aimed for, which has a credit risk-reducing effect on the bank's capital requirements and internally measured risk utilisation.

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.

Treasury

In treasury business, credit risks arise primarily from the purchase of securities and registered bonds for ILB's banking book. In addition, short-term money market transactions are concluded to a small extent. Issues by the public sector and by financial institutions are purchased. The investment focus is on issuers with very good credit ratings and on covered securities (bonds).

In 2014, ILB set up a special corporate bond fund (minimum rating: investment grade). 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 expired at maturity in the banking book. The limit for corporate bonds totalled EUR 375m.

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 creditworthiness ratings by external rating agencies (Standard & Poor's, Moody's, Fitch) and on the basis of our own assessments. Transactions with issuers rated at least 'BBB' by the rating agencies (Moody's, Standard & Poor's or Fitch) are considered to be in line with strategic requirements. The assessment of the respective transaction in relation to the rating and the resulting risks is carried out as part of the specific decision proposal.

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.

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.

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.

The country risk outside Germany is limited by country caps. These limits are, as a rule, 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 mainly in its capital city) and other companies (supporting ILB's other activities).

As of 31 December 2023, ILB's total corporate investments had a book value of EUR 125m. 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 narrowly defined 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 risk provisioning 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 carries 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 income position.

The following types of market risks were identified for ILB:

- Interest change risk
- Market price risk
- Share price risk
- Currency risk
- Risk from implicit and explicit options (caps, floors, swaptions)

Effects of current developments

The interest rate increases in 2022 led to an abrupt end of the low-interest phase.

In addition, the volatility of the market values of securities (including credit spread changes) increased significantly. ILB benefited from its conservative risk profile during this market phase. Although the reserve of the interest book decreased noticeably during this period, no provision for impending losses must be made on the interest book. The impacts on ILB's net interest income were manageable for ILB due to the established steering methods, especially because the maturity transformation had been reduced even before the interest rate turnaround. Due to the current inverse interest rate structure, however, the benefits of maturity transformation are very limited.

The interest-rate induced price losses in the securities portfolio did not have any impact on ILB's earnings since it generally intends to hold the portfolio permanently.

Credit-spread induced price declines are comparatively minor due to the high quality of the securities portfolio and did not require any adjustments.

The resulting impacts on risk measurement are described in the respective sections on management and valuation.

4.2.1 Sub-risk types

Interest change 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.

Market price 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 commodities 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. Due to valuation according to the diluted lower of cost or market principle, the effects of exchange rate fluctuations on the bank's earnings are limited.

Nevertheless, present value price risks arise immanently from holding the securities positions. In addition to interest-rate induced fluctuations in market value, ILB also considers the effects of credit spread risks, which result from market-induced fluctuations in the risk premiums of securities of equivalent classes.

ILB also acquires note loans with high credit ratings in the banking book as a measure to diversify income. These are not subject to daily market valuation and sales of note loans are not planned. As a result, no credit spread risks from promissory note loans were recognised in the banking book as per the reporting date. This analysis will be carried out from 2024 due to regulatory requirements.

Share price risk

By investing in shares, ILB adds an element to its investment portfolio that helps to stabilise earnings. In order to efficiently diversify risks, ILB invests in diversified portfolios (ETFs) rather than directly in individual shares. This asset class is entered via a savings plan to a limited extent, so that risks are basically limited, but the share price risks can be assumed to become material as the portfolio increases.

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.

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, in particular, 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 not material.

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 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 book 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. During the low-interest phase, customers increasingly asked for and agreed to 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 included in and monitored via interest book management.

In line with its promotional mandate, ILB deliberately assumes risks from implicit options only to a limited extent. A limit system ensures a threshold for risks.

Other price risks

There are no material price risks for ILB beyond the risk types described.

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 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 book. 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. These concentrations are taken into account in the credit spread risk measurement.

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 suitable receivables 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.

4.2.2 Measurement/valuation

Mapping in normative risk-bearing capacity

Interest rate risks

From the P&L-oriented periodic perspective, changes in interest rates have a direct impact on ILB's interest income. The base scenario uses the expected interest rate developments according to ILB's medium-term planning. Interest developments particularly affect variable-interest business as a result of interest rate adjustments and the terms and conditions of new business.

Interest rate developments also affect the audit of the loss-free valuation of ILB's interest book. A provision must be formed if the reserve of the interest book (present value minus book value) is not sufficient to cover future administrative, risk, and liquidity costs. This audit is strongly influenced by expected interest rate developments as well as the planned maturity transformation and planned new business (in the form of volume and conditions). Provisions, if any, must be taken into account in P&L and thus in the risk coverage capital.

In adverse scenarios, interest rate scenarios that deviate from expectations are also taken into account with their impacts on interest income and the loss-free valuation. This can lead to unexpected interest rate risks in the normative view.

Price risks

Due to the intention to hold the assets for the long term and the diluted lower of cost or market principle of the German Commercial Code, market value risks will generally have no influence on P&L. Impacts can result from significant credit spread-induced hidden burdens. ILB takes these into account in a graduated, rating-based procedure depending on the specific scenario. Leaving the investment grade range is considered to be a significant threshold for the assessment in this context. Especially in adverse scenarios, credit spread increases are also assumed and can lead to unexpected losses in the normative view in conjunction with migration assumptions.

Changes in credit spread level can also have an impact on the earnings potential of securities purchases and thus impact net interest income.

Share price risks

In the normative perspective, share price risks can be reflected in particular in the bank's P&L and thus impact the risk coverage capital. The integration into ILB's special fund must be taken into account here. In addition, impacts on regulatory requirements in the base scenario and in the adverse scenarios must be taken into account.

Market price risks

Market price risks can have an impact on regulatory requirements. The derivation of the bank's SREP premium depends directly on the present value positioning of ILB's interest rate risk. If ILB assumes a change in positioning in a given scenario, the impacts on the bank's SREP premium must be taken into account. The same applies in the case of significant non-Pillar I risks. Credit spread risks and share price risks are relevant for ILB and are taken into account when forecasting the SREP premium. ILB expects an increase in the SREP premium compared to the existing premium as of 31 December 2023 even in the base scenario.

Mapping in economic risk-bearing capacity

The bank's market price risks as per the reporting date are included in its economic risk-bearing capacity from a present value perspective.

The market parameters as per the reporting date are taken into account when determining the risk coverage potential. This results in effects from interest rates and, if applicable, credit-spread induced hidden burdens of securities, especially when deriving the hidden reserves or burdens of the interest book.

Following the extreme interest rate hikes in 2022, volatile interest rate developments were also observed during the course of 2023, which at times had a negative impact on risk cover potential. Following the declines in medium and long-term interest rates in the fourth quarter of 2023, a significant increase in hidden reserves in the interest book was seen at the end of the year.

Since May 2022, crisis-related increases and volatile developments in credit spreads were observed on the market, resulting in spread-driven valuation declines in the portfolio. In March 2023, negative impacts from the Credit Suisse crisis and the problems in the US banking market led to a rise in spread levels at financial institutions which continues to have a negative impact. Individual market valuations of certain securities in the sovereigns segment also have a negative impact on this analysis.

Due to the present value view of ILB's assets, risk coverage potential is generally expected to be volatile from an economic perspective. In response to these observations, ILB lowered the upper loss limit from EUR 600m to EUR 500m in June 2023 in order to ensure a permanently sufficient gap between the upper loss limit and the risk coverage potential.

Unexpected losses of market price risks are understood as negative changes in the bank's present values due to changed interest rates, changed credit spreads or equity values compared to the initial present value. No diversification effects from interest rate, credit spread and equity risks are taken into account.

Interest rate and credit spread risks are determined according to the identical model by historical simulation using the same standard software. The risk measure used is the value at risk at a confidence level of 99.9% with a holding period of 250 trading days.

In determining the interest rate risk, the bank considers all interest-bearing items in the interest book 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 book. The effects of implicit options from customer business are taken into account depending on the respective interest rate scenarios.

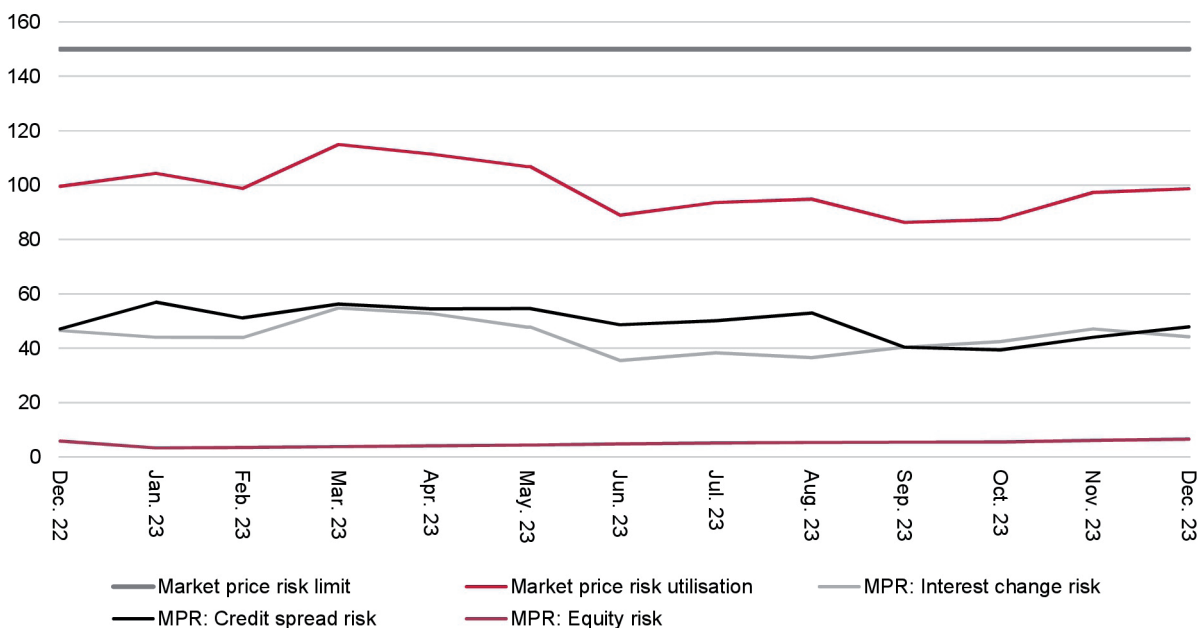
Maturity transformation continued to be managed at a low level in 2023 as the effectiveness of interest maturity transformation continued to decline due to the development towards an inverted yield curve.

Backtesting violations occurred in 2022 due to the historical extreme observations of interest rate rises since the risk model of the historical simulation did not forecast such interest rate rises. These developments are now fully included in the history, meaning that no further backtesting violations have been observed since March 2023.

When determining credit spread risk, ILB found that the calculation procedure of the software used led to an overstatement of the measured credit spread risks because risk-increasing interest rate effects were also included in risk measurement. Following a model adjustment, an adjusted calculation procedure was introduced as of 30 September 2023 which ensures the desired mapping. This resulted in a decrease in measured credit spread risks as of 30 September 2023 due to the change in methodology.

Equity risks are presented in a simplified form. A relative lump sum of 50% of the current market value is recognised which was derived historically (in the previous year, current market values were recognised in full as the risk amount). Risk utilisation levels increase in parallel with the rising market values of the ETFs as a result of the monthly new investments. Risk measurement and management will be expanded as the equity portfolio is successively built up.

Development of the market price risks of economic risk-bearing capacity (in million EUR)



Utilisation of the limit for market price risks results cumulatively from the sub-risk types mentioned and totals EUR 99m (66%) as per the reporting date. Risk utilisation ranged between 58% and 78% during the course of the year.

The measured interest rate risks range between relatively low values of EUR 35m and EUR 55m with a continued low interest rate maturity transformation (leverage between 0.5 and 0.8). The assumed long holding period means volatile risk developments, for example, also from changes in interest rates and cash flows during the year.

Credit spread risks increased significantly at the beginning of the year, which is attributable to the uncertainty of the risk measurement model (see above). With the model adjustment as of September 2023, distorting interest rate effects were eliminated and the measured risk amount fell to around EUR 40m. In the fourth quarter of 2023, significantly rising market values of the portfolio are accompanied by rising credit spread risks due to falling interest rates and new

purchases. Equity risks increase successively as the equity portfolio is built up and total EUR 7m as per the reporting date.

Overall, the existing market price risks are acceptable for ILB despite the turbulent market phase and the associated volatilities. Utilisation of the EUR 150m limit reached a maximum of 77% during the course of the year.

The observed market price risks are reflected in a volatile development of the risk coverage potential and thus impact economic risk-bearing capacity (see 'the risk situation in summary').

Operational management

To support economic risk-bearing capacity management, the limit of EUR 150m for market price risks is allocated to operational steering parameters for the sub-risk types. The breakdown as per the reporting date is as follows:

	in million EUR
Steering parameter: interest rate risk	80
Steering parameter: credit spread risk	60
Steering parameter: share price risk	10

Exceeding an individual steering parameter does not necessarily jeopardise the risk-bearing capacity limit, but serves as an internal early warning threshold.

Multiple and diverse operational interest rate risk steering levels exist in addition to the above.

Here, the present value interest rate risk is also limited with a holding period of 21 trading days. This holding period, which is shorter than the risk-bearing capacity, reflects ILB's actual management options from risk identification to the implementation of countermeasures. This risk measure also reacts more promptly to current interest rate developments.

In addition to the absolute limitation of the interest rate risk, relative management of the interest rate risk is carried out along a reference value (benchmark). This benchmark strategy of interest rate risk is defined via a lever, with a target lever determining the degree of strategically desired maturity transformation. 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 and reported.

In addition to this absolute and relative value-at-risk-based management of interest rate risks, further management scenarios result from the regulatory requirements. 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 an operational steering parameter is exceeded, Treasury issues a statement, and the consequences must be discussed and decisions made together with the head of the risk controlling function and the Management Board. In order to consciously reallocate income and risk positions (asset allocation), the steering parameters can be adjusted during the year by way of a Management Board decision. The upper limit for market price risks of economic risk-bearing capacity must be observed in this context.

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. The main basis for this monitoring is the monthly report on ILB's trading transactions. If necessary, the reporting cycle can be shortened at short notice.

In addition, the development of credit spread curves of selected benchmarks is observed in ILB's monthly risk report.

4.2.3 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.

The inverse interest rate structure in conjunction with volatile interest rate developments make interest rate maturity transformation currently less attractive, which also leads to low leverage at ILB.

Opportunities will arise when the interest structure becomes steeper again. 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. In principle, the higher interest rate structure compared to the low-interest phase offers improved earnings potential again in the medium and long term from the investment of the bank's own funds, which had a clearly negative trend in the past decade. The higher interest rate level can also improve the margin quality in lending business if interest rate sensitivity on the demand side decreases as a result.

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. For new purchases, increased credit spreads for ILB lead to more attractive remuneration for the risks assumed and can generate a positive contribution to earnings.

The equity portfolio is built up with a long-term perspective and the aim of diversifying income. Possible short-term and medium-term price gains are deliberately used to build up hidden reserves, so that opportunities during this period are limited to building up the highest possible reserves.

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 earnings on condition that liquidity is ensured at all times. Compliance with the willingness to pay takes priority over any decision regarding the profitability and efficiency of asset/liability management.

The bank's liabilities are secured by statutory public-sector responsibility, guarantor's liability and the liability guarantee of the federal state of Brandenburg. In addition, the external AAA Fitch rating results in an outstanding market positioning. ILB is therefore able to obtain liquidity at competitive conditions. The bank hence expects to be able to obtain refinancing at prime terms without restrictions in the future.

4.3.1 Sub-risk types

The following elements of market 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. This material risk is the focus of insolvency risk management.
- Bearer bond placement risk: risk that refinancing instruments cannot be placed at the expected conditions
- 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
- Refinancing as a sustainability risk: deterioration of ILB's refinancing options with partners who give greater weight to climate/sustainability risks and, due to their policy, only provide the best possible financing to particularly sustainable banks

Bearer bond placement risks exist and are seen as part of the liquidity spread risk but are not assessed as material. 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. Market liquidity risk, intra-risk concentrations and sustainability risks are also non-material elements of this risk type.

Liquidity risk in the narrower sense (illiquidity risk)

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 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 specialist 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 risk compared to the risk-bearing capacity calculations, illiquidity risk is measured and managed on the basis of a comparison of the refinancing requirement with the existing refinancing potential in a dedicated steering process (Internal Liquidity Adequacy Assessment Process, ILAAP). The focus is on warranting liquidity at all times. The short-term monitoring period of half a year is relevant to management since this ensures the survival horizon of six months.

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 of ILB as part of monthly risk reporting to the Management Board. Reporting on the short-term liquidity situation is supplemented by a medium-term (three years) and long-term (20 years) presentation 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.

In addition to the normal scenario, the analysis is also carried out for stress scenarios (deterioration of the market environment, deterioration of ILB's credit rating, and macroeconomic crisis) which assume strains on refinancing requirements and refinancing potential.

The past and current crisis situations (Covid-19 pandemic, war in Ukraine, energy crisis, US and European banking crises in spring 2023) have not led to any restrictions on ILB's refinancing options. The 'deteriorating market environment' crisis scenario is currently relevant to the valuation of the solvency risk and is based on a deterioration of the economic environment while ILB's refinancing power remains good.

In the year under review, ILB was able at all times to obtain sufficient liquidity on the money market through both collateralised and uncollateralised transactions. Various public-sector counterparties also use ILB as a money trading partner, which expanded ILB's refinancing sources in money market business. ILB had sufficient unused liquidity potential at all times during the year 2023.

The regulatory liquidity requirements in their current version were met with sufficient buffers. According to the monthly regulatory reporting, the liquidity coverage ratio, which represents the short-term liquidity risk, ranged between 253% and 390% (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 115% in the quarterly reports.

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.

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.

4.3.2 Measurement/valuation

Mapping in normative risk-bearing capacity

ILB's liquidity spreads are included in the calculation of its net interest income. The expected liquidity spread in the base scenario is taken into account here, which essentially impacts the conditions of the simulated new transactions.

Adverse scenarios include deviating assumptions of liquidity spreads, whereby unexpected losses due to deviating interest income are also included in the normative perspective.

Mapping in economic risk-bearing capacity

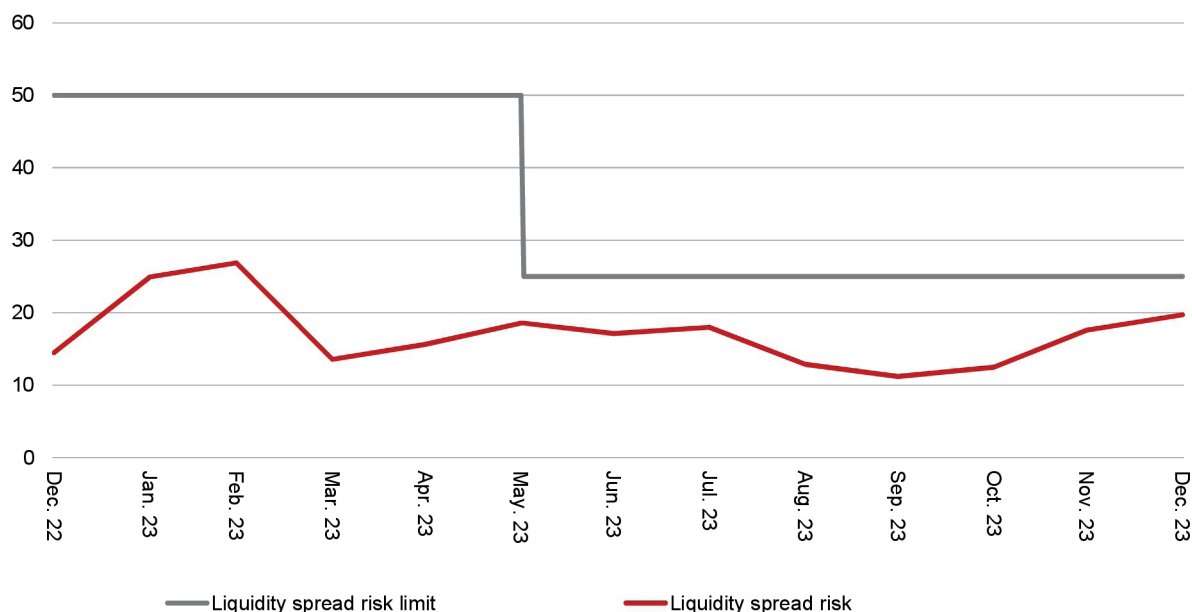
When determining the risk coverage potential of the economic perspective, ILB uses the commercial law instrument of loss-free valuation of the interest book to determine hidden reserves and/or charges of the interest book. In principle, this also includes the liquidity spreads from existing business. In addition, present value refinancing costs of the existing refinancing gap are taken into account under the current liquidity spreads.

In order to measure the economic risk amount from a present value perspective, ILB simulates the impacts of rising liquidity spreads on the long-term refinancing gap of the bank as a whole. If this gap resulting from the liquidity transformation has to be closed at increased liquidity spreads, unexpected losses arise in present value terms. The determination is based on a scenario calculation whose underlying liquidity shifts were derived historically.

The liquidity spread risks measured remained at a non-critical level of between EUR 11m and EUR 27m over the course of the year. Fluctuations in liquidity spread risk result in particular from changes in refinancing requirements. In March 2023, a sharp decline in the refinancing gap was observed after a large-volume bearer bond was successfully placed on the market, which led to a significant decline in the refinancing requirement.

As part of the recalibration of the upper loss limit and the limits for economic risk-bearing capacity in June 2023, the limit for liquidity spread risks was also reduced. Utilisation of the limit was below 80% throughout 2023.

Development of liquidity spread risk of economic risk-bearing capacity (in million EUR)



Overall, liquidity spread risks are comparatively low in both normative and economic risk-bearing capacity. These risks may increase if liquidity maturity transformation increases and/or liquidity spreads rise sharply.

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 observed when financial markets are tense, further reducing or a delayed increase in the bank's own liquidity spread while at the same time expanding the refinancing spread in the finance environment leads to additional opportunities. 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 generally 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).

4.4.1 Sub-risk types

In order to manage operational risks, 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, such as 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. Major operational risks that would jeopardise the continued existence of the bank are generally avoided. Risks are minimised through suitable measures, or appropriate precautions are taken as part of risk transfers (such as insurance) or risk mitigation (loss prevention). Minor risks are taken after assessing their economic viability.

ILB has 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 in the loss scenario analyses. 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 on an ongoing basis.

The Management Board is informed of any loss events of more than EUR 220,000 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.

The loss and risk events identified in 2023 did not reveal any risks that could jeopardise the bank's existence and their monetary impact was substantially below the risk utilisation assumed within the scope of the risk-bearing capacity.

4.4.2 Measurement/valuation

Mapping in normative risk-bearing capacity

Operational risks must be taken into account in normative risk-bearing capacity, in particular, with regulatory capital requirements.

ILB currently uses the basic indicator approach in accordance with the CRR. The capital requirements are here determined on the basis of gross earnings in previous financial years. When forecasting future requirements, ILB's projected income is taken into account depending on the respective scenario.

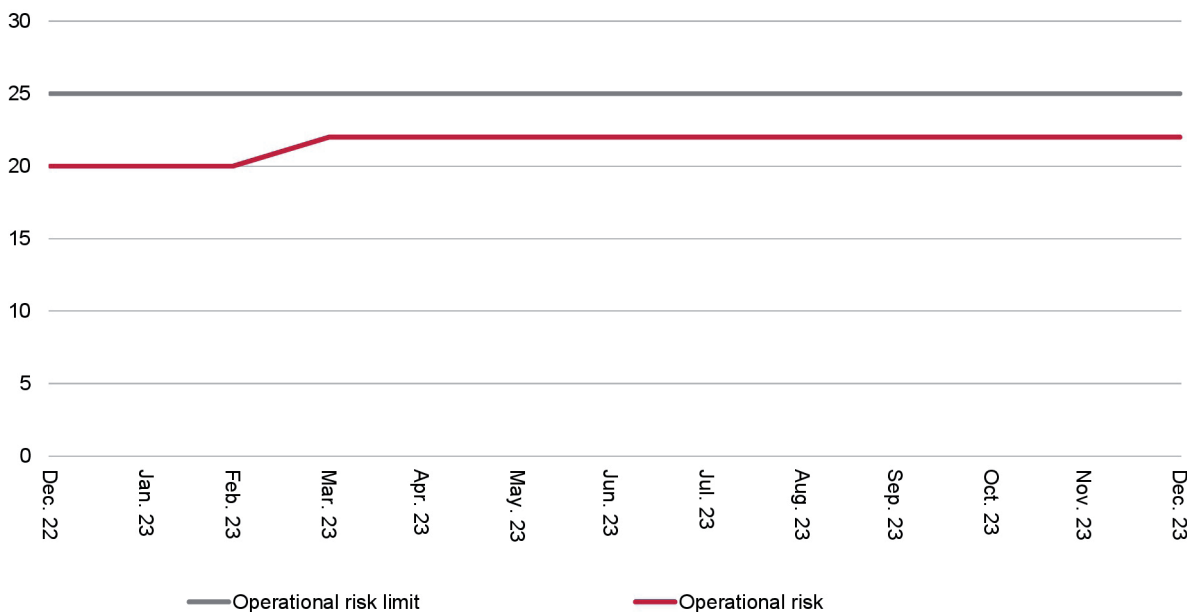
When determining risk coverage capital, typically no concrete operational risks in the sense of expected losses are taken into account in the base scenario. In adverse scenarios, concrete losses from operational risks can be taken into account, which reduce risk coverage capital.

Mapping in economic risk-bearing capacity

Losses, if any, from operational risks are included in ILB's existing cost structures and are also implicitly included in the economic risk coverage potential through these cost structures.

ILB does not have a separate model for quantifying risk. A flat amount is used for risk utilisation. This assumed flat amount is based on the anchor of the regulatory risk determination in accordance with the standardised approach, taking into account the findings from operational management mechanisms, in particular, the risk inventory and the scenario analyses. The appropriateness of the flat amount is subject to ongoing review.

Development of the operational risk of economic risk-bearing capacity (in million EUR)



The EUR 25m limit for operational risks was complied with at all times in 2023 and was utilised to between 80% and 88%. The amount for operational risks was increased in March 2023 from EUR 20m to EUR 22m. This adjustment was made in response to updated estimates by the sub-risk managers regarding potential losses as part of the risk inventory where potentially increasing risks were identified.

4.4.3 Opportunities

ILB is generally risk-neutral with regard to operational risks and has mechanisms in place to closely manage operational risks. The aim is to identify risks at an early stage before damage occurs.

5. The risk situation in summary

5.1 Normative risk-bearing capacity

Normative risk-bearing capacity is analysed once a year as part of capital planning. Capital planning for the years 2024 to 2026 shows that risk coverage capital will remain at a constant level in the medium term. The requirements for the regulatory total risk amount increase successively and in line with business. ILB additionally expects increasing requirements for capital resources (capital buffer, SREP premium), which will cause free risk coverage capital to decrease significantly overall.

The adverse scenarios reflect ILB's risk sensitivity. In line with the bank's business model, default risks are of considerable importance. With interest rates likely to continue rising, interest rate risks also take on considerable significance from a normative perspective. Possible provisions for impending losses on the interest book entail potentially high P&L risks in absolute terms, even if the current reserve is sufficiently high. From a normative perspective, credit spread

risks so far had no relevant impact on the income statement due to the very good risk structure of the investment portfolio (mitigated lower of cost or market principle).

All requirements for normative risk-bearing capacity are met in both the base scenario and in the adverse scenarios. During the year, ILB's capital requirements are reviewed as of the reporting date and it is checked whether the internal normative capital buffer can be maintained.

Due to ILB's robust and constant business model, capital requirements remained relatively constant during 2023, with slightly increasing requirements from default disks due to new business. The increase in the countercyclical capital buffer and the introduction of the systemic risk buffer were already anticipated in previous year's capital planning. No restrictions from the normative view arose from the portfolio during the course of the year.

5.2 Economic risk-bearing capacity

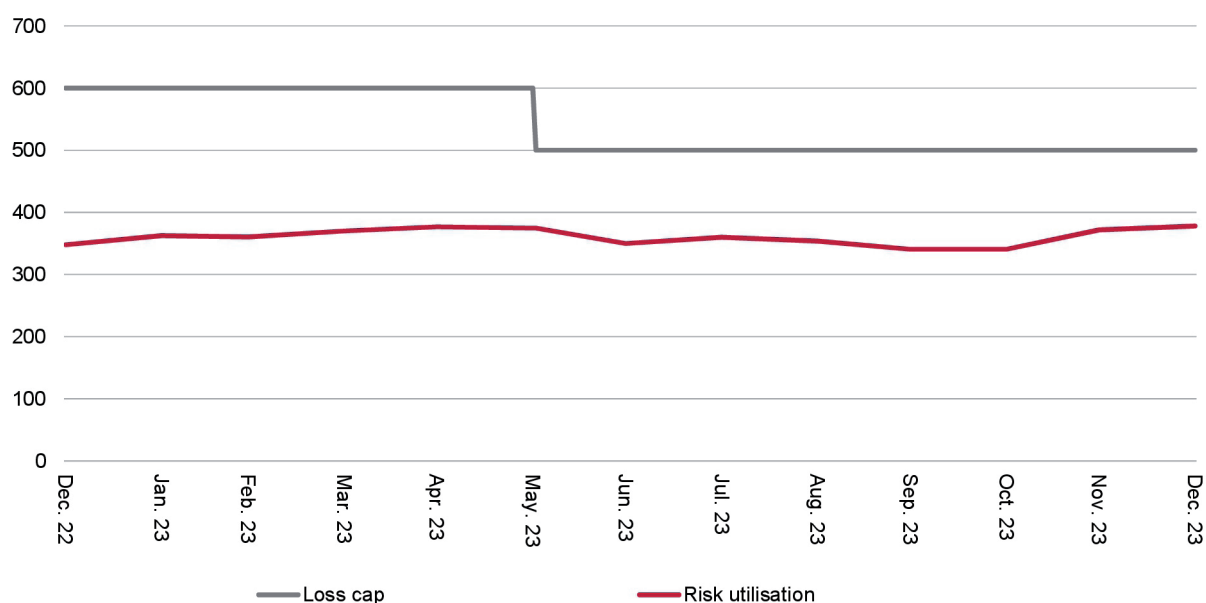
Following a significant decline in risk coverage potential in 2022, due particularly to external market influences in the form of rising interest rates and credit spreads, risk coverage potential as per 31 December 2023 is stable compared to the previous year. During the current year, further increases in interest rates led to temporary moderate declines, which were, however, reversed in the fourth quarter as a result of cuts in interest rates. Increases in credit spread levels – particularly in response to the US banking crisis in spring 2023 – led to slight burdens in the economic perspective.

At the same time, changes in interest rates also impacted risk measurement (in particular default risks and credit spread risks) since present value risk exposures also change as a result.

At overall bank level, the upper loss limit of the economic risk-bearing capacity operationalises ILB's risk appetite and represents the upper limit of risk assumption. Due to the expected volatility of the risk coverage potential, ILB ensures that there is sufficient leeway between the risk coverage potential and the upper loss limit. This is reviewed on a quarterly basis.

The further decline in risk coverage potential in the meantime as a result of further interest rate increases in the first half of 2023 led to a reduction in the upper loss limit from EUR 600m to EUR 500m during the year. This more appropriately describes ILB's risk appetite and ensures a wide gap between the risk coverage potential and the upper loss limit. Even if the limits had been fully utilised, economic risk-bearing capacity would have been ensured at all times.

Utilisation of the upper loss limit of economic risk-bearing capacity (in million EUR)

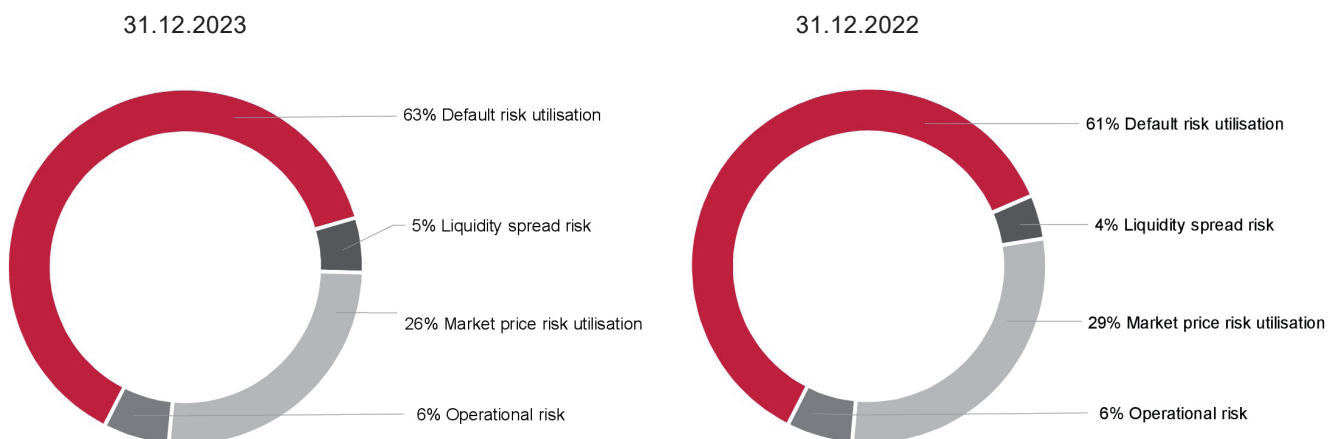


According to the results of the individual risk types, no significant increase in the risk situation can be observed as a result of the current crisis. At overall bank level, risk-increasing and risk-reducing events have so far largely neutralised each other. The increases in the fourth quarter are primarily due to new business and the resulting default risks and credit spread risks.

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. The adjustment of the upper loss limit leads to improved steering sensitivity of the limits without signalling a threat to risk-bearing capacity. Overall, only a little more than half the risk coverage potential was utilised by risks over the course of the year.

In principle, the second productive year of economic risk-bearing capacity management has also shown that this can result in additional management momentum even though this view does not currently represent the bottleneck. Despite continued volatilities in the market, the business model has also proven to be robust from this perspective.

The share of the risk types in the total utilisation of economic risk-bearing capacity is as follows:



Default risk, which accounts for 63% 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. Market price risks are also highly relevant in the economic analysis, accounting for 26% of risk utilisation. The loss potentials of operational risk and liquidity spread risk are significantly lower in comparison.

Compared with the previous year's figures, the utilisation ratios of the individual risk types as per 31 December 2023 are largely stable, reflecting ILB's constant risk profile. Nevertheless, market price risks require a great deal of attention from an economic perspective, as volatile developments are without doubt expected in this context.

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

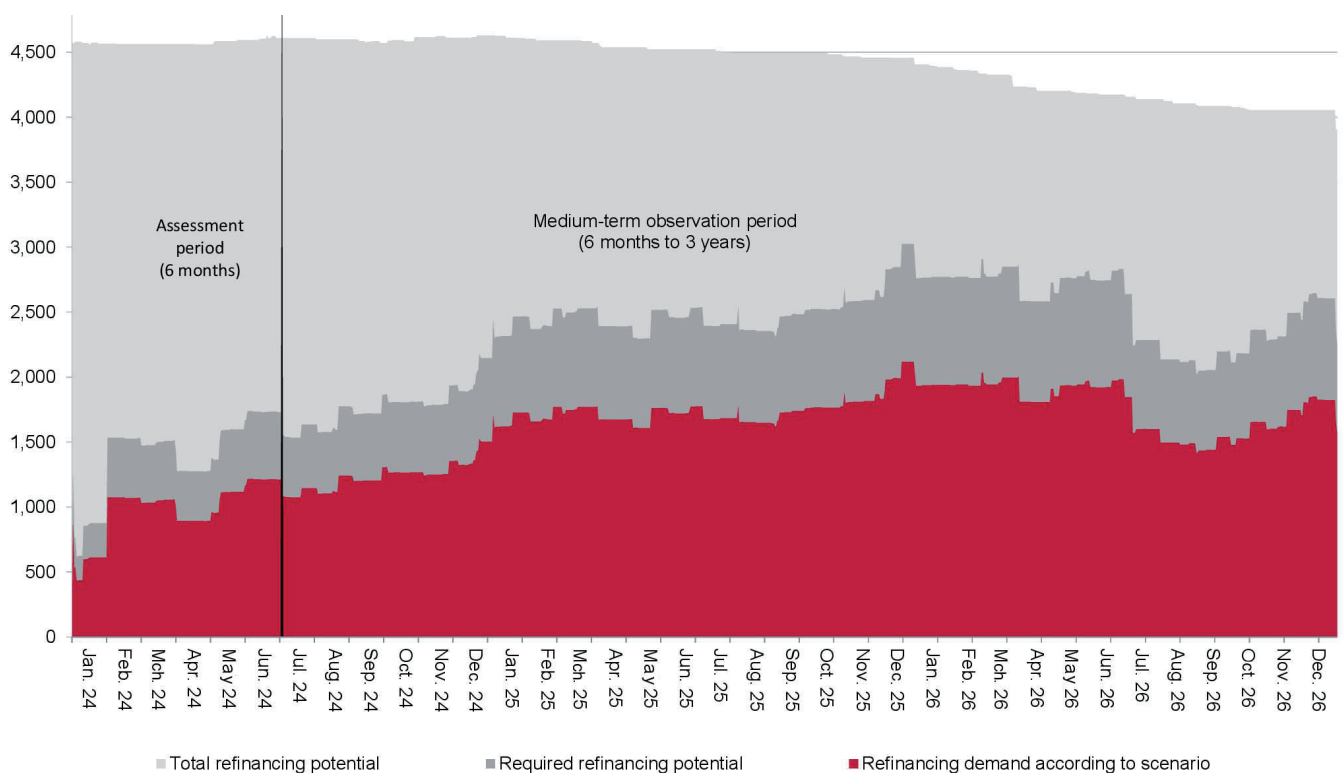
5.3 Insolvency risk

Liquidity risk in the sense of insolvency risk is limited in a separate management process by comparing refinancing requirements and refinancing potential.

The 6-month horizon is decisive for assessing liquidity risk. The extended medium-term monitoring period up to year 3 is of an informative nature.

Since 1 January 2023, the 'deteriorating market environment' scenario has been used as the leading scenario for assessing insolvency risk. This scenario is based on a deterioration of the economic environment while ILB's refinancing power remains good. Negative effects on insolvency risk specifically result from assumed discounts on the refinancing potential of securities. There was no critical capacity utilisation in the 2023 reporting year.

Normal scenario (in million EUR)



The refinancing requirement never exceeds the refinancing potential. The refinancing potential will reach a maximum utilisation of 27% during the assessment period (in June 2024). Only 70% of the refinancing potential may be utilised by the refinancing requirement. The remaining part is held as a liquidity reserve.

ILB has a survival horizon of more than half a year. The refinancing potential also exceeds the refinancing requirement for the medium-term observation period until 31 December 2026.

Due to the continued uncertain market environment, the 'deteriorating market environment' scenario is confirmed as a scenario relevant to valuation in 2023.

IV Outlook

1. Economic factors

The overall economic situation remained very weak at the turn of 2023/24 due to the after-effects of the previous crises, in particular the considerable slump in purchasing power in the aftermath of the massive hike in energy and food prices, weak global economic development, the geopolitical crises, and the tightening of monetary policy.

Significant downside risks are recognisable, one of which is another significant increase in energy prices. Furthermore, economic development in China and the emerging new trade conflicts between the EU and China in the area of electric vehicles pose a threat to the export-orientated German economy.

There is also great uncertainty among citizens and the economy regarding the economic policy course of the German government, specifically with regard to the management of the energy transition.

Nevertheless, the leading economic institutes and organisations expect the German economy to gradually recover in 2024. On the one hand, growth is expected to be fuelled by rising global demand for goods and, on the other, higher real incomes are likely to lead to an increase in consumer demand. By contrast, companies are showing considerable restraint due to the uncertainties, particularly with regard to planned investments.

The inflation rate is expected to fall noticeably. In the next two years, inflation is likely to fall significantly to 2.3% (2024) and 1.8% (2025). The core inflation rate is likely to fall to 2.8% (2024) and 2.3% (2025). It will thus still be well above its long-term average of around 1.6%.

This mood is also reflected in the forecast range for GDP growth in Germany in 2024 which currently ranges between -0.5% (Iw Cologne) and +0.9% (IFW Kiel). The Halle Institute for Economic Research (IWH) is forecasting price-adjusted GDP growth of +0.7% for eastern Germany. The ifo Dresden is forecasting an increase of +0.8%.

In view of the prospect of a further worsening in staff shortages in many areas and in light of demographic trends, economic research institutes are currently not expecting to see any significant change in the situation on the labour market and assume that the unemployment rate will remain stable at 5.8%.

Following the highly expansive fiscal policy of recent years under the impact of the Covid-19 pandemic, government measures only provided a slight boost in 2023. Fiscal policy is likely to be noticeably restrictive in 2024.

Since the Constitutional Court ruling of 15 November 2023, the economy has had to prepare for new challenges in 2024. The federal government is now prevented from allocating part of its planned expenditure for 2024 to the special funds of the Climate and Transformation Fund and the Economic Stabilisation Fund –Energy – (Wirtschaftsstabilisierungsfonds Energie), thereby complying with the debt brake relating to the federal budget in the coming years. In this respect, there is great uncertainty concerning the financial policy conditions to be expected in the coming years.

Irrespective of this, the German economy continues to face a host 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.

2. Economic development in the federal state of Brandenburg

At the start of 2024, the economy in the capital region is not following the negative economic trend of Germany as a whole. Compared to autumn 2023, expectations for economic development are slightly less pessimistic.

Overall, the economic climate in the capital region is improving moderately, but there is still no widespread recovery. Business was worse than last autumn in all sectors except retail. Companies in Brandenburg are pessimistic about business in the coming months.

Although business expectations improved slightly on balance compared to autumn 2023, no sector is currently recording a positive balance. In industry, construction and trade, negative assessments clearly outweigh neutral assessments. Retailers are particularly pessimistic about the future.

The shortage of skilled labour poses the greatest risk to the economic development of companies. Economic policy conditions are seen as almost as much of a burden. Although the significance of energy and commodity prices has eased somewhat, the risk for companies remains significantly higher.

Companies in Brandenburg remain pessimistic in terms of personnel planning. The indicator has been moving sideways since early summer 2023. However, personnel planning varies greatly from sector to sector. More companies in the retail sector are expecting staff reductions. In industry, on the other hand, the balance has increased, but remains in the negative range.

Investment intentions of companies in Brandenburg continue to decline. Across all sectors, the willingness to invest is declining and investment volumes are weak. The willingness to invest has declined in the retail and hospitality sectors. Positive signals are coming from industry.

3. Major influences

ILB considers the following influence factors to be important for its business activities in the 2024 financial year:

- ILB expects a commitment volume of between EUR 1.5bn and EUR 1.9bn for 2024, including between EUR 0.85bn and EUR 1.05bn from federal-state promotional programmes and between EUR 0.68bn and EUR 0.80bn from ILB's promotional programmes.
- Overall, ILB expects the volume of funding programmes to grow in 2024, as the programmes of the current funding period will have largely been launched in 2024. With regard to the transition from the EU 2014-2020 programming period to the current EU 2021-2027 programming period, ILB expects that the last guidelines of the current programming period will start in the first half of 2024. Finalisation work necessary for accounting to the Commission is underway for the 2014-2020 programming period. If there are further special programmes in 2024, ILB will also aim to implement these for the federal state of Brandenburg.
- Dealing with the 'sustainability' topic is an important aspect for ILB's orientation. ILB is striving to become climate-neutral in its banking operations by 2030, with the 'avoid before reducing and compensating' approach taking centre stage here.
- 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 core banking system.

Economic environment/risk provisioning:

- Germany has been in economic downturn for over a year. The sharp rise in energy prices in 2022 put an end to the post-pandemic recovery. The business mood deteriorated again in 2023 and political uncertainty remains high. This specifically applies to the uncertain fiscal policy framework for the coming years since the Constitutional Court ruling in November 2023.
- The tightening of monetary policy required to combat high inflation has significantly worsened the previously favourable financing conditions, which is having a particularly negative impact on the construction industry.
- The economic weakness is now also making itself felt on the labour market. However, in their autumn 2023 report, the economic research institutes expect only a moderate increase in unemployment for 2023.
- Wages have meanwhile risen due to inflation, energy prices fell and exporters passed on some of the higher costs,

meaning that purchasing power is returning. It is therefore likely that the economic downturn will be over by the end of 2023 and the level of capacity utilisation in the economy will rise again.

- With regard to the inflation rate, the situation is gradually easing after averaging at 5.9% in 2023 compared to 2022. According to the Federal Statistical Office of Germany, core inflation (inflation excluding energy prices and food) amounted to 5.1% in 2023.
- The situation in eastern Germany was slightly better overall in 2023. On the one hand, sales and incoming orders in the eastern German manufacturing sector were slightly more dynamic in the first three quarters of 2023. Secondly, disposable incomes in eastern Germany have been developing more favourably than in the west for several years now.
- ILB expects the overall economic situation in Brandenburg to remain challenging in 2024. Particular attention is being paid to the areas of commercial financing and companies in the healthcare sector, with the latter heavily dependent on possible government support measures. Municipal utilities are also still faced with the task of financing extensive investments to secure the energy transition.

No significant need for risk provisioning was realised in 2023 either. In its planning, ILB takes into account the need for risk provisioning based on the current risk structure of the portfolio via expected loss. In view of the existing forecast uncertainty, general contingency reserves for special risks from lending business will be made 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. 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 can obtain short-term liquidity from the ECB (European Central Bank) and/or Deutsche 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 own bearer bond, note loan and registered bond issues. The share of own bearer bonds with a Fitch's 'AAA' rating will be continuously expanded.
- ILB's refinancing requirements can be covered at any time.

4. 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 enable ILB to offer suitable funding programmes with appropriate volumes, particularly to support the sustainable transformation in the federal state of Brandenburg, and to guarantee corresponding risk-bearing capacity, it is necessary to continue to build up eligible equity. Also 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. The forecast decline in income is due in particular to the effects of the past low-interest phase and thus to the meltdown of income from treasury business. ILB's strategic target is annual total net earnings for the bank as a whole after risk provisioning of at least EUR 15.0m by 2023. The following budget calculation is based on the information available to ILB at the end of the third quarter of 2023 and represents the planned development of ILB's earnings without compensatory entries of the ILB promotional fund and the Brandenburg fund.

Economic momentum in Germany remains weak. Inflation-related losses in real income, uncertainty caused by the energy crisis and weak foreign demand are the main factors behind this development. The high level of planning and forecasting uncertainty is having a negative impact on the mood in the German economy and therefore on investment and economic expectations. Private consumption is likely to increase in 2024 due to the downward trend in inflation. Economic investments are being made against the backdrop of high energy prices and the course set by the government as part of the energy transition. In 2024, the federal government will promote investments in building refurbishment, decarbonisation of industry and the promotion of climate-neutral mobility as well as infrastructure improvements in terms of expanding the fibre-optic network and e-charging stations. The impacts on ILB's business must be assessed as mixed. While planned government measures in the 'federal-state funding programmes' business area may lead to more/new funding programmes in the future, risks related to the bank's lending business exist in the 'ILB funding programmes' business area. Due to its business model, however, the dependence of ILB's loan portfolio on the economic cycle is relatively limited since significant parts of the loan portfolio are directly or indirectly attributable to the public sector. Impacts are therefore to be expected above all for financial institutions and commercial enterprises. In view of the conservative orientation of the bank's credit risk appetite, however, this still appears manageable.

Against the backdrop of a persistently tense economic situation in Germany, further expansion of the funding programmes is expected in planning for subsequent years as a result of ongoing government measures. This means that ILB's personnel requirements remain high. There is also continued uncertainty regarding the assessment of risks that could have an adverse effect on further economic developments. ILB has carried out stress tests to simulate the possible impacts of a banking crisis, severe economic downturn and an increase in sustainability risks on ILB's risk-bearing capacity. The results showed that the bank's risk-bearing capacity is also ensured under the conditions of these stress scenarios.

Even considering the latest developments, ILB still expects to generally achieve its targets planned for the 2024 financial year as a whole. However, taking into account the IT investments needed to implement the IT roadmap, earnings after risk provisioning in 2024 are expected to be slightly below the target of EUR 15m. 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 weak economic development, value adjustments on 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 and 2022.

Item	2023 Thousand EUR	Budget 2024 Thousand EUR	Change in %
Net interest income	69,116	65,449	-5.3
Net commission income	71,382	80,034	12.1
Other operating net income*	1,196	3,315	177.2
Personnel expenses	68,677	73,695	7.3
Material expenses	30,082	41,521	38.0
Depreciation on operating equipment	6,074	5,943	-2.2
Earnings before risk provisioning/formation of reserves	36,861	27,639	-25.0
Value adjustment of receivables	2,738	-6,195	-326.3
Valuation result securities	-5,258	-1,853	-64.8
Allocation to provident funds	-1,981	-2,400	21.2
Earnings after risk provisioning	32,360	17,191	-46.9
Formation of reserves	-21,000	-6,000	-71.4
Addition to ILB promotional fund	-5,000	-5,000	0.0
Net income for the year	6,360	6,191	-2.7

* Including other taxes

ILB expects the income situation and net worth to decline in 2024.

Earnings after risk provisioning and the formation of reserves are expected to total around EUR 17.2m in 2024 and will therefore be EUR 15.2m below the previous year's figure. Higher income from commission business is offset by rising administrative expenses.

Interest income in 2024 is expected to total EUR 65.4m. As per 31 December 2024, it is assumed that the 10-year interest rate will fall to 3.3% and that the yield curve will be inverted. This means that short-term interest rates on the money market are expected to be lower than long-term rates. For this reason, and in line with the current risk strategy for 2024, a very low maturity transformation ratio was applied for planning purposes, which is lower than in the previous year. Due to the structure of the planned interest curve, this results in limited earnings potential on the one hand. On the other hand, the interest rate risk can be reduced to a very low level as a result.

Investments in securities (bonds) that are held in a special fund and hedged against interest rate risks by means of derivatives have a one-sided negative impact on net interest income. The reason for this being that refinancing costs are recognised in net interest income, which are not offset by corresponding income from a distribution from the special fund. This is why distributions from the special fund were recognised in ILB's net interest income for the first time in 2023. This will continue in 2024 and a distribution of EUR 5m will be recognised in net interest income.

The possible effects of sudden changes in the planned interest curve for the following year were simulated as part of scenario analyses. This shows that interest rate changes are mostly associated with opportunities for additional earnings potential for ILB. For 2024, scenarios that assume a significant fall in short-term interest rates are associated with risks for ILB. The impact on net interest income is limited. Against the backdrop of the current interest rate landscape and the ECB's forecast interest rate trend, it cannot be ruled out that this will occur in 2024, but tends to be unlikely.

A major factor influencing the earnings situation is net commission income, which is expected to amount to EUR 80.0m in 2024 and thus be EUR 8.7m higher than in 2023 (EUR 71.4m). Planning is based on the assumption that more personnel will be needed in business management/cost reimbursement. In addition, higher operating costs are planned due to the modernisation of the core banking system, which will lead to increased income from cost reimbursement, among other things. Net fee and commission income is largely based on 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 84% from the handling of grant programmes on the basis of cost price refunds, and otherwise from the management of guarantees, loan processing and other services.

Federal-state elections in Brandenburg will have a major impact in 2024. The formation of a new federal state government will have a variety of effects on ILB, for instance, due to new political priorities and new players. ILB continues to expect that the volume of available public funding will not change significantly. However, there may be other topics which ILB will have to address in a flexible manner. ILB is in a position to implement short-term, large-volume crisis aid programmes. Crisis aid programmes are regarded by politicians as successful instruments that can be used again in the event of new crises.

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 earnings 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 economic environment and increased interest rates, additional unscheduled repayments appear rather unlikely beyond the unscheduled repayments already taken into account in the respective plan scenario. On this basis, no decrease in current fees is expected compared to the plan assumptions.

Other operating net income is expected to amount to EUR 3.3m in 2024, which is significantly above the previous year's level of EUR 1.2m. The reasons for the expected increase in income are mainly due to additional income from

fund management activities relating to the processing of the BFB IV equity fund. Other income and cost components result from other fund management activities, management of the company restaurant and rentals. Possible income from the reversal of provisions is not included in planning.

In 2024, administrative expenses (personnel, material expenditure as well as depreciation and amortisation in the operating area) are expected to rise by EUR 16.3m against the previous year to an expected EUR 121.2m. This development is due to rising expenses in all areas.

The EUR 5.0m increase in personnel expenses compared to the previous year reflects the planned expansion of staff capacity by an average of around 63 in 2024. This increase in personnel is intended for the processing of federal-state funding programmes within the scope of business management for the federal state of Brandenburg as well as for various topics in the area of information technology. In addition, some vacancies must be filled in the areas of organisation and other departments. Due to the expiry of the collective agreement in 2024, a new agreement with a salary development that takes inflation into account is included in planning.

Planning assumes material expenses and depreciation in the operating area amounting to EUR 47.5m, which are thus up by EUR 11.3m against the previous year's figure. As part of its planning, the bank has endeavoured to anticipate expected price increases by making individual inflation assumptions appropriate to the circumstances.

The main reasons for the significant additional expenditure are consulting and licensing expenses for the implementation of the IT transformation roadmap, above all, for the renewal of ILB's core banking system, to ensure the future viability of the IT infrastructure, as well as increased consulting services to support specialised applications and basic IT operations. These are driven in particular by the implementation and realisation of programmes for the current EU 2021-2027 programming period. In addition, IT costs will increase due to the necessary SAP and Microsoft EA (Enterprise Agreement) licenses, the transition of the new customer portal to regular operations and licences for the new metadata management tool to be introduced (comprehensive data repository with all key performance indicators and information required for business processes). Further drivers of this development are higher licensing costs due to the ongoing expansion of the workforce and consistently high project consulting costs, primarily due to new registrations and the postponement of implementation measures for projects budgeted in previous years to 2024.

Deviations from planning can occur, in particular, if the actual expenses of projects involving the use of external services, such as the implementation of the IT transformation roadmap, do not correspond to the planned expenses.

Based on the loss expected, EUR 6.2m is taken into account for value adjustment of receivables and securities in 2024. This estimate is based on the risk structure of the planning date of 30 September 2023. The current crisis in the property sector, as well as the war in Ukraine and the conflict in the Gaza Strip, have not yet had any direct impact on ILB's portfolio. Risks arising from these uncertainties are recognised by credit management in ILB's portfolio of financial institutions and commercial enterprises. Deteriorations in the assumed risk structure are possible but appear manageable in light of the bank's conservative risk policy. However, value adjustments above the planned amount cannot be ruled out in 2024.

Securities held by the bank are valued according to the diluted lower of cost or market principle. Taking into account redemption earnings of expiring securities, a negative valuation result of EUR -1.9m is expected.

In order to consider implicit options due to statutory termination rights within the scope of loan business, EUR 2.4m is allocated to provident funds.

Despite growing challenges, ILB's earnings will remain satisfactory in 2024, 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 2024.

The expected earnings development in 2024 enables the formation of a reserve of EUR 6.0m and profit for the year of EUR 6.2m.

According to the 2023 budget, the balance sheet total will be in the order of around EUR 16.3bn.

By the end of 2024, the number of employees will increase further. The share of female employees and the share of part-time employees will remain largely unchanged. The number of employees in passive partial retirement, early retirement, parental leave or other dormant employment relationships will increase moderately due to an increasing number of employees entering the passive phase of partial retirement.

The contents of professional development courses will be further expanded, and the number of seminar participations will increase compared to the previous year due to rising demand for staff.

The number of students in cooperative study programmes is planned to increase to 28 in 2024.

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, 25 April 2024

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 2023

Investitionsbank des Landes Brandenburg

Assets	EUR	EUR	31 Dec 2022 Thousand EUR
1. Cash			
a) Cash in hand	2,282.51		7
b) Balances with central banks	<u>30,251,159.64</u>		<u>7,623</u>
of which:		30,253,442.15	7,630
at Deutsche Bundesbank EUR 30,251,159.64 (previous year: EUR 7,623,000)			
3. Loans and advances to banks			
a) Payable on demand	542,615,202.14		1,158,052
b) Other loans and advances	<u>2,232,907,844.99</u>		<u>2,345,420</u>
		2,775,523,047.13	3,503,472
4. Loans and advances to customers		6,611,853,823.29	6,407,222
of which:			
Secured by liens EUR 914,393,838.49 (previous year: EUR 875,330,000)			
Public-sector loans EUR 3,724,403,934.91 (previous year: EUR 3,472,589,000)			
5. Bonds and other fixed-income securities			
b) Bonds and notes			
ba) Issued by public institutions	1,993,713,009.65		1,860,274
of which:			
eligible as collateral at Deutsche Bundesbank EUR 1,942,726,177.23 (previous year: EUR 1,844,222,000)			
bb) from other issuers	<u>1,518,588,612.12</u>		<u>1,255,529</u>
of which:		3,512,301,621.77	3,115,803
eligible as collateral at Deutsche Bundesbank EUR 1,273,942,791.04 (previous year: EUR 1,143,610,000)			
6. Stocks and other variable-income securities		279,852,465.34	274,088
7. Shareholdings		30,000.00	30
of which:			
to financial institutions EUR 0.00 (previous year: EUR 0.00)			
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		123,679,262.91	107,552
of which:			
to financial institutions EUR 0.00 (previous year: EUR 0.00)			
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		1,735,497,116.63	1,725,605
of which:			
Trust loans EUR 1,735,497,116.63 (previous year: EUR 1,725,442,000)			
11. Intangible assets			
b) Acquired concessions, industrial property rights and similar rights and values as well as licenses thereto	6,490,307.85		2,826
d) Advance payments made	<u>159,238.77</u>		<u>3,006</u>
		6,649,546.62	5,832
12. Tangible assets		99,364,466.50	101,378
14. Other assets		76,353,493.50	270,694
15. Prepaid expenses		86,119,682.22	100,283
Total assets		<u>15,337,477,968.06</u>	<u>15,619,589</u>

Liabilities	EUR	EUR	EUR	31 Dec 2022 Thousand EUR
1. Liabilities to banks				
a) Payable on demand		68,289.22		8,422
b) With an agreed term or notice period		<u>8,254,015,263.69</u>		<u>9,803,082</u>
			8,254,083,552.91	9,811,504
2. Liabilities to customers				
b) Other liabilities				
ba) Payable on demand		1,204,000,236.01		712,525
bb) With an agreed term or notice period		<u>1,216,602,518.89</u>		<u>832,116</u>
			2,420,602,754.90	1,544,641
3. Securitised liabilities				
a) Bonds issued			1,639,124,999.65	1,126,064
4. Trust liabilities			1,735,497,116.63	1,725,605
of which:				
Trust loans EUR 1,735,497,116.63 (previous year: EUR 1,725,442,000)				
5. Other liabilities			328,826,041.35	467,565
6. Prepaid expenses			87,919,127.72	100,689
7. Provisions				
a) Provisions for pensions and similar obligations		2,652,730.00		2,781
c) Other provisions		<u>9,723,952.12</u>		<u>7,948</u>
			12,376,682.12	10,729
8. Special item for investment allowances			32,413,542.40	33,635
11. Funds for general banking risks			587,792,912.93	560,676
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	<u>110,000,000.00</u>			<u>110,000</u>
		121,000,000.00		121,000
d) Net retained profit		<u>7,841,237.45</u>		<u>7,481</u>
			238,841,237.45	238,481
Total liabilities and shareholders' equity			<u>15,337,477,968.06</u>	<u>15,619,589</u>
1. Contingent liabilities				
b) Liabilities in relation to guarantees and warranties			82,088,094.88	84,411
2. Other obligations				
c) Irrevocable loan commitments			555,113,771.83	548,629

The annual financial statements of ILB for 31 December 2023 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 2023

Investitionsbank des Landes Brandenburg

	EUR	EUR	EUR	1 Jan - 31 Dec 2022 Thousand EUR
1. Interest income from				
a) lending and money-market transactions	233,550,077.69			85,834
minus negative interest from money-market transactions	<u>255,041.08</u>			2,944
	233,295,036.61			
b) fixed-income securities and debt register claims	97,220,361.68			16,948
minus negative interest from fixed-interest securities and debt register claims	<u>0.00</u>			0
		330,515,398.29		99,838
2. Interest expenditure				
Interest expenditure from banking business		283,696,006.86		57,884
minus positive interest from banking business		<u>17,289,391.12</u>		<u>15,213</u>
		266,406,615.74		<u>42,671</u>
			64,108,782.55	57,167
3. Current income from				
a) Stocks and other variable-income securities		5,006,919.55		0
c) Shares in affiliated companies		<u>11,000,000.00</u>		0
			16,006,919.55	0
5. Fee and commission income		72,895,841.80		60,496
6. Fee and commission expenses		<u>1,513,823.70</u>		<u>732</u>
			71,382,018.10	59,764
8. Other operating income			13,630,215.90	24,505
10. General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries	57,241,627.05			49,020
ab) Social security contributions and expenditure on pensions and other benefits				
of which: for pensions EUR 1,116,209.79 (previous year: EUR 59,000)				
	<u>11,435,530.53</u>			<u>9,869</u>
b) Other administrative expenses		68,677,157.58		58,889
		<u>30,081,859.96</u>		<u>23,206</u>
			98,759,017.54	82,095
11. Depreciation, amortisation and write-downs on intangible assets and tangible assets			6,074,461.12	5,580
12. Other operating expenses			10,886,812.26	13,408
13. Amortisation and write-downs on accounts receivable and certain securities as well as additions to reserves in loan business			0	9,327
14. Income from write-ups on receivables and certain securities and from the reversal of provisions in lending business			1,313,394.21	0

	EUR	EUR	EUR	1 Jan - 31 Dec 2022 Thousand EUR
15. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets			6,125,303.85	647
18. Allocations to the fund for general banking risks			<u>27,159,405.93</u>	<u>24,051</u>
19. Earnings from ordinary activities			17,436,329.61	6,328
23. Taxes on income and earnings			1,740,750.00	0
24. Other taxes			76,430.99	76
26. Profits transferred on the basis of a profit pool, a profit transfer agreement or a partial profit transfer			9,259,250.00	0
27. Net income for the year			6,359,898.62	6,252
28. Profit brought forward from the previous year			1,481,338.83	1,229
34. Net retained profit			<u>7,841,237.45</u>	<u>7,481</u>

The annual financial statements of ILB for 31 December 2023 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).