Investitionsbank des Landes Brandenburg

ILB

Management Report 2019

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Consolidated Management Report 2019

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I Fundamentals of the group

1. Business model of the group

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 determines the framework for ILB's activities and forms the basis for all ILB's business which directly or indirectly serves the implementation of the bank's statutory task as a business development institute. The bank is authorised to issue official administrative decisions as an approval authority. The bank is subject to supervision by the German Federal Financial Supervisory Authority (BaFin) on the one hand and to state supervision by the Ministry of Finance of the federal state of Brandenburg (supervisory authority) on the other.

Pursuant to the ILB law, the bank bears public-sector responsibility and guarantor's liability and is protected by a federal-state guarantee 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. ILB and its six consolidated subsidiaries form the ILB group. In September 2019, the former subsidiary ILB Beteiligungsgesellschaft mbH was merged with KBB Kapitalbeteiligungsgesellschaft mbH with retroactive effect from 1 January 2019. With a share of 99.9% of the group's balance sheet sum, ILB accounts for almost the entire business development of the group.

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

1.2 Mission

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

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

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

1.3 Aims of the business activities and strategies of ILB and the group

ILB's aim is to be a trustworthy partner for its clients and all private individuals and companies working to advance Brandenburg with their ideas and projects. To achieve this, ILB is continuously developing and improving its range of services. The central goal is to ensure long-term fulfilment of ILB's business development mission pursuant to its articles of association and the ILB law. To achieve this, ILB pursues the following strategies in its three fields of business:

- In the business field of federal-state support programmes, ILB implements support programmes on behalf of the ministries of the federal state of Brandenburg. ILB's mission is to serve the federal-state ministries with efficient and high-quality handling

of support 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 support programmes, ILB grants loans from its own funds as part of its statutory tasks. ILB aims to have a product portfolio that optimally complements federal-state support measures and at the same time facilitates sustainable regional development. ILB aims to stabilise its loan portfolio in order to achieve this.
- In the business field of non-monetary support, ILB invests strategically in companies and acts as a service provider for the federal state. ILB is determined to further maintain and expand its strategic investments and services.

ILB's future development will therefore focus on increasing customer satisfaction and intensifying cooperation with the federal state in order to promote Brandenburg in the best possible way.

1.4 Products and services

ILB offers its customers grants, interest rate subsidies, loans, 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 property firms not only develop property projects and rent out properties, they also promote tourism in the city of Potsdam and the establishment of companies.

Apart from distributing budget funds, the bank itself grants loans, a significant share of which is secured by first-ranking land charges or public guarantees.

ILB also 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 productions in order to strengthen the Berlin-Brandenburg media region. Housing is another focus of the bank's loan portfolio.

The bank refinances most of the funds which it needs for its tasks from the European Investment Bank (EIB), KfW Bankengruppe (KfW), Landwirtschaftliche Rentenbank (LR), the Council of Europe Development Bank (CEB) and by issuing its own promissory notes as well as listed bearer bonds.

ILB acts as the lead institute for the savings banks in the federal state of Brandenburg. In this capacity, it assists the customer support staff of savings banks in their advisory services regarding KfW products, the structuring of support 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 of savings banks and provides a web-based information portal.

1.5 Declaration of Compliance

In accordance with ILB's Corporate Governance Code, the Management Board and the Administrative Board are required to report annually on corporate governance (Corporate Governance Report). The Declaration of Compliance forms an integral part of the Corporate Governance Report. The Corporate Governance Report and the Declaration of Compliance were drawn up in March 2019 and approved by ILB's Administrative Board on 26 June 2019. The corporate governance report and the declaration of compliance were published on ILB's website.

II Economic Review

1. Economic conditions in Germany

In 2019, the German economy grew for the tenth year in succession. However, the momentum has slowed down considerably. According to calculations by the Federal Statistical Office, price-adjusted gross domestic product (GDP) rose by 0.6% year-on-year (2018: 1.5%, 2017: 2.5%).

Economic development in 2019 was characterised by influences that changed over the course of the year. The year saw a buoyant start, followed by a decline in the second quarter. In the second half of the year, signs of a slight recovery in the German economy were seen again.

According to the Federal Statistical Office, private consumer spending rose by 1.6%. Gross investments, on the other hand, fell (-1.7% against the previous year). By contrast, government spending increased by just 2.5% on a price-adjusted basis compared to the previous year. Price-adjusted exports rose by 0.9% (2018: 2.4%), while imports increased by 1.9% during the same period (2018: 3.4%).

According to initial calculations by the Federal Statistical Office, the number of people in jobs in Germany increased by approx. 400,000 or 0.9% to 45.3 million compared to the previous year. This increase was mainly due to a 1.6% increase in employment subject to statutory social security contributions. Higher employment and immigration of workers from abroad had a greater impact than the counteracting demographic effect of emigration from Germany.

According to provisional calculations, the government recorded a surplus of EUR 49.8bn in 2019 (2018: EUR 59.2bn). According to the Federal Statistical Office, the surplus rate totalled 1.5% in terms of price-based GDP.

Consumer prices rose by an annual average of 1.4% in 2019. This moderate increase was mainly due to the weak development of energy prices during the second half of the year.

The mood on capital markets in 2019 was determined by a large number of political events, including, for example, the trade dispute over tariffs between the US and China or the EU and uncertainty over the outcome of Brexit. The result was a slowdown of the real economy. In August, the Ifo business climate index fell to a low of 94.3, a level last seen in the euro debt crisis in 2012. Both the assessment of the business situation and expectations declined, but eventually stabilised to a certain degree towards the end of the year. Although the European Central Bank's (ECB) bond purchase programme had initially expired in 2018, maturities of the bonds purchased continued to be reinvested on the bond market in order not to withdraw liquidity from capital markets.

In September 2019, the ECB reacted to the lowered economic and inflation outlook by further reducing the deposit rate to 0.50% and by resuming bond purchases with a volume of EUR 20bn per month from November 2019. The new purchase programme is open-ended and will only be terminated when ECB's inflation rate target of just under 2.0% is achieved on a permanent basis.

Interest rates on capital markets continued to decline due to the economic situation. Yields of German ten-year government bonds fell from 0.2% at the beginning of the year to a historic low of 0.7% in August and were still at 0.2% at the end of 2019. Ten-year swap rates were around 40 basis points higher in each case, at around 0.2% at year-end.

For public budgets, companies as well as private and commercial housing construction, this means that the capital market environment will remain very favourable in 2020 due to a further decline in interest expenditure and low financing and investment costs.

2. Economic conditions in the federal state of Brandenburg

Since 2003, the unemployment rate in the federal state has fallen continuously. This positive development on the regional labour market was also visible again in 2019. At the end of the year under review, the rate fell to 5.5%, the lowest level since German reunification.

The total number of people in jobs rose by 0.5% year-on-year, which is lower than the 0.7% increase that was seen in 2018. Whilst the service sector and the manufacturing industry grew by 0.7% and 0.4%, respectively, against the previous year, agriculture and forestry declined by 3.8%.

Order intake (manufacturing industry only) fell by 8.2% in 2019, but sales increased by 2.0%.

The construction industry recorded an increase in both sales (+14.2%) and order intake (+11.8%). Employment in this sector too rose by +2.5%.

The retail trade increased its sales (in real terms) by 2.5% compared to the same period of the previous year. An increase in employment (+0.8%) was also seen here.

The hotel and hospitality/tourism sector also recorded a (real) increase in sales of 2.4%. Employment in this area also increased against the same period of the previous year (+2.9%).

3. Business development

3.1 Promotional and development business

ILB's funding and support 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 support programmes. In 2019, ILB pledged a total volume of EUR 1,771m.

Promotional and development business in 2019 included, for instance, the following:

- The volume of EUR 1,049m to be pledged for 2019 was exceeded by EUR 722m (+69%) and thus totalled EUR 1,771m.
- Compared to the previous year, the volume pledged increased from EUR 1,343m by around EUR 428m (+32%) . This development is mainly due to a strong increase in federal-state support programmes.
- The volume pledged under ILB's support programmes totalled EUR 801m (2018: EUR 644m). The main reason for this increase is the positive development of municipal lending business.
- ILB's support programmes accounted for a share of 45% in the total sum pledged in 2019.
- All the support areas in federal-state support programmes recorded positive demand. Pledges totalled EUR 970m (2018: EUR 699m).
- The volume pledged under federal-state support programmes was up EUR 407m against the budgeted figure of EUR 563m (+72%).
- Compared to the previous year, the sum pledged under federal-state support programmes increased by EUR 271m (+39%). Pledges increased in the support areas of business, infrastructure and housing, whilst pledges declined in the 'labour' support area.

3.2 Earnings development

ILB and the group, which is predominantly determined by ILB, can once again look back on a successful 2019 fiscal year.

The result of operating activities exceeded the budgeted figure without compensatory entries of the ILB promotional fund and the Brandenburg fund. Earnings before risk provisioning totalled EUR 46.3m and was hence EUR 6.6m above budget.

Earnings after risk provisioning also surpassed expectations and, at EUR 39.8m, was EUR 10.7m higher than budgeted for 2019. This was, in particular, driven by the positive development of risk provisioning demand, which at EUR 5.3 million was EUR 3.9 million below budgeted risk provisioning.

As per 31 December 2019, return on equity totalled 0.89% for ILB (group: 0.89%).

4. Income situation, financial position and net worth

In 2019, just like in previous years, ILB accounted for 99.9% of the group's balance sheet sum. At EUR 13,684.7m, this figure remained almost flat, reflecting the stability of ILB's business model.

The income situation, financial position and net worth of ILB and the group are satisfactory and stable.

4.1 Income situation

ILB's net income for the year totalled EUR 11.3m in 2019 (previous year: EUR 11.3m) whilst the group recorded net income for the year of EUR 11.5m (previous year: EUR 11.4m). Consolidated net income for the year remained flat against the previous year.

The group's income situation is determined largely by ILB. In light of ILB's dominant position in the group, separate reference to the group will only be made in the following if significant deviations exist.

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 targets for 2019 were exceeded as a whole. Net interest and commission income fared better than expected. Administrative expenses were slightly higher overall. The result before risk provisioning was thus significantly above budget.

The measure for ILB's financial success is earnings before risk provisioning and the formation of reserves. In 2019, ILB recorded – without compensatory entries of the ILB promotional fund and the Brandenburg fund – good earnings of EUR 46.3m before risk provisioning and the formation of reserves which is higher than the figure for the previous year (EUR 43.0m).

In detail, development was as follows:

Net interest income totalled EUR 59.0m (previous year: EUR 61.2m) and, as expected, was slightly below the previous year's level. Overall, ILB cannot completely escape the long-term negative effects of persistently low interest rates. Whilst net interest income of the specialised departments was basically stable, total net interest income declined due to lower treasury earnings. The reason for this is the continued low level of interest rates, which affected not only income from new business and the simultaneous expiry of higher-interest portfolio business, but also the return on ILB's equity.

Net fee and commission income of EUR 55.6m (previous year: EUR 49.9m) mainly results from fees for the management of support programmes. This is made up of administrative cost contributions in conjunction with the granting of loans from trust funds, the handling of promotion programmes and the management of guarantees. The increase is mainly due to higher income from processing grants.

ILB's personnel expenses totalled EUR 45.0m in 2019 (previous year: EUR 43.9m). The increase of around EUR 1.0m is mainly due to the increase in the number of employees in conjunction with the processing of grant programmes. Furthermore, the company pension scheme was topped up by increasing the employer's contribution to the relief fund.

At the end of 2019, ILB employed a staff of 677 (previous year: 660) in active and passive employment relationships.

Other administrative expenses, including depreciation, amortisation and write-downs on intangible assets and tangible assets totalled EUR 26.0m (previous year: EUR 26.0m).

Operating costs totalled EUR 21.0m and were hence flat against the previous year's level of EUR 20.9m.

Depreciation on tangible assets totalled EUR 5.0m and was lower than the previous year's figure (EUR 6.0m). The reason for this decline is the expiry of depreciation and amortisation on investments in conjunction with the implementation of the eFile.

The group's risk situation is determined largely by ILB. Itemised allowances are formed for identifiable risks in loan business, taking existing collateral into consideration. These risks are at a low level, reflecting ILB's conservative risk culture. General allowances were formed to consider the development of the latent credit risk.

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

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

Other operating net income, without allocations to the ILB promotional fund and to the Brandenburg fund, totalled EUR 2.7m in 2019 and was thus below the previous year's figure.

Other operating income included revenues of EUR 6.7m from the appropriate use of ERDF funds. This revenue was appropriated to the Brandenburg fund.

Other operating income also includes expenditure for earmarked funds of the ILB promotional fund of EUR 3.8m that became necessary due to funds and support pledged in 2019.

EUR 5.0m was earmarked for the ILB promotional fund in 2019. This means that since 2006, EUR 100.0m of the bank's revenues has been made available for funding and support measures within the scope of ILB's Brandenburg loan product family.

EUR 28.7m (previous year: EUR 45.0m) was allocated from current earnings for the year to the fund for general banking risks.

4.2 Financial position

ILB's balance sheet total, which accounts for 99.9% of the group's balance sheet sum, increased in the 2019 financial year by EUR 263.7m to EUR 13,678.0m (previous year: EUR 13,414.3m). In light of ILB's dominant position in the group, separate reference to the group will only be made in the following if significant deviations exist.

The business volume, comprising business recorded in the balance sheet with current customers, contingent liabilities, other liabilities, administrative loans, as well as administrative guarantees, totalled EUR 14,394.9m at the end of the 2019 financial year (previous year: EUR 14,267.7m). The group's business volume totalled EUR 14,401.6m as per 31 December 2019 (previous year: EUR 14,274.5m).

ILB's loans and advances to banks fell by 4.9% to EUR 2,383.4m (previous year: EUR 2,507.0m). The changes mainly result from a EUR 65.0m reduction in overnight money and time deposits and the EUR 30.0m reduction in the portfolio of domestic promissory note loans. Furthermore, earmarked loans decreased by EUR 46.6m as a result of repayments.

ILB's loans and advances to customers increased by EUR 505.8m to EUR 5,420.2m (previous year: EUR 4,914.5m). This was mainly due to municipal lending business which grew by EUR 176.4m. Lending business also increased by EUR 269.2m due

to the purchase of promissory note loans and registered bonds. On the other hand, the State Housing Construction Fund (LWV) repaid around EUR 147.3m in lending business. Trust loans declined by EUR 70.8m to EUR 2,064.7m as a result of scheduled and extraordinary repayments.

Bonds and other fixed-income securities at ILB totalled EUR 3,179.9m as per 31 December 2019 and are EUR 45.9m below the previous year's level.

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

ILB's other assets totalled EUR 221.4m (previous year: EUR 111.5m), including EUR 216.3m for the margin payment to central counterparties. In the group, this balance sheet item also primarily included liquid funds of EUR 39.5m held by the group's subsidiaries with banks. At the end of the 2019 financial year, the group recorded other assets totalling EUR 262.7m (previous year: EUR 156.0m).

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 13,811.2m (previous year: EUR 12,856.7m).

4.3 Net worth

The group's net worth is also determined almost exclusively by ILB. 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 2019 financial year, short-term funds were primarily taken out through repo transactions, time deposits and call money transactions, mostly with domestic banks. Open market transactions with Deutsche Bundesbank decreased by EUR 200.0m against the previous year.

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.

Compared to the previous year, liabilities due to banks fell by EUR 119.0m to EUR 9,369.2m as per 31 December 2019 (previous year: EUR 9,488.2m). Whilst time deposits, call money and repo transactions increased by EUR 249.6m, a smaller amount of EUR 155.4m was taken up through long-term refinancing. Open market transactions fell by EUR 200.0m against the previous year.

Liabilities to customers as per 31 December 2019 were up EUR 231.4m against the previous year. This increase results mainly from call money deposits of EUR 189.6m. Funds raised from foreign insurance companies through bond placements fell slightly compared to the previous year.

In order to generate liquidity, bearer bonds worth EUR 250.0m (previous year: EUR 100.0m) were issued in the year under review, so that the total volume now amounts to EUR 350.0m.

Off-balance sheet liabilities decreased in 2019 as a whole. Liabilities in relation to guarantees and warranties increased by EUR 27.5m. There are no indications that guarantees for contingent liabilities will be called on, except for one case for which a corresponding risk provision was made. Irrevocable loan commitments decreased by EUR 156.0m to EUR 497.8m as per 31 December 2019. The decline of EUR 7.9m in loans and guarantees managed for the federal state Brandenburg results from repayments in this business field which is being reduced as planned.

The group's liquidity which is essentially determined by ILB was secured at all times. At the end of 2019, the bank recorded more than EUR 98.4m in open loan commitments not yet called by other promotional banks.

The fund for general banking risks according to section 340g of the German Commercial Code was increased to EUR 466.1m, including EUR 391.5m which must be classified as liable core capital.

ILB's equity, including the fund for general banking risks, totalled EUR 698.9m as per 31 December 2019 (previous year: EUR 664.9m). ILB's equity, including the fund for general banking risks, totalled EUR 700.5m as per 31 December 2017 (previous year: EUR 666.2m).

This increase is largely due to the allocation to the fund for general banking risks and to retained earnings. The appropriation to the fund for general banking risks totalled EUR 28.7m. This includes a demand-based appropriation to the ILB promotional fund with a budgeted sum of EUR 5.0m. Since 2006, EUR 100.0m 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.

EUR	ILB promotional fund	Brandenburg fund
Date revised last: 1 January 2019	25,165,585.17	44,268,815.12
Additions	5,000,000.00	6,740,928.35
of which:		
Brandenburg Kredit Mezzanine		268,712.36
Brandenburg-Kredit Mezzanine II		3,595,852.91
BFB III early phase and growth fund		1,795,268.42
Brandenburg micro-loan		1,081,094.66
Reversals	3,755,298.60	2,788,079.23
of which:		
Brandenburg-Kredit Mezzanine		950,900.00
Brandenburg-Kredit Mezzanine II		1,500,000.00
Brandenburg micro-loan		49,257.78
KBB mbH		287,921.45
As per 31 December 2019	26,410,286.57	48,221,664.24

Due to the resolution regarding the appropriation of profits from the year 2018 adopted at the shareholders' meeting on 26 June 2019, a dividend of EUR 6.0m was distributed to the shareholders. Furthermore, EUR 5.0m was allocated to retained earnings, and EUR 0.5m was allocated to profit carried forward.

All in all, the strategic goal to strengthen ILB's own funds each year by at least EUR 15.0m was clearly surpassed in 2019 with an appropriation of around EUR 23.5m.

In the 2019 financial year, the German Federal Financial Supervisory Authority (BaFin) ordered within the framework of the Supervisory Review and Evaluation Process (SREP) that ILB and the ILB group maintain a total capital ratio of 9.5% in excess of the requirements of Art. 92 of the Capital Requirement Regulation (CRR). Furthermore, an SREP (supervisory target capital ratio) capital buffer of 2.5 percentage points was set, which was reduced to 1.3 percentage points at the end of the financial year. 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 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 17.44% and 18.33% in 2019 (between 17.54% and 18.43% for the group). This was well above the bank's total capital requirement of 9.5% and the capital conservation buffer of 2.5%.

In 2019, ILB's total capital ratio according to CRR ranged between 16.54% and 17.44% (group: between 16.63% and 17.54%).

4.4 Financial and non-financial performance indicators

In the 2019 financial year, ILB pledged promotional funds of around EUR 1.8bn for 6,233 projects, including EUR 970.0m for products related to federal-state support programmes and EUR 801.0m for ILB's own products. The financial performance indicators relevant for ILB and the group are shown and explained in section 3.2 (Earnings development).

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

565 people were actively employed in permanent jobs on 31 December 2019 (previous year: 537). The number of employees in temporary jobs fell from 93 to 87. All in all, 19.3% of all active employees worked part-time. This figure is 2.2 percentage points below the previous year's level.

25 employees were in the passive phase of semi-retirement, early retirement, parental leave or other forms of passive employment (previous year: 30 employees). The number of students (17) in cooperative study programmes was up by two against the previous year.

Female employees accounted for 67.8% (previous year: 65.1%) of the workforce at the end of the year. The average age of all employees was 48.2 years (previous year: 46.5).

In 2019, ILB provided active support for its employees' further professional development through in-house and external training events. Seminar attendance totalled 1,656 (previous year: 1,480).

4.5 Summarised Non-financial Declaration

4.5.1 Classification and procedure

Sustainable social, economic and ecological action is a principle of ILB's business activities. Sustainable action enables ILB to ensure the prerequisites for the success of its business and promotes successful and sustainable development of the people, the environment and the economy in the federal state of Brandenburg. In order to live up to this claim, sustainability at ILB is a matter that falls under the responsibility of the Management Board.

This summarised Non-financial Declaration serves to meet the requirements of section 340i (5) of the German Commercial Code in conjunction with sections 315b, 315c and 340a (1a) third sentence and sections 289b and 289c to 289e of the German Commercial Code for ILB and the group. The following disclosures are necessary to explain the course of business, the results and position of ILB and the ILB group and the impact of their activities on non-financial aspects.

ILB does not use a separate framework for the preparation of the Non-financial Declaration since this is based on different definitions of materiality and leads to a selection of topics that do not fit ILB's business model. ILB does not use a separate framework for the preparation of the Non-financial Declaration since the facts to be disclosed that have been identified as material are not accurately reflected by any framework. A comprehensive materiality analysis was conducted for the first time for the 2017 year under review. In this materiality analysis, the Management Board and senior management exchanged views on the non-financial aspects relevant to ILB. As a result, nine essential aspects were identified in the following areas: environmental concerns, employee concerns, social concerns as well as respect for human rights and fighting corruption and bribery according to section 289c (2) of the German Commercial Code as well as the additional area of information security. Since ILB's business model is still valid, the key aspects reported in the 2019 Non-financial Declaration remain unchanged. The main aspects are listed below.

Key contents	Reference to non-financial aspects
Sustainable funding and support programmes and products	Environmental issues, social issues
Sustainability of treasury business	Environmental issues, social issues, respect of human rights
Responsible corporate culture	Employee matters
Compatibility of work and family	Employee matters
Personnel planning and development	Employee matters
Promotion of the common good	Social issues
Fighting corruption	Combating bribery and corruption
Responsible corporate governance	Combating bribery and corruption
Information security	Information security (additional aspect)

The implementation of sustainability-related measures during the year is decentralised and carried out by ILB's responsible units which were also involved in the preparation of the Non-financial Declaration. ILB's Administrative Board has the duty to audit the 2019 Non-financial Declaration and can avail itself of support by external auditors. The Administrative Board is assisted in its examination of the contents of the Non-financial Declaration by the Deloitte GmbH auditing firm.

4.5.2 Business model and risk inventory

ILB's business model is described in section I of this Consolidated Management Report.

Section III of this Consolidated Management Report addresses ILB's risk management, the valuation methods applied and the relevant risks associated with ILB's business activities and relationships as well as funding and support. In net terms, no risks as contemplated in section 289c (3) nos. 3 and 4 of the German Commercial Code were identified that are very likely to have or will have serious negative effects on the material, non-financial aspects mentioned.

4.5.3 Key issues

4.5.3.1 Sustainable funding and support programmes and products

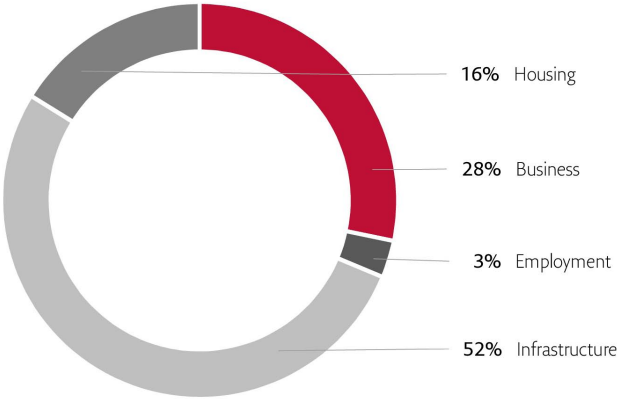
ILB's core business is to support public and private investment projects in business, labour, infrastructure and housing. With the promotion of investment projects, ILB, as the business promotion bank of the federal state of Brandenburg, pursues the long-term goal of supporting both positive economic as well as ecologically and socially sustainable development in the federal state of Brandenburg and thus has an impact on environmental and social matters.

ILB's promotional business is based on two pillars, i.e. the federal-state's and ILB's support programmes. As part of the federal-state support programmes, ILB handles programmes from EU, federal-government and federal-state funds on behalf of the ministries of the federal state of Brandenburg and is involved in designing the promotion and support programmes. In the ILB support programmes, ILB offers funding and support products in the form of low-interest loans, liability exemption, guarantees as well as venture and investment capital.

For each of ILB's funding programmes and products, targets have been defined which are to be achieved by providing financial support for an investment project. In the federal-state support programmes, these targets are derived from the respective rules or administrative regulations of the federal state and are defined specifically for each product in ILB's support programmes. The targets are set by the individual ministries on the basis of the federal state's strategies. When applications are submitted, ILB examines the consideration of support goals on the basis of specific funding and financing criteria.

In 2019, ILB approved a total of EUR 1,771m (previous year: EUR 1,343m) for projects by municipalities, companies, social institutions and initiatives in the federal state of Brandenburg. Similar to the previous year, the business sector accounted for 28%, employment for 3%, infrastructure for 52% and housing construction for 16%.

Breakdown of ILB's promotion business by volumes pledged (2019)



The majority of ILB's funding programmes and products in the four funding areas pursue social and ecological objectives in addition to economic sustainability. The ecological and social added value in the individual fields of promotion and funding can be described as follows:

- In business promotion, ILB supports commercial enterprises, start-ups and freelancers as well as agricultural and media companies in their investment projects, thereby making a significant contribution to the creation and preservation of jobs. The preservation and continuation of film cultural heritage is promoted by fund approvals for Medienboard Berlin-Brandenburg GmbH and the provision of interim financing. In agriculture and forestry, ILB's support programmes and products contribute towards nature conservation, the promotion of biodiversity as well as climate, environmental, consumer and animal protection. In the year under review, agricultural and horticultural companies were compensated for losses caused by drought. Promoting investment in more efficient production facilities and renewable energy in the private sector helps to reduce energy consumption and carbon emissions. For example, the 1,000-storages or small-scale storage programme introduced in 2019 is helping to increase the use of renewable energy in the private sector. The INTERREG VA programme supports German-Polish environmental protection projects and cooperation in the border region.

- In employment promotion, ILB, acting on behalf of the federal state, supports employment, education and qualification measures as well as social partnerships. In this context, funds are made available especially in order to improve education, vocational preparation, vocational integration and training schemes for young people. Another focus is on further qualification and start-up support for the unemployed with the aim of combating poverty. Under the various support programmes, German classes are provided for refugees as well as educational and reintegration measures for prisoners. The Brandenburg social partnership guideline supports the modernisation of company work organisations towards a participatory corporate culture.

- In infrastructure promotion, ILB finances infrastructure projects by municipalities, special-purpose municipal associations and municipal companies as well as by social, scientific, educational and cultural institutions. Special emphasis is placed on projects dedicated to nature conservation, preservation of environmental quality and quality of life in rural areas as well as the promotion of resource efficiency. In the area of social infrastructure, financing is provided to expand and modernise schools and to implement digital infrastructures in schools, as well to provide childcare. In addition, ILB supports investments designed to improve the range of care and support services on offer.

- In housing construction, ILB supports projects in the municipal, cooperative and private housing sectors as well as freehold property projects. Support is especially provided for the construction and sustainable restoration and modernisation of rented

apartments offered at socially acceptable rent prices, as well as for improving the living conditions of people with severe mobility impairments. What's more, ILB offers financing for the acquisition, construction and modernisation of residential property in order to strengthen a socially stable resident structure, to establish forms of housing suitable for the elderly and families and to reduce energy consumption.

4.5.3.2 Sustainability in Treasury business

Credit institutions can make a positive contribution towards economic development, improving social standards and protecting the environment and human rights through a sustainable investment strategy. ILB's treasury operations relate to both environmental and social concerns and respect for human rights.

In 2014, ILB launched a special fund at Union Investment Institutional GmbH. As a long-term pension fund with a total volume of currently EUR 200m (around 6% of the securities portfolio), this special fund invests in primarily European corporate bonds. ILB has imposed non-financial exclusion criteria (ESG criteria) on the fund manager for investment decisions within the framework of the special fund. This ensures, for instance, that investments in companies that produce cluster bombs/landmines and in companies with extreme environmental scandals, human rights violations as well as child and forced labour are systematically excluded. There are no indications that the exclusion criteria were not met in the 2019 year under review.

With regard to the securities portfolio outside the special fund, ILB, as a sustainably acting business promotion bank and non-trading book institution, pursues a long-term, low-risk investment strategy with a focus on investments in euro-denominated securities with very good credit ratings from core Europe. These investments include, in particular, covered bonds and securities eligible for refinancing with the ECB. As per 31 December 2019, ILB's securities portfolio comprised almost exclusively investment-grade securities. The portfolio of bonds with a sustainable use of funds – such as green bonds or social bonds – amounted to EUR 53m (previous year: EUR 30m) and will be further expanded in the future.

The investment strategy is derived from the bank's annually set risk strategy. Treasury is responsible for and manages ILB's securities portfolio within set limits. The Management Board is closely involved in the process and decides on the introduction of limits in securities business based on analyses by front and back office.

In 2019, the option of issuing sustainable bonds was examined and a Social Bond Framework established. The first Social Bond was issued in February 2020. ILB considers this to be an opportunity for sustainably orientated investors to participate in social investments and thereby to also support the sustainable development of the federal state of Brandenburg. Both the Social Bond Framework and the issue of socially responsible bonds give ILB the opportunity to make its sustainable business model even more transparent and better known and to give ILB access to new groups of investors. Furthermore, the Management Board commissioned Treasury in the year under review to develop a sustainability strategy for the year 2020 that is geared to capital market activities.

4.5.3.3 Responsible corporate culture

A good corporate culture has a crucial effect on work satisfaction and motivation as well as stable health of staff. ILB attaches great importance to the positive design and continuous development of its corporate culture. This aspect is related to employee matters.

For more than four years, ILB has been systematically developing its corporate culture. Based on an employee survey in 2015, measures to improve working conditions at unit/divisional level were drawn up, discussions triggered and the project entitled 'From a culture of duties and tasks to a culture of responsibility' initiated and implemented at management level. Another employee survey conducted in August 2019 evaluated how the guidelines have become part of practical life and in which areas the development process will be continued. In addition, the employee survey focused on the working environment, management behaviour and workload. Particular attention was paid to employee opinion on offers to improve the compatibility of work and family. The results of the employee survey will be evaluated and followed up in the individual teams and in bank-wide working groups in 2020.

In line with the personnel strategy revised in 2019, the culture of cooperation within ILB will be further strengthened. A culture of trust and responsibility should be embraced in everyday business life. Our guidelines provide for mutual support, appreciation and respect. In order to support a responsible corporate culture, ILB offers a number of services, such as subsidising the ILB company ticket for public transport or the 'JobRad' bicycle programme to encourage more employees to cycle. This not only makes ILB more attractive as an employer, it also helps to protect the environment.

4.5.3.4 Reconciling work and family life

With its modern and family-conscious human resources policy, ILB helps its employees to reconcile family life and professional commitment. By helping to create better working conditions, this aspect is related to employee matters. Employee motivation, performance and satisfaction will increase as a result of the further development of family-friendly working conditions. This also helps to give ILB an edge in the competition for particularly qualified employees.

As part of the certification process for the 'berufundfamilie' audit, a three-year target agreement was entered into in September 2018 in eight fields of action in order to further improve the compatibility of work and family life. According to this target agreement, ILB refined its family-friendly human resources policy in 2019. One special offer that was added in the year under review is an agreement for advisory and placement services for families with children. Measures already implemented in previous years, such as flexible working hours, part-time work and teleworking offerings, were successfully continued in 2019. The results of the measures are evaluated annually. The first interim report was prepared in the 4th quarter of 2019 and received a positive assessment by berufundfamilie Service GmbH.

4.5.3.5 Personnel planning and development

As the business promotion bank of the federal state of Brandenburg, ILB aims to be a trustworthy partner for clients, private individuals and businesses and in this context depends on its employees' commitment, skills and performance. The bank's employees are the basis for its long-term business success.

The central goal of the personnel strategy for 2019 was the further development of personnel planning and development. Through future-orientated personnel planning and development, ILB secures the qualified workforce needed now and in the future for the various functions of the bank. This aspect is related to employee matters.

In order to meet present and future demands, ILB needs qualified and flexible employees. A key success factor in 2019 was again the professional development of employees in light of their needs and future trends. Seminar attendance by ILB staff as a non-financial performance indicator is presented in section II.4.4 of this Consolidated Management Report.

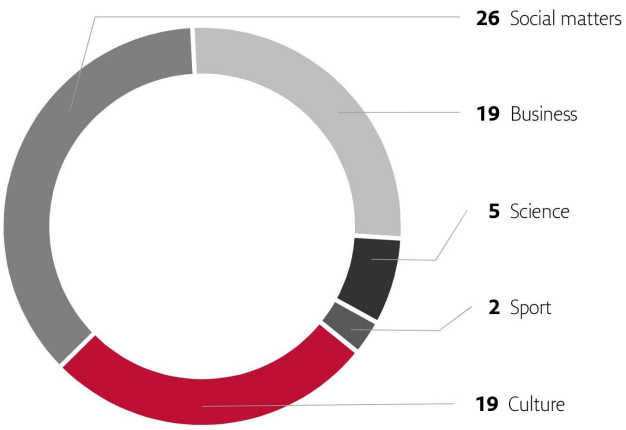
ILB's business strategy 2020 to 2023 identifies the internal and external factors influencing human resources work. The personnel strategy was updated on this basis. The fields of action of 'competence development', 'attractiveness as an employer' and 'flexibility' will be of particular importance.

4.5.3.6 Promotion of the common good

In accordance with the principles drawn up in 2018, ILB sees its commitment to Brandenburg as an obligation to engage in social issues in the federal state of Brandenburg beyond the scope of the bank's promotional business and thus influences social concerns.

As part of its donation and sponsoring activities, ILB supports projects in the fields of culture, social affairs, business, sport and science. ILB focuses its sponsoring on projects with federal-state relevance and strives to achieve a balance between long-term cooperation and individual measures.

Number of sponsoring and donation projects per field of action (2019)



In 2019, ILB supported a total of 71 projects (previous year: 68 projects) in the federal state of Brandenburg with funds totalling EUR 335,386.30 (previous year: around EUR 290,000), Most sponsorship and donation commitments were made in the fields of culture, social affairs and business.

Long-term sponsorship activities are included in ILB's annual communication plan. Individual measures taken during the year are evaluated on the basis of a catalogue of criteria and decided by the Management Board. All activities are summarised once a year in a report, evaluated by the Communications/Support Consultancy department in order to plan the following year and confirmed by the Management Board. The report is submitted to the Administrative Board for its information and published on ILB's website.

4.5.3.7 Fighting corruption

The basis of ILB's corporate responsibility is orientation towards the common good and the associated compliance with legal and regulatory requirements. One focus of ILB's internal compliance measures in this context is the fight against money laundering, financing of terrorism and other criminal acts. This also includes combating corruption in areas where ILB conducts its business.

In order to avoid both active and passive elements of corruption, ILB has established a Code of Conduct and a policy governing the acceptance and granting of gifts and invitations. One component of the anti-corruption concept is the internal work instruction which is binding for all ILB staff. What's more, employees are informed in regular training courses about these topics and ILB's responsibility as a central business promotion institute under public law towards society and the federal state of Brandenburg. Special emphasis is also placed on communicating the background and duties arising from the status of an official institute.

ILB applies the four-eyes principle to prevent corruption. ILB has established a compliance office as a staff department. The compliance officer as a central unit and its employees are responsible for the appropriateness and effectiveness of the compliance organisation for the prevention of criminal acts throughout the group. The compliance officer reports directly to the Management Board and is not bound by instructions in the performance of its tasks. The compliance officer prepares an annual compliance report which is submitted to both the Management Board and the Administrative Board for information. The control and monitoring activities of the compliance office have necessitated action in only a few cases. The existing compliance measures are assessed as appropriate and effective.

4.5.3.8 Responsible corporate management

As the business promotion bank of the federal state of Brandenburg, ILB is highly committed to implementing its business promotion policy in a responsible and transparent manner vis-à-vis the public and its clients, customers and employees and therefore impacts the element of combating bribery and corruption. Sound, responsible corporate governance is essential for the success, credibility and integrity of ILB.

The principles of responsible corporate management are anchored in ILB's Corporate Governance Code. The content and structure of the Code are based on the German Corporate Governance Code and the Corporate Governance Code of the federal state of Brandenburg. The members of ILB's Management and Administrative Board have laid down the requirements in their rules and regulations through corresponding resolutions and they comply with the requirements of ILB's Corporate Governance Code.

The Code is regularly reviewed by ILB with regard to new developments, adapted as necessary and published on ILB's website. The Management and Administrative Board report on compliance with ILB's Corporate Governance Code in the Corporate Governance Report and the Compliance Statement contained therein. The recommendations of the Code were complied with except for one case.

4.5.3.9 Information security

Information security is an essential part of ILB's business policy. ILB defines information security as the protection of data and other information of any kind and origin.

The security objectives of confidentiality, availability, integrity and authenticity are pursued in order to protect information as well as the processes and systems used to process information. In order to achieve its security objectives, ILB has implemented an information security management system (ISMS) based on the internationally recognised information security standard DIN ISO/IEC 27001, which is anchored in ILB's information security policy. An annual ISMS implementation plan defines measures for the respective fiscal year. All ILB employees are trained in information security.

The Management Board is responsible for information security. The Information Security function at ILB is delegated to the Information Security Officer.

The Information Security Officer worked on the implementation plan for the year under review in close coordination with the compliance, data protection and internal audit functions. The activity specifically focused on supporting the ongoing IT governance project as well as the methodical development of information security management.

III Report on forecasts, opportunities and risks

1. Risk situation

The risk at group level corresponds to that of ILB because the risks in the subsidiaries can be considered to be insignificant from a group perspective. The following information in the opportunities and risks report hence refers to ILB and can be applied to the group.

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

2. Risk management

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

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

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

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

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

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

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

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

The Management Board bears the overall responsibility for controlling the risks of the bank and of the institute group. In accordance with the minimum requirements for risk management, the Management Board informs the Risk Committee every quarter in writing of the bank's risk situation. Furthermore, ILB's risk situation is also explained during regular committee meetings to the Administrative Board as the control body of the Management Board. In the second quarter of 2018, an audit of ILB's business operations was carried out by Deutsche Bundesbank on behalf of the German Federal Financial Supervisory Authority in accordance with section 44 (1) second sentence of the German Banking Act (KWG, Gesetz über das Kreditwesen). The audit primarily focused on the correctness of the business organisation, risk management and monitoring as well as the procedures for determining and ensuring risk-bearing capacity in accordance with section 25a (1) of the German Banking Act. There were no findings which suggested serious implications.

The findings were fully handled in accordance with the agreed timeline by 30 June 2019.

3. Risk-bearing capability concept

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

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

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

Since 31 March 2019, the following additional condition must also be met: In a supplementary analysis, it must be ensured that the freely available risk coverage capital can cover the increased risk utilisation resulting from an assumed derating of the federal state of Brandenburg to an internal rating of 2. ILB thereby addresses the strategic fact that its risk is concentrated in the federal state of Brandenburg.

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

ILB determines the available risk capital on the basis of its risk capital. In this case, the regulatory capital required for going-concern purposes, including the SREP markup and capital buffers, is deducted from the risk capital. ILB in this case allows for an additional forecast SREP premium, so that a more conservative and less volatile view of the risk-bearing capacity is possible. Within the scope of the risk-bearing capacity concept, the available risk capital is the maximum sum available to cover risks.

As part of medium-term planning, the capital demand that will be needed in order to ensure the bank's risk-bearing capacity and to comply with regulatory requirements is determined over a period of 5 years. The capital planning process considers future changes in the bank's own business activities and its relevant environment as well as the impact of unfavourable developments. In particular, regulatory developments are examined here with regard to capital requirements. Possible adverse developments are considered in addition to expected ones. The aim is to enable counter-measures at an early point in time in order to secure ILB's capital demand even under unfavourable conditions. For capital planning purposes, the three-year medium-term planning period is additionally expanded by a two-year forecast horizon.

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

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

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

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

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

The analysis of the expected net profit for the year serves to monitor the risk capital. In this context, quarterly extrapolation is carried out in order to examine whether the intended net profit for the year after risk provisioning will be achieved. Risks that have materialised during the year are considered in the extrapolation and reduce the available risk capital accordingly.

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

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

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

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

The current going-concern approach to risk-bearing capacity adequately meets the regulatory requirements. ILB has implemented a project to convert the risk-bearing capacity philosophy to the normative and economic perspective in order to meet the requirements for risk-bearing capacity in future in accordance with the realignment for the regulatory assessment of bank-internal risk-bearing capacity concepts.

4. Different types of risks

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

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

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

The following risks are considered to be relevant for ILB:

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

Concentration risks, in particular, revenue concentration, are considered as part of the stock-taking process. The relevant risks identified during the stock-taking process are monitored and managed by the risk management process in accordance with the principles and loss caps determined as part of the risk strategy.

4.1 Default risk

The risk of default is the risk of a bank's debtor becoming insolvent and consequently failing to fulfil his contractual obligations. The risk of default covers lending, country, counterparty, emitter and shareholder risks.

A conservative risk policy is pursued in loan business. In commercial lending business, only borrowers with certain minimum ratings are accepted. Treasury business is based on individual limits which are determined by reference to external ratings and on the basis of the bank's own criteria and assessments. Securities business focuses on investments that should be as ECB-enabled as possible and hence be limited in terms of their risks which enable additional revenue contributions in repo business. Declining revenue contributions due to the low-interest environment are to be compensated for through portfolio diversification with new products.

A rating-based method is applied to measure default risk for ILB's entire portfolio in analogy to the IRBA (Internal Ratings Based Approach) concept provided for in regulatory law. Internal ratings are used as a basis for the risk-sensitive evaluation of items which are then consistently integrated into ILB's risk-bearing capacity concept. Risk concentrations at the borrower end in the portfolio are also taken into account. Furthermore, risk buffers are used to reflect migration and sector risks in the portfolio.

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

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

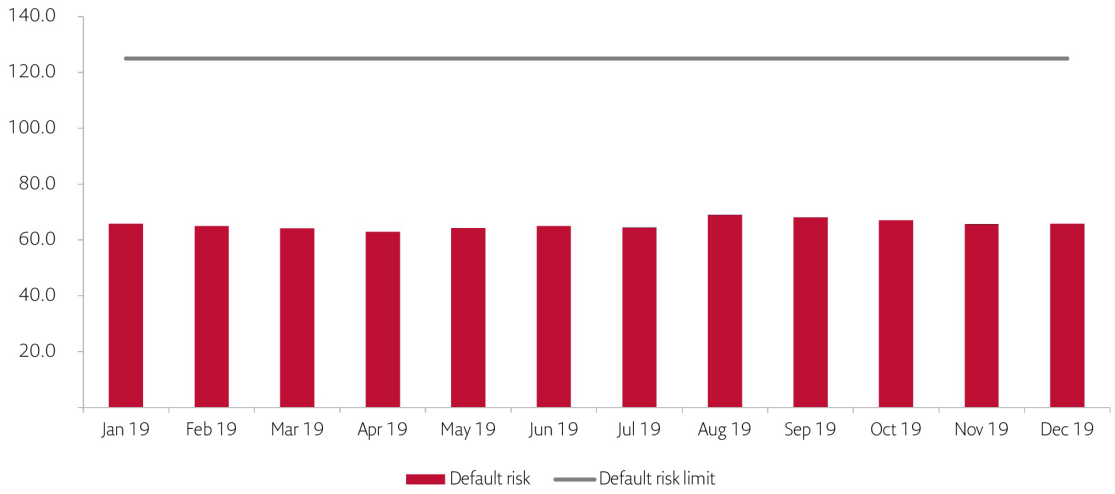
The default risk determined in this way applies to ILB's portfolio on the day of the analysis for a one-year risk horizon. The risk-bearing capacity concept requires consistent periodisation of risks. As the year progresses, the period during which potential risks can materialise becomes shorter. In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

Default risks are reflected in the valuation result of the profit and loss account. As part of planned risk provisioning, the planned net earnings for the year and therefore the entire risk capital are burdened accordingly. Risks that have materialised during the current year are represented by itemised allowances or write-offs to the lower going-concern value, direct write-downs or provisions and are also reflected in the latest extrapolation of net earnings for the year. Planned and actual default risks are therefore already included in the planned net earnings for the year and reduce the risk capital.

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

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

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



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e. 2020, is shown which refers to the one-year horizon throughout. In the period under review, risk utilisation consistently fluctuated within a corridor of between EUR 60m and EUR 70m, whereby risk-increasing and risk-reducing effects at the level of the bank as a whole more or less levelled each other off. A significant increase in counterparty default risk was only seen in August 2019 which was due to a change in the risk classification procedure for financial institutions.

As per the reporting date of 31 December 2019, risk utilisation amounted to EUR 66m, corresponding to a utilisation rate of 56% in relation to a limit of EUR 125m.

Operative default risk management is based on the minimum requirements for risk management (MaRisk) and is carried out in a portfolio and risk-orientated manner. Limit systems have been set up for country risks and product groups (securities, derivatives, money market paper, repo transactions, commercial banks) in order to steer default risks. In order to restrict risks with these transactions, limits have been set up on borrower level. The limit system is supplemented by regulatory requirements regarding large exposure limits, the CRR as well as compliance with the leverage ratio requirements. Furthermore, the rolling one-year default risk utilisation has been limited as part of operative management.

ILB has established a working group to steer default risks. The working group is the central body for steering the bank‘s default risks. It advises the Management Board and prepares resolutions by the Board. The meetings are attended by the members of the Management Board as well as the heads of the risk controlling function, treasury as well as front and back office. The working group meets regularly before the quarterly reports are due and during the course of the planning process. This body is additionally convened as required due to decision-relevant issues at the chairpersons‘ request or in the case of important forthcoming individual decisions at the request of the manager responsible for the product area concerned.

The monthly ‘ILB risk report‘ compiles the most important implications of default risks according to the bank‘s risk-bearing capacity.

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

4.1.1 Loan risk

ILB’s core business is the promotion of public and private investment projects, mainly using funds from the budget of the federal state of Brandenburg or through customer banks.

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

The sub-strategy for default risks is updated each year and forms the basis for lending. This strategy contains the guidelines for lending business and, at a sub-loan portfolio level, the qualitative and quantitative requirements for lending.

Loan risks result from treasury business, housing loans, syndicated loans in the commercial and housing sector, infrastructure loans as well as business with applicants’ banks. In transactions with applicants’ banks, loans are passed on to the final borrower‘s bank without any risk on the part of ILB with regard to the default risk of the final borrower. In the case of such bank-to-bank loans, ILB bears the default risk of the applicant‘s bank which is additionally secured by the possibility to take recourse to the final borrower.

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.

In order to limit risks from loan business, precisely defined criteria are in place for these transactions, especially with regard to the borrower‘s creditworthiness, collateral and maximum loan sum (commercial syndicated loans only). Sufficient provision in the form of itemised allowances for bad debts has been made in the annual accounts to cover known risks.

Due to inter-state fiscal adjustment, the law on general fiscal adjustment with municipalities and the municipal associations in the federal state of Brandenburg as well as the ‘debt brake’ laid down in the constitution, ILB still does not foresee any default risk in public-sector loan business as the bank‘s largest loan sub-portfolio.

Default risks for loan sub-portfolios are monitored by the back office/loan management unit. Risk controlling calculates limit utilisation on a quarterly basis and informs back office/loan management and subsequently the respective product areas. Back office/loan management evaluates the risk and, when necessary, draws up suitable recommendations for action.

At the end of each quarter, the controlling and loan secretariat functions perform a comprehensive analysis and assess the default risk for the bank as a whole for business involving loans guaranteed by ILB. The result of this analysis forms part of risk reporting to the Group 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.

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 entire lendings portfolio totalled EUR 12,231m as per the 2019 reporting date. 88% of the loans in ILB's own lending portfolio (excluding special funds) were rated excellent (SR ratings 1 2) or collateral was provided (usually public guarantees or collateral in rem). Standardised rating procedures recognised by the regulatory authorities and applied by Sparkassen Rating und Risikosysteme GmbH (S Rating) are used to assess counterparty default risk at individual borrower level.

The following methods are used:

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

For municipal loans and financial institutions, ratings are assigned to the uniform DSGV master scale in accordance with the SR system. The 'Procedure Credit Scoring' risk classification system is used for home financing customers.

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

The business and investment strategy in treasury is subject to an ongoing, risk-orientated analysis and adaptation process which ensures ILB's conservative investment policy.

Investment decisions are made after an independent risk analysis. Purchases are contingent upon a minimum ‚A' rating of the security concerned by an external rating agency (Moody's, Standard & Poor's or Fitch). An external minimum BBB rating was accepted for a limited part of the portfolio. Unsecured bonds are purchased subject to volume and term limitation, depending on the external rating. The loan risks were widely spread.

In 2014, ILB set up a special corporate bond fund (minimum rating: investment grade) which recorded a fund volume of EUR 200m in 2019.

Controlling checks publications on a daily basis for changes in the standing of securities and/or issuers. In addition to these measures, the development of yield markups for securities on a watchlist is monitored and compared with risk-free investments in order to utilise the market's assessment as an early indicator of any change in risk.

The bank has specific limits in place for the purchase of securities, money market paper and derivatives as well as upper limits for each bank for loans channelled through customer banks, individual refinancing projects and global loans. The limits are set for each bank separately, based on an evaluation of its financial position, its external rating and other qualitative data. If the standing and/or external rating changes, appropriate adjustment of the limit is considered. Internal limits are generally reviewed once a year.

Controlling and the specialist unit regularly check adherence to the limits.

4.1.2 Counterparty risk

Counterparty risk is the risk of a party to a contract defaulting when claims are due to be settled (fulfilment risk) or of a party failing to meet a payment deadline (performance risk).

In order to counter this risk, ILB generally conducts commercial business with selected market partners only who have a minimum external 'A' rating according to the second-best rule. Counterparty limits are in place for these market partners.

Counterparty risk as part of default risk is of minor relevance at ILB. Transactions with derivatives are only concluded to hedge interest rate and currency risks. These transactions are generally concluded with counterparties with a minimum external credit rating of 'A' according to the second-best rule.

ILB clears standardised OTC derivatives via central counterparties. Non-clearable derivative transactions are collateralised bilaterally on the basis of collateralisation annexes. Regulatory netting is carried out for 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.

4.1.3 Country risk

Country risk includes the credit and market price risk of a country. It represents the risk of partial or complete default with contractual interest and redemption payments by borrowers of the country concerned and the risk of a loss of value of securities and derivatives which depend on the country's market parameters.

In accordance with its promotional task, ILB's business is conducted almost entirely in Germany and more specifically in the federal state of Brandenburg. Existing foreign commitment is based almost exclusively on investment in securities from countries of the European Union (except special funds) and most of these in euro zone countries. In line with the counterparty risk substrategy, only selected debtors are generally accepted. German issuers should account for at least 40%.

The country risk outside Germany is limited by country caps. These caps are determined on the basis of external ratings, as well as the gross debt and GDP of the country in question. The country limits are checked biannually with a view to their suitability on the basis of early warning indicators. In order to avoid risk clusters, separate limits are determined for country risks and included in the respective limits.

4.1.4 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 shareholdings in three areas:

- Equity investment companies - Provision of equity for companies in the federal state of Brandenburg
- Property companies - Property development in the federal state of Brandenburg
- Others - Supporting other ILB activities

As per 31 December 2019, ILB held shares in companies with a book value of EUR 82.6m. 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 potential loss from these commitments. Sufficient risk provision has been made for the risks attached to the remaining shareholdings.

4.1.5 Opportunities

In line with its mission as a business promotion institute, ILB accepts default risks to a very limited extent only. As part of its annual planning process, the bank addresses any uncertainties regarding the development of the value of its lendings through value adjustments based on conservative estimates. Opportunities result from positive deviations of the defaults actually materialising as compared to estimates.

4.2 Market price risk

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

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

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

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

The following types of market risks were identified for ILB:

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

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

4.2.1 Interest rate risk

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

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

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

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

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

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

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

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

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

This means that the limits determined by the Management Board in order to limit interest rate risks were adhered to at all times during the 2019 financial year.

ILB determines the forecast quality of the model applied to measure risks by back-testing as per the reporting dates. To this effect, the value losses (VaR) are compared to the value losses actually incurred. The cash value changes were found to be below VaR on all the reporting dates tested. The back-testing results show that ILB's risk model sufficiently considers interest rate risks.

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

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

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

4.2.2 Market risk

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

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

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

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

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

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

In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e. 2020, is shown which refers to the one-year horizon throughout.

Utilisation of the credit spread risk and interest rate risks is counted towards the periodic limit for market price risks to the amount of EUR 10m. The credit spread risk is taken into account via the risk buffer at a constant level of EUR 4m. The periodic interest rate risks were consistently at a low level of between EUR 0.2m and EUR 1.7m. Fluctuations during the course of the year are mainly due to changes in short-term cashflow structures which are primarily influenced by interest rate fixings in varia-

ble-interest business. The long-term cashflow structure of this investment is orientated towards the benchmark structure set for strategic reasons and is therefore relatively stable. Accordingly, the fixed interest rates and dates of future fixed interest rates on the assets and liabilities side in the short-term area and the yield curves existing at these points in time have a significant impact on periodic interest rate risks.

Overall, it can be stated that the limit for market price risks was adhered to at all times. At the end of 2019, utilisation of the limit for market price risks for the following year 2020 totals 48%.

4.2.3 Currency risk

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

4.2.4 Option risk

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

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

Implicit options in the interest ledger are termination rights which customers have under the German Civil Code (BGB, Bürgerliches Gesetzbuch). 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. In the current period of low interest rates, customers increasingly ask for and agree upon long-term, fixed-interest periods which are subject to statutory termination rights pursuant to section 489 of the German Civil Code. The implicit options resulting from these transactions are fully included and monitored in the interest ledger management. A limit system ensures that risk is kept below the materiality threshold.

4.2.5 Other price risks

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

4.2.6 Intra-risk concentrations

Interest rate risk concentration can arise when open positions in individual maturity bands accumulate due to steep changes in interest rates there. Open positions in long maturity segments have a particularly negative impact on the interest rate risk since the effects of interest rate changes on the present value increase as fixed-interest periods increase. The interest rate risk is distributed relatively evenly across the maturity bands. The remaining risk concentration is considered to be easily monitorable.

A reduction of concentration is possible through suitable derivative transactions. Due to the benchmark-orientated investment strategy, there is no need for additional management of interest risk concentrations.

ILB is exposed to a market value risk in the case of a declining market value of assets that can be valued at market prices and losses in the interest ledger. There is a risk concentration in that ILB's securities portfolio consists of bonds with the highest security requirements the value of which can decline if interest rates generally rise or if the liquidity or credit rating spread widens. This has direct effects in as far as it reduces the value of collateral for ILB's refinancing possibilities. A lower market value hence leads to lower collateral potential for open market transactions or for repo transactions. In addition to securities, ILB also has KEV-eligible 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. Market value risk concentrations can therefore be classified as insignificant.

4.2.7 Opportunities

ILB's transformation function in conjunction with interest rate change risks is geared towards ensuring a long-term and stable contribution towards the bank's net interest income. ILB therefore accepts interest rate risks to a limited extent only. This means that the volume of both risks and opportunities is generally limited. Additional opportunities arise if the interest structure becomes steeper with persistently low money market interest rates. ECB forecasts and the current economic situation suggest that the low-interest phase will continue. The general conditions for matching maturities are therefore seen to be positive and stable for the future.

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

4.3 Liquidity risk

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

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

4.3.1 Liquidity risk in the narrower sense (illiquidity risk)

The following types of illiquidity risks were identified for ILB:

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

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

ILB ensures its liquidity through long-term refinancing planning. Bank refinancing continues to account for the majority of refinancing sources. The largest refinancing partners are publicly owned and can be regarded as very reliable. ILB also issues bearer bonds in order to diversify its sources of financing. 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.

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

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

In order to ensure that ILB can meet its payment obligations at all times, the bank has money market lines available with commercial banks and 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. ILB has a sufficient, sustainable liquidity reserve in the form of securities eligible as collateral at the central bank. This liquidity reserve enables the bank to cover additional liquidity requirements which may arise under stress conditions. This means that ILB has an extensive refinancing potential that enables it to generate sufficient liquidity, even under extreme circumstances and largely independent of the general market situation. If fixed limits are exceeded, appropriate measures are introduced in order to improve the liquidity situation depending on its severity. Risk Controlling/Finance is responsible for monitoring and issues a monthly risk report as part of monthly risk reporting to the Management Board. Reporting on the short-term liquidity situation is supplemented by a long-term forecast over a 10 year period as well as a report on compliance with the regulatory liquidity indicators.

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

In the year under review, ILB was always able to provide itself with sufficient liquidity, both on the interbank market and through repo transactions. ILB has further expanded its refinancing base through bearer bonds. ILB has also signed contracts with German and European development banks to secure long-term refinancing options. During the course of the year 2019, ILB's unused liquidity potential was at all times sufficient. It was at no time necessary to resort to the liquidity reserve.

The regulatory liquidity requirements in their current version were met with a substantial buffer: According to the monthly regulatory reporting, the liquidity coverage ratio, which represents the short-term liquidity risk, ranged between 191% and 1,514% (required: minimum of 100%) during the financial year.

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

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

The bank's liabilities are secured by statutory public-sector responsibility, guarantor's liability and the liability guarantee of the federal state of Brandenburg.

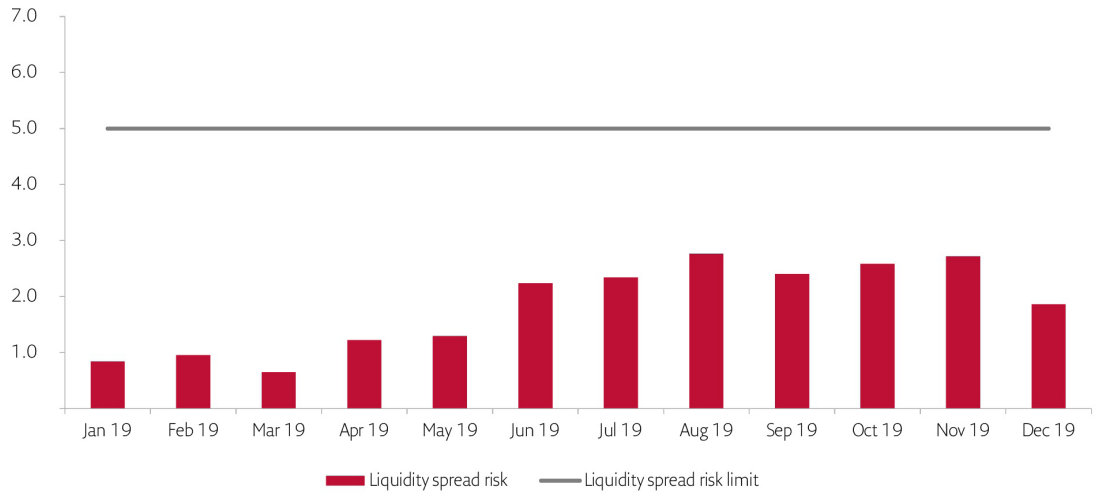
ILB is hence able to obtain liquidity at competitive terms because counterparties regard its creditworthiness to be comparable with that of the federal state of Brandenburg.

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

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

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

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



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e. 2020, is shown which refers to the one-year horizon throughout. The limit of EUR 5m for the liquidity spread risk was adhered to at all times during the year under review, with maximum utilisation for the following year, i.e. 2020, totalling EUR 2.8m. When measuring risk, ILB also takes planned new business into account. Overall, liquidity spread risks continue to be a minor risk.

4.3.3 Opportunities

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

4.4 Operational risk

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

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

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

The method employed to manage operational risks is backed by transparent communication and documentation throughout the bank. Avoiding operational risks is always a top priority for ILB.

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

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

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 risk scenarios, OpRisk Controlling identifies the potential risks of the respective sub-risk together with those responsible for the sub-risk. These sub-risks are analysed and evaluated with regard to their 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.

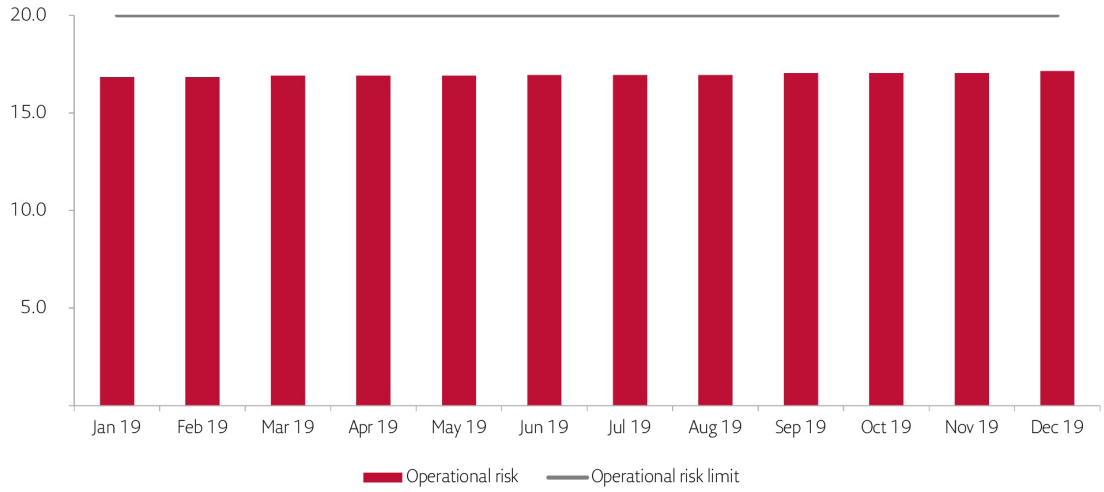
In addition to its risk stock-taking, ILB regularly compiles information on operational risks and losses. Each employee must carefully monitor their environment for operational risks and losses. Generally speaking, the 'discoverer' of a risk or loss is obliged to report this to the respective head of their organisational unit. The respective manager is responsible for identifying operational risks and reporting loss cases, i.e. passing these on to OpRisk Controlling. ILB records risks and losses in an event database, and analyses its operational risk using risk inventories, risk maps or risk indicators in order to identify potential losses at an early point in time.

The Management Board is informed of any loss events of more than EUR 50,000 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 risks and 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 stock-taking of operational risks as part of overall bank risk stock-taking.

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

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

Operational risk development as per the reporting date for the one-year horizon



In order to ensure the comparability of risks over the course of the year, risk utilisation for the following year, i.e. 2020, is shown which refers to the one-year horizon at all times. The limit for operational risks of EUR 20m was adhered to with throughout. The operational risk level generally remains very constant over time due to the calculation method and the stable results forecast for ILB. As per the reporting date, 86% of the current limit of EUR 20m was utilised.

The loss events and risk events identified in 2019 did not reveal any risks that could jeopardise the bank's existence and their monetary impact was far below the risk utilisation assumed within the scope of the risk-bearing capacity.

5. The risk situation in summary

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

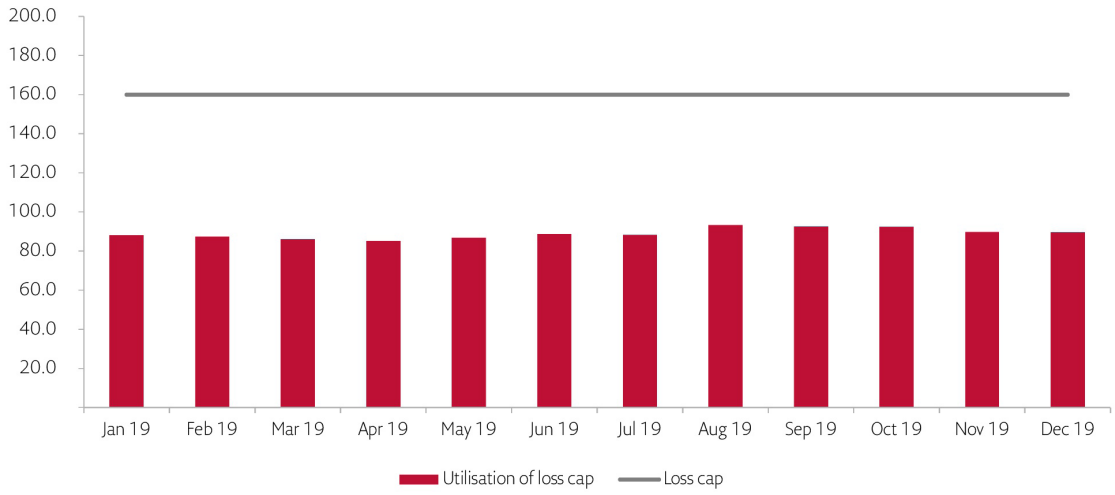
The maximum loss cap thus serves to limit the overall risk for ILB and must be adhered to both in the current and the following year.

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

In million EUR	31 December 2018	31 December 2019
Default risk limit	125	125
Market price risk limit	10	10
Liquidity spread risk limit	5	5
Operational risk limit	20	20
Loss cap	**160**	**160**

The upper loss limit in the year under review totalled EUR 160m and was thus flat against the previous year. The risk caps are the absolute limits for the different risk types and are monitored within the framework of risk control. In line with ILB's business and risk strategy, counterparty default risks are of utmost importance, with a limit of EUR 125m. Other significant risk types are market price risks, liquidity spread risks and operational risks arising from the functions and operation of the banking business.

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

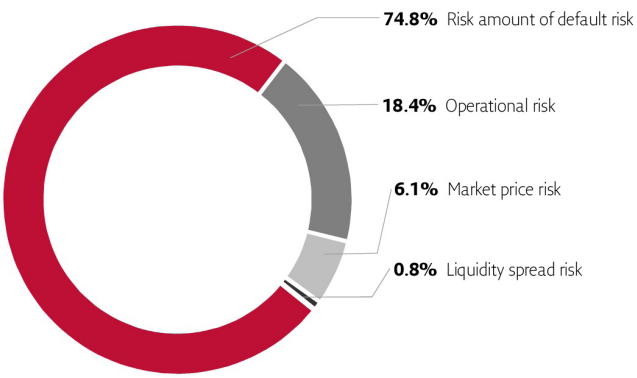


In order to ensure the comparability of risks over the course of the year, total risk utilisation for the following year, i.e. 2020, is shown which refers to the one-year horizon throughout. The limit to ILB's risk items laid down in the loss cap amounting to EUR 160m was adhered to at all times during the 2019 financial year. Utilisation is relatively constant between EUR 85m and EUR 93m.

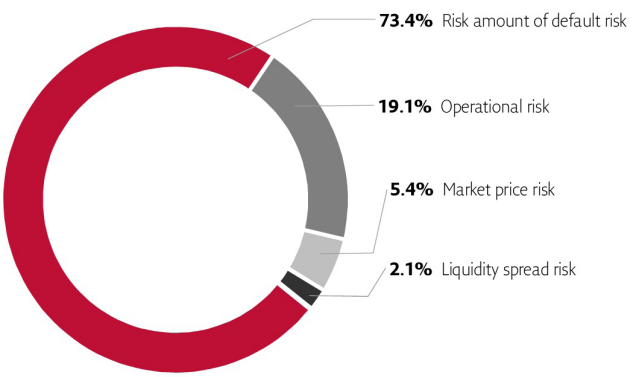
A maximum utilisation of the upper loss limit of 58% was observed over the year. The risks taken were hence consistent with ILB's risk strategy. Utilisation generally corresponded with the bank's willingness to take risks as laid down in its risk strategy.

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

31 December 2018



31 December 2019



Default risk, which accounts for 73.4% of overall utilisation of the maximum loss cap, continues to be the most important risk. This is in line with ILB's business model and its focus on business promotion tasks.

The loss potential from operational risks, calculated on an all-included basis, accounted for 19.1% of ILB's total risk.

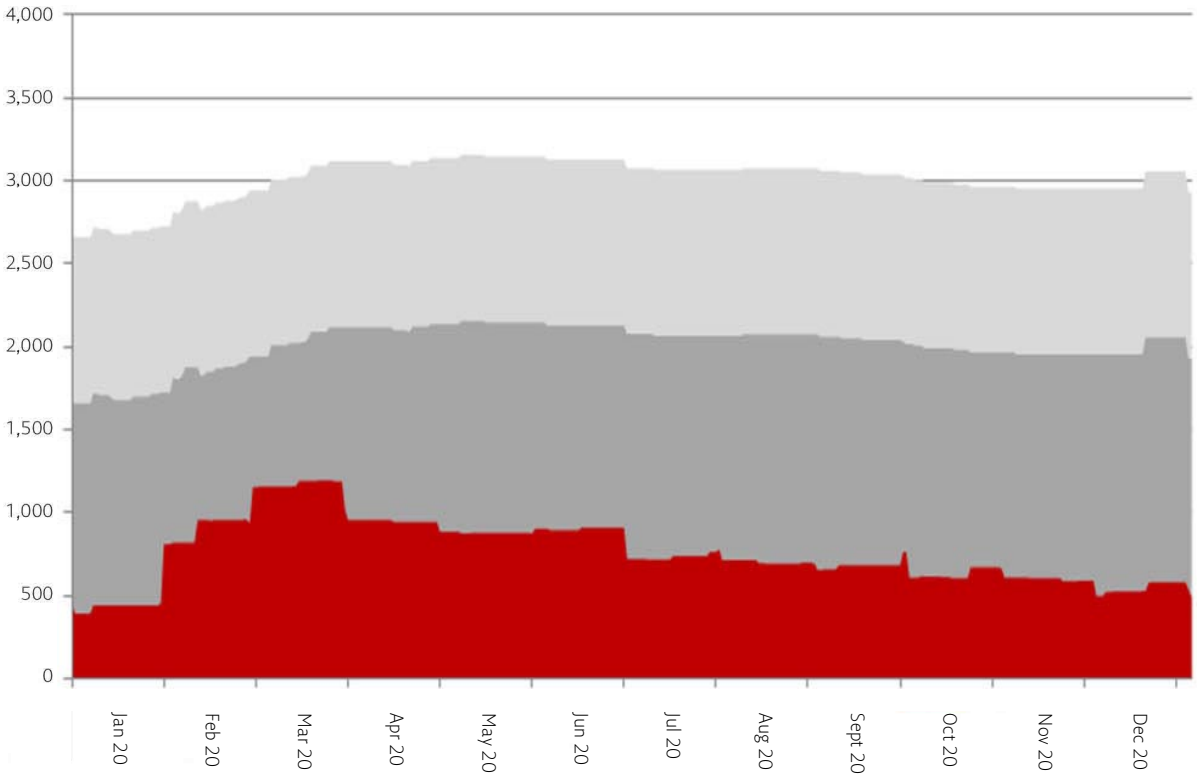
The market price risk, consisting of interest rate risk and credit spread risk, accounts for 5.4% of total risk utilisation.

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

Compared with the previous year's figures, the utilisation ratios of the individual risk types as per 31 December 2019 have not changed significantly, reflecting ILB's constant risk profile.

The following diagram illustrates the liquidity risk within the meaning of the bank's illiquidity risk as per 31 December 2019, which is limited by a dedicated management process by comparing the bank's refinancing requirement with its refinancing potential:

Normal scenario (in million EUR)



Refinancing demand never exceeded the refinancing potential. Refinancing demand accounted for a maximum of 39% of the refinancing potential. The extrapolation suggests that ILB has a sufficiently large liquidity buffer which is made up of an unused refinancing potential of at least EUR 1.7bn. The liquidity reserve of EUR 1.0bn is not used. Liquidity is thus assured for the entire 2020 year and the survival horizon is at least one year.

IV Outlook

1. Economic factors

Before the spread of the Covid 19 virus and the associated shutdown, the economic conditions were as follows:

In its annual economic report for 2020, the German government forecast 1.1% growth in price-adjusted gross domestic product for the year 2020. The unemployment rate is expected to remain stable at around 5.0%. The number of people in jobs is expected to grow to approximately 45.4 million.

In September 2019, the ECB lowered the deposit rate to 0.50%. Furthermore, the ECB resumed its bond purchases, the monthly volume of which amounts to EUR 20bn since November 2019. The term of this new bond purchase programme is open-ended. All in all, it can be assumed that the key interest rate will remain at or below the current level for a longer period of time.

The Ifo Business Climate Index for East Germany cooled down at the end of 2019. In January 2020, it dropped again from 100.0 to 98.8 points. Both the assessment of the situation and business expectations of the companies surveyed declined, especially expectations were significantly down. The negative trend that has been evident since October 2019 continued here.

The business climate also deteriorated noticeably in the federal state of Brandenburg. According to a business survey conducted by the Chambers of Industry and Commerce (IHK) in autumn 2019, the business climate index declined. Companies assess the current business situation as worse than during the same period last year.

The mood with regard to business prospects has become noticeably gloomier. The shortage of skilled workers is seen as an important risk for the economic development of companies. Further risks mentioned were rising labour costs and the economic policy framework.

The economic climate in the federal state of Brandenburg recovered slightly at the beginning of 2020 compared to autumn 2019. However, the Berlin-Brandenburg economic climate index in January 2020 (122 points) was still 17 points below the peak value seen in 2018.

Business is generally less buoyant than in the previous year. Companies remain cautious. Optimism and scepticism are currently on par among the companies surveyed.

In Brandenburg, 16% of the companies surveyed have better business expectations, 20% worse and the majority (64%) see business expectations unchanged.

For 2020, 77% of the companies surveyed in Brandenburg are planning investments (79% in the previous year). Of these companies, 41% are planning higher, 48% flat and 11% lower investments in 2020.

Employment expectations deteriorated slightly compared to the previous year. Currently, 24% (26% in the previous year) expect employment to increase, 63% (62% in the previous year) expect it to remain flat and 13% (12% in the previous year) expect to see employment decline.

The Covid 19 virus, which was first seen in Germany at the beginning of February and has since spread to an unexpected extent, has already massively slowed down economic development, especially in March. Compared to many other German federal states,

Brandenburg is currently less affected by the spread of the virus, but we are also expecting the situation in the federal state of Brandenburg to worsen even further.

Political and social measures have been and still are being adopted in order to contain the further spread of the Covid 19 virus. However, these will lead to a severe slump in economic growth in Europe and Germany and will present both private households and the majority of companies with major challenges. The extent to which measures to contain the Covid 19 pandemic will be effective and the overall impact on the economy cannot be reliably estimated at this stage. We too are already supporting the federal state of Brandenburg in the implementation of its immediate assistance programmes for distressed companies.

Provided that the exponential spread of the Covid 19 virus can be stopped and the number of infected persons stabilised during April 2020, there is reason for cautious optimism regarding a noticeable increase in economic activity during the third quarter of 2020. The measures taken by state governments and central banks could also lead to the expected recession having a less severe impact on the economy and the labour market.

2. Major influences

ILB considers the following influence factors to be important for its business activities:

Promotion and development business:

- ILB expects a commitment volume of at least EUR 1.1bn for 2020, including EUR 0.6bn from federal state development programmes and EUR 0.5bn from ILB's development programmes. ILB's federal-state development programmes in 2020 will be influenced to a large extent by the transposition of the directives within the scope of the current EU programming period.
- With regard to the Covid 19 pandemic, ILB is supporting the federal state government by initiating immediate assistance programmes at short notice for companies in acute economic and/or financial difficulties due to the effects of Covid 19. Shifts within the development programmes are to be expected in the short term. Due to increased public support for small and medium-sized enterprises to cushion the negative economic impact of the Covid 19 pandemic on companies in Brandenburg, ILB expects an increase in promotional business.

Economic environment/risk provisioning:

- In September 2019, the European Central Bank responded to lowered economic and inflationary prospects by reducing the deposit rate to 0.50% and resuming bond purchases of EUR 20bn per month since November 2019. The term of the new bond purchase programme is open-ended and will continue until the ECB's inflation rate target of just under 2.0% has been achieved on a permanent basis. As a result of the Covid 19 pandemic, key interest rates are expected to remain at or below current levels for some time.
- ILB expects to see a deterioration of the economic situation for many private households and, in particular, for small and medium-sized enterprises as a result of the recession expected in Germany due to the Covid 19 pandemic and the measures adopted to contain it. With regard to our credit portfolio, we see risks primarily in corporate financing. The packages of measures adopted to support ailing companies will mitigate these risks. This situation is expected to lead to an increase in risk provisioning for promotional loans in 2020, which will be higher than the budget figures calculated before the outbreak of the Covid 19 pandemic. Even though a reliable quantification is not possible at the present time, ILB has planned general provision reserves in accordance with sections 340f and 340g of the German Commercial Code for special risks in lending business. ILB is currently assuming that these planned contingency reserves are sufficient to cover the additional risk provisions for its loan portfolio.

Regulatory framework conditions:

- As part of the ongoing Supervisory Review Process (SREP), ILB expects to see rising ratios for capital add-ons and the target capital ratio. Against this background, ILB is continuing to increase its relevant equity from its own revenues.
- In the medium term, ILB expects a further expansion of supervisory regulations and associated high investment costs despite the exemption of promotional banks from the CRD. The level of detail of regulatory requirements continues to increase and

will continue to entail substantial implementation work for ILB due to direct supervision by the German Federal Financial Supervisory Authority.

Liquidity situation:

- The bank obtains short-term liquidity from the ECB (European Central Bank) and/or the 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, it boasts a comfortable liquidity situation even in the current situation.
- The bank sources long-term financing mainly from national and supranational business development banks (KfW, European Investment Bank, Landwirtschaftliche Rentenbank, Council of Europe Development Bank) and through bearer bond, note loan and registered bond issues.
  ILB's refinancing demand can be covered at all times even taking current developments into account.

3. Development of income situation and net worth

The group's future income situation and net worth will continue to depend heavily on ILB.

In the medium term, ILB expects to see a further tightening of supervisory regulations despite the exemption of promotional banks from the CRD. The ability to realise the planned business development and to ensure risk-bearing capacity requires a further build-up of eligible funds from the bank's own earnings.

Against this background, ILB has set itself the strategic goal of generating total bank earnings before risk provisioning of at least EUR 30.0m annually by 2023.

The following budget calculation is generally based on ILB's expectations before the outbreak of the Covid 19 pandemic and represents the planned development of ILB's earnings without compensatory postings of the ILB promotional fund and the Brandenburg fund.

Even considering the latest developments, ILB still expects to achieve its planned targets for 2020 as a whole. ILB does not expect any significant deviations from plan in terms of net interest and commission income or administrative expenses. However, ILB estimates that budgeted expenses will be exceeded in value adjustments on receivables, so that the Covid 19 pandemic may lead to lower earnings after risk provisioning. ILB does not foresee any adjustment to net profit for the year against the background of sufficiently planned reserve allocations.

Item	2019 Thousand EUR	Budget 2020 Thousand EUR	Change in %
Interest income	59,011	58,614	-0.7
Commission income	55,637	55,455	-0.3
Other operating income*	2,670	1,763	-34,0
Personnel expenses	45,007	48,709	8,2
Material expenditure	20,965	20,891	-0,4
Depreciation on operating equipment	5,017	5,404	7.7
Earnings before risk provisioning/formation of reserves	**46,329**	**40,828**	**-11,9**
Value adjustment on receivables	-4,291	-5,804	35,3
Valuation result for securities	-1,032	-3,357	225,3
Allocation to provident funds	-1,179	-1,400	18,7
Earnings after risk provisioning	**39,827**	**30,267**	**-24,0**
Formation of reserves	-23,500	-14,000	-40,4
Addition to ILB promotional fund	-5,000	-5,000	0.0
Net profit for the year	**11,327**	**11,267**	**-0,5**

* Including other taxes

ILB expects the income situation and net worth to remain satisfactory in 2020.

Earnings before risk provisioning and the formation of reserves is to total around EUR 40.8m in 2020 and will therefore be EUR 5.5m below the previous year's figure. Essentially stable income is offset by rising administrative expenses, especially personnel expenses.

Net interest income of EUR 58.6m will continue to account for the greatest share in ILB's revenues.

ILB expects the low-interest environment to continue in 2020. Negative interest rates on money markets and long-term capital market rates of close to 0.0% are therefore expected until the end of the year. ILB will benefit from this trend in the short term in the form of favourable refinancing conditions with variable-interest borrowings. Benefits due to negative interest rates can still be realised in this context. Furthermore, the interest situation also enables positive effects from matching maturities. This measure moderately counteracts the long-term negative effects of low interest rates. In the long term, however, the negative effects will predominate. The narrowing of spreads as a result of the ECB's securities purchasing programme and the falling interest rate on equity, caused by the low interest rate environment, has put pressure on treasury's contribution to earnings.

The possible effects of strong ad hoc changes in the planned interest curve of between one and two percentage points for the following year were simulated as part of scenario analyses. Net interest income planned for 2020 will range between EUR 45m and EUR 86m. Net interest income will show a negative response to a steep increase in the entire interest rate structure. Compared to initial planning, persistently low money market rates and steeper interest rates or further base lending rate reductions can be seen to have a very positive impact. The changes in interest rates assumed are extreme scenarios which are unlikely to occur. For more moderate interest rate scenarios, the budget estimate for 2020 is essentially confirmed.

Net fee and commission income is another important factor for earnings and is likely to total EUR 55.5m in 2020 and hence remain stable at the level of 2019 (EUR 55.6m). Net fee and commission income largely results from fees for the management of promotion and support programmes. Close to one fifth of this income is from administrative cost contributions in conjunction with the granting of loans from trust funds and around three quarters from the handling of promotion programmes and a small amount from the management of guarantees, loan processing and other services.

As an intermediary institute, ILB in Brandenburg currently approves and disburses funds from the European Structural Fund and acts as the approval organisation for the EAFRD. For the next EU programming period from 2021 to 2027, allocations for Brandenburg are expected to decrease significantly, so that ILB's order volume in the area of EU funds will also decline in the medium term. ILB's planning hence foresees the gradual decline of funds available to the federal state of Brandenburg. In this context, revenues from the processing of grant programmes are expected to decline in the future. As the central promotional platform for the federal state of Brandenburg, ILB aims to enter into further management agreements with the federal state in order to partially compensate for the aforementioned trend. Possible positive effects from the Coal Region Structural Strengthening Act (Strukturstärkungsgesetz Kohleregion) which implements the coal compromise have not yet been included in planning. Under this, for instance, the federal government will invest an average of EUR 1.3bn annually in the brown coal regions of the federal states of North Rhine-Westphalia, Saxony, Saxony-Anhalt and Brandenburg by 2038 at the latest, primarily in the area of transport infrastructure. According to the joint decision by the federal states of Saxony and Brandenburg, the respective business development bank is to implement the financial aid.

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

Other operating result is expected to amount to EUR 1.8m in 2020, below the previous year's level of EUR 2.7m. This decline is due to lower expected income from fund management activities in the context of investment management.

In 2020, administrative expenses (personnel, material expenditure as well as depreciation and amortisation in the operating area) are expected to be up EUR 4.0m against the previous year at an expected EUR 75.0m. Personnel expenses, which will increase by EUR 3.7m compared to the previous year, will play a decisive role in this development. Against the background of stricter regulatory and business requirements for IT, existing processes and services were further developed as part of the IT governance project. In order to convert these into effective and efficient regular operations, the IT process and organisation structure will have to be adjusted and staff qualification measures will be necessary.

In 2020, EUR 26.3m is planned for material expenditure and depreciation on operating equipment, which is largely flat against the previous year's level (EUR 26.0m). Most of ILB's administrative expenditure is subject to long-term fixed rates. Deviations from planning can occur if the actual expenses of projects involving the use of external services do not correspond to those planned.

Based on the loss expected, EUR 5.8m is taken into account for value adjustments of receivables in 2020.

Securities held by the bank are valued according to the diluted lower of cost or market principle. According to the principle of prudence, potential valuation demand for securities totalling EUR 0.7m is recognised as an expected loss. In addition, a risk buffer of EUR 4.0m p.a. for latent migration risks of the securities portfolio is recognised as expenses. Taking into account redemption earnings of expiring securities, a negative valuation result of EUR 3.4m is expected.

In order to consider implicit options due to statutory termination rights within the scope of loan business, EUR 1.4m is allocated to provident funds, corresponding to the same amount as in the previous year.

Net income for the year is essentially planned at the same level as last year.

ILB's earnings will remain be stable and satisfactory in 2020, 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 5m is planned for the ILB promotional fund for 2020. On the basis of current planning, ILB will meet the strategic target of generating an annual total bank earnings before risk provisioning of at least EUR 30.0m in 2020.

According to the 2020 budget, the balance sheet total will remain almost unchanged at around EUR 13.6bn.

By the end of 2020, the number of employees will increase once again slightly. The share of female employees and the share of part-time employees will remain largely unchanged. The share of temporary employees, on the other hand, will be slightly lower.

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

The number of students in cooperative study programmes is to increase to 23.

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

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 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 Bank Operations and Board/Strategy. 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 and consolidated 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 and consolidated financial statements pursuant to its articles of association. The auditor attends the discussions of the Administrative Board and of the committees regarding the annual and consolidated financial statements and reports on the key results of his audit. The auditor is elected by the general meeting at the recommendation of the Administrative Board/Audit Committee.

The consolidated financial statements include ILB and six affiliated companies on a fully consolidated basis.

The consolidated financial statement is carried out by the Risk Controlling/Finance function on the basis of the annual financial statements of the consolidated companies. Receivables and liabilities as well as expenses and revenues are fully consolidated in line with the relevant provisions of the German Commercial Code. This function is also responsible for the entire bookkeeping, preparation of annual financial statements as well as adjustment to the accounting and valuation rules applicable to the entire group.

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 internal control systems of the accounting processes are identical for ILB and its consolidated subsidiaries.

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, 30 March 2020

The Board of Investitionsbank des Landes Brandenburg

Tillmann Stenger Chairman of the Board	Jacqueline Tag Member of the Board	Kerstin Jöntgen Member of the Board

Annual Balance Sheet as of 31 December 2019

Investitionsbank des Landes Brandenburg

Assets	EUR	EUR	31 Dec. 2018 Thousand EUR
1. Cash			
a) Cash in hand	4,942.45		2
b) Balances with central banks	20,188,871.18		130,885
of which:		20,193,813.63	130,887
at Deutsche Bundesbank EUR 20,188,871.18 (previous year: EUR 130,885,000)			
3. Loans and advances to banks			
a) Payable on demand	153,936,213.56		142,939
b) Other loans and advances	2,229,451,801.58		2,364,025
		2,383,388,015.14	2,506,964
4. Loans and advances to customers		5,420,243,793.82	4,914,490
of which:			
Secured by liens EUR 842,459,008.37 (previous year: EUR 796,140,000)			
Public-sector loans EUR 2,862,635,322.14 (previous year: EUR 2,927,508,000)			
5. Bonds and other fixed-income securities			
b) Bonds and notes			
ba) Issued by public institutions	1,536,301,162.58		1,572,160
of which:			
eligible as collateral at Deutsche Bundesbank EUR 1,479,254,888.50 (previous year: EUR 1,482,922,000)			
bb) from other issuers	1,643,598,240.19		1,653,666
of which:		3,179,899,402.77	3,225,826
eligible as collateral at Deutsche Bundesbank EUR 1,530,775,323.21 (previous year: EUR 1,542,539,000)			
6. Stocks and other variable-income securities		199,851,639.65	199,797
7. Shareholdings		30,000.00	30
8. Shares in affiliated companies		82,554,398.87	85,434
9. Trust assets		2,064,725,518.57	2,135,492
of which:			
Trust loans EUR 2,064,562,818.77 (previous year: EUR 2,135,329,000)			
11. Intangible assets			
b) Acquired concessions, industrial property rights and similar rights and values as well as licenses thereto		1,157,158.02	1,133
12. Tangible assets		90,589,872.97	93,875
14. Other assets		221,390,854.80	111,504
15. Prepaid expenses		13,938,797.19	8,831
Total assets		13,677,963,265.43	13,414,263

Liabilities	EUR	EUR	EUR	31 Dec. 2018 Thousand EUR
1. Liabilities to banks				
a) Payable on demand		27,396,323.36		13,842
b) With an agreed term or notice period		9,341,810,742.97		9,474,314
			9,369,207,066.33	9,488,156
2. Liabilities to customers				
b) Other liabilities				
ba) Payable on demand		483,728,411.20		247,404
bb) With an agreed term or notice period		601,367,148.78		606,264
			1,085,095,559.98	853,668
3. Securitised liabilities				
a) Bonds issued			350,034,153.01	100,000
4. Trust liabilities			2,064,725,518.57	2,135,492
of which:				
Trust loans EUR 2,064,562,818.77 (previous year: EUR 2,135,329,000)				
5. Other liabilities			5,763,843.46	64,627
6. Prepaid expenses			67,097,549.55	71,354
7. Provisions				
a) Provisions for pensions and similar obligations		2,487,165.00		2,101
c) Other provisions		7,997,149.34		8,748
			10,484,314.34	10,849
8. Special item for investment allowances			26,626,850.50	25,214
11. Funds for general banking risks			466,131,950.81	437,434
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	100,000,000.00			95,000
		111,000,000.00		106,000
d) Net retained profit		11,796,458.88		11,469
			232,796,458.88	227,469
Total liabilities and shareholders' equity			13,677,963,265.43	13,414,263
1. Contingent liabilities				
b) Liabilities in relation to guarantees and warranties			77,407,733.76	49,894
2. Other obligations				
c) Irrevocable loan commitments			497,796,464.74	653,936
3. Administration loans			53,575,824.34	56,485
4. Administration guarantees			88,063,897.29	93,053

The annual financial statements of ILB for 31 December 2019 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 2019

Investitionsbank des Landes Brandenburg

	EUR	EUR	EUR	1 Jan.–31 Dec. 2018 Thousand EUR
1. Interest income from				
a) lending and money market transactions	135,789,743.17			153,818
minus negative interest from money-market transactions	2,137,245.55			1,097
	133,652,497.62			
b) fixed-income securities and debt register claims	35,260,645.27			51,243
minus negative interest from fixed-income securities and debt register claims	0.00			0
		168,913,142.89		203,964
2. Interest expenses				
Interest expenditure from banking business		116,480,508.51		148,912
minus positive interest from banking business		6,578,287.20		6,180
		109,902,221.31		142,732
			59,010,921.58	61,232
5. Fee and commission income		56,108,672.04		50,297
6. Fee and commission expenses		471,228.63		427
			55,637,443.41	49,870
8. Other operating income			10,240,848.70	15,943
10. General administrative expenses				
a) Expenditure on personnel				
aa) Wages and salaries	37,414,490.26			36,715
ab) Social security contributions and expenditure on pensions and other benefits				
of which for pensions:				
EUR 274,431.00 (previous year: EUR 415,000)	7,592,376.75			7,231
		45,006,867.01		43,946
b) Other administrative expenses		20,965,193.64		20,868
			65,972,060.65	64,814
11. Depreciation, amortisation and write-downs on intangible assets and tangible assets			5,016,751.66	5,983
12. Other operating expenses			4,506,281.57	3,994
13. Amortisation and write-downs on on accounts receivable and certain securities as well as additions to reserves in loan business (previous year: additions)			7,995,410.07	-1,037
15. Amortisation and write-downs on investments, shares in affiliated companies and securities treated as fixed assets (previous year: additions)			1,294,615.17	-3,091
18. Allocations to the fund for general banking risks			28,697,550.52	44,998
19. Results from ordinary activities			11,406,544.05	11,384
24. Other taxes			79,093.21	78
27. Net income for the year			11,327,450.84	11,306
28. Profit brought forward from the previous year			469,008.04	163
34. Net retained profit			11,796,458.88	11,469

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