Breaking new ground

# Half-yearly financial report 2021

# Key figures of the LBBW Group

| Income Statement (EUR million) | 1 Jan. – 30 June 2021 | 1 Jan. - 30 June 2020[1] |
|---|---|---|
| Net interest income | 1,026 | 872 |
| Net fee and commission income | 294 | 274 |
| Net gains/losses on remeasurement and disposal | 51 | – 182 |
| of which allowances for losses on loans and securities | – 63 | – 281 |
| Other operating income/expenses | 62 | 90 |
| *Total operating income/expenses* | *1,433* | *1,055* |
| Administrative expenses | – 868 | – 837 |
| Expenses for bank levy and deposit guarantee system | – 137 | – 118 |
| Net income/expenses from restructuring | 0 | 1 |
| *Consolidated profit/loss before tax* | *428* | *100* |
| Income taxes | – 145 | – 50 |
| *Net consolidated profit/loss* | *283* | *50* |
| **Key figures in %** | **1 Jan. – 30 June 2021** | **1 Jan. - 30 June 2020[1]** |
| Return on equity (RoE) | 6.3 | 1.5 |
| Cost/income ratio (CIR) | 67.2 | 71.5 |
| **Balance sheet figures (EUR billion)** | **30 June 2021** | **31 Dec. 2020** |
| Total assets | 304.1 | 276.4 |
| Equity | 14.3 | 14.0 |
| **Ratios in accordance with CRR/CRD IV (after full implementation)** | **30 June 2021** | **31 Dec. 2020** |
| Risk-weighted assets (EUR billion) | 82.5 | 82.3 |
| Common equity tier 1 (CET 1) capital ratio (in %) | 14.9 | 14.8 |
| Total capital ratio (in %) | 22.1 | 22.8 |
| **Employees** | **30 June 2021** | **31 Dec. 2020** |
| Group | 9,963 | 10,121 |

1 Restatement of prior year amounts (see Note 3).
Differences are due to rounding effects.

## Rating (3 August 2021)

| Rating | Moody's Investors Service | Rating | Fitch Ratings |
|---|---|---|---|
| Long-term Issuer Rating | Aa3, stable | Long-term Issuer Default Rating | A–, stable |
| Long-term Bank Deposits | Aa3, stable | Long-term Deposit Rating | A |
| Senior Unsecured Bank Debt | Aa3, stable | Long-term Senior Preferred Debt Rating | A |
| Junior Senior Unsecured Bank Debt | A2 | Long-term Senior Non-Preferred Debt Rating | A– |
| Short-term Ratings | P–1 | Short-term Issuer Default Rating | F1 |
| Baseline credit assessment (financial strength) | baa2 | Viability rating (financial strength) | bbb |
| Public-sector covered bonds | Aaa | Public-sector covered bonds | - |
| Mortgage-backed covered bonds | Aaa | Mortgage-backed covered bonds | - |

# Foreword by the Board of Managing Directors

## Dear Readers,

LBBW can look back at excellent business performance in the first half of 2021. We were successful in customer business, the risk situation remains stable and earnings are far above the previous year figure and our planning. We coped well with the challenges presented by the COVID-19 pandemic while also continuing to make good progress in developing the bank in line with our strategic cornerstones.

Consolidated profit of EUR 428 million before tax as at 30 June underscore our bank's strength. Income from operating business picked up considerably, with the ECB's TLTRO III program to encourage lending also having a positive effect.

In corporate customers business, we continued to expand our growth sectors: pharmaceuticals and healthcare, telecommunication/media and electronics/IT, utilities and energy while at the same time extending our corporate finance business. The Real Estate/Project Finance segment enjoyed strong new business while retaining a conservative risk profile. Capital Markets Business performed very well, with high demand for investment and hedging products. We also made good progress in our growth area, Asset and Wealth Management. Business with private customers generated slight gains in a challenging environment. We will continue to improve the future performance of this business area by extensively restructuring branch operations and establishing online consultations, a process that is already underway.

In terms of risks, we have not seen any notable defaults due to the pandemic yet. With a common equity Tier 1 (CET 1) capital ratio of 14.9% (fully loaded), our capitalization remains very sound.

The enormous importance of sustainability as one of LBBW's four strategic cornerstones became clear once again in the first half of 2021. We continued to assist our customers with diverse, sustainable financing. For example, we participated in two social bond issues under the EU's SURE program, as well as acting as the lead manager for the first green bond of the state of Baden-Württemberg. We are also working hard on integrating future regulatory ESG requirements in risk management and assessing the impact of this on our lending portfolio.

LBBW's successful performance is directly intertwined with the trust and collaboration we enjoy with you, our customers and business partners. We, the LBBW Board of Managing Directors, would like to sincerely thank you for this! We are also grateful to our employees who demonstrated great dedication under tough pandemic conditions and were there for LBBW and its customers at all times.

We expect business to continue to perform well in the second half of the year. While the pandemic still presents us with ongoing uncertainties, we believe we are well positioned thanks to our diversified business model of a mittelstand-minded universal bank with a strong focus on sustainability. You, our customers, can rest assured that we will continue to stand by you to the best of our abilities.

Sincerely,

RAINER NESKE
Chairman

ANASTASIOS AGATHAGELIDIS

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

ANDREAS GÖTZ
Chief representative

# 02

# Interim management report as at 30 June 2021

# Business report for the Group

The macroeconomic environment continued to be marked by the coronavirus pandemic in the first half of the 2021 financial year. Economic output in Germany declined by 2.1% compared to the previous quarter in Q1, before picking up by 1.5% in Q2. Private consumption initially shrunk substantially as a result of measures to contain the pandemic, but recovered after restrictions were lifted. In the eurozone, total economic output dropped by 0.3% quarter on quarter, rising by 2.0% in the following quarter. Pandemic restrictions were gradually eased as cases declined. In China, GDP in the final quarter rose by 0.6% against the previous quarter and 18.3% against the previous year. GDP in the second quarter expanded by 7.9% compared to the previous year and by 1.3% compared to the first quarter. GDP in the US increased by 6.4% on the previous quarter in Q1 (annualized rate) and 6.5% in Q2.

Moving to consumer prices, inflation picked up in the first half of the year. Inflation in Germany (change in consumer prices compared to the previous year, measured by the national index) at the end of 2020 was – 0.3%. Inflation rose to 2.3% by June 2021. Eurozone inflation climbed from – 0.3% to 1.9% in the same period, with the figure for the US rising from 1.4% to 5.4% in June. This was prompted primarily by higher energy prices compared to the same month of the previous year and, in Germany, the return to a higher VAT rate.

Regardless of higher inflation in the reporting period, central banks in the US and the eurozone maintained their expansive monetary policy. The US Federal Reserve argued that high inflation at present partially offsets a sustained period of very low inflation in the past, meaning that the inflation target will be more or less achieved as an average. The ECB repeatedly took the view that the rise in inflation is only temporary, a result of special factors and will reverse over the year ahead, and so there is no need to tighten monetary policy. In particular, the ECB reiterated that it intends to maintain its PEPP bond buying program (Pandemic Emergency Purchase Program) with a volume of up to EUR 1,850 billion as planned until the end of March 2022.

On the bond market, 10-year German government bonds started the year with a yield of – 0.58%. Yields rose to – 0.08% in the period to May, before subsequently declining again to – 0.25%. The EUR/USD exchange rate at the start of the year was just under USD 1.23 to the euro, the highest rate in the first half of the year. The low was reported at the end of March (USD 1.17), with the euro only slightly higher at the six-month mark at just under USD 1.19. Equities mostly picked up in the first half of the year. The DAX increased overall, rising from 13,718 points at the start of January to 15,531 at the end of June. The price rise was not accompanied by major market turbulence. In the US, the Dow Jones Industrial market barometer rose from 30,606 to 34,502 in the reporting period. Performance on real estate markets was mixed in the period under review. In Germany, the market for commercial real estate declined slightly, whereas logistics properties benefited from booming online trade. Residential real estate benefited from the trend towards working from home in connection with the pandemic, while Germany's residential population stagnated in 2020 for the first time since 2011, which tended to reduce price pressure. In the US and the UK, markets for office properties were strained by rising vacancies, whereas house prices continued to increase.

# Business performance of the LBBW Group in the first half of 2021 – Results of operations, net assets and financial position

**LBBW supports its customers through the coronavirus pandemic. Marked increase in consolidated profit/loss before tax ensures successful H1.**

The LBBW Group's strategic direction focuses on supporting customers based on their individual needs. With its comprehensive product range and high level of consulting expertise, LBBW effectively demonstrated its role as a reliable principle bank during the crisis. Thanks to a conservative risk policy and maintaining capital ratios well in excess of regulatory requirements, there was still leeway to provide close customer support by expanding relevant financing capacities. The challenges presented by the coronavirus pandemic were felt in the need to support not only our business partners but also our own employees, for whom the bank implemented early safeguards and launched its own vaccination program.

In the four strategic cornerstones, the megatrend ***sustainability*** in particular, continued to gain ground across the sector and among LBBW customers. The goal of carbon neutrality was achieved at the start of the year by consistently reducing our own $CO_2$ emissions and with the help of a forestation fund. Continuing to expand the Sustainability Advisory Team allowed LBBW to further consolidate its position as a leading bank in the area of sustainability for corporate customers and savings banks. A constantly expanding sustainable product range in all operating segments, as well as special training concepts for employees, helps customers manage the transformation to a carbon-neutral future. With an outstanding volume of EUR 6.7 billion, LBBW is the leading ESG bond issuer among Europe's commercial banks. In addition, LBBW also assisted with issues by other issuers, including the world's first sustainability-linked bond issued by a commercial bank and social bonds issued by the European Union as part of the SURE program, where is acted as lead manager. In terms of financing, it also supported sustainable transactions and expanded the product range, for example through sustainable leasing. With sustainable investments becoming increasingly important, the range of sustainable funds for customers was also developed further. Five of LBBW's sustainability funds received the prestigious seal of approval by the German Sustainable Investment Forum in the first half of 2021. Furthermore, LBBW ranked second out of 119 banks in the most recent sustainability report published by Zielke Research.

By successively ***digitalizing*** products and processes, LBBW is investing both in creating added value for customers by making many services permanently available and faster on online platforms, and in internal efficiency and, with it, improved cost leverage. The corporates portal is the main digital platform for our corporate customers. The number of users increased six-fold during the pandemic and so the focus is now on continuing to expand the range of services currently offered on the app, such as the digital guarantee. In collaboration with other partners, LBBW is active in the Marco Polo trade finance network. Payments were secured here for trade transactions based on the blockchain technology Corda in a live environment, as part of a fully digital process, for the first time in May 2021. Process improvements resulted from cooperation with the German Federal Gazette (Bundesanzeiger). Through CoraX, relevant customer data from the Federal Gazette can be integrated directly into LBBW's systems, making it possible to automate a company audit and therefore streamlining work processes and reducing the margin for error. Rolling out the digital signature at the start of 2021 means that LBBW can enter into transactions with its customers remotely, as opposed to the many pages of contract that had to be signed in person in the past.

We worked towards transforming our culture in previous years as part of establishing the strategic cornerstone ***agility***, for example by establishing numerous projects using agile methods. The agile flagship project »Future workshop: branch« gave selected branch teams the opportunity to demonstrate their skills themselves, drawing on increased creative freedom. Agile deal teams also showed that complex customer transactions can be successfully concluded under considerable time pressure.

During the ongoing coronavirus pandemic in H1 2021, LBBW's priority in the strategic cornerstone ***business focus*** remained on helping customers through the crisis. Customer demand in development loan business remained high. Commitments of EUR 4.2 billion were made here in own sale activities. There was particular demand for customer advisory services regarding integrating pandemic liquidity assistance into financing strategies that are sustainable in the long term. Our success continued in business with corporate customers, where we successfully defended the Quality Leader Award as part of the »Greenwich Large Corporate Banking 2020 Study« and maintained leading positions in various categories of the »FINANCE Banks Survey 2021«. Collaboration with customers, chiefly in the FX, trade finance and interest rate hedging product areas generated further growth. In addition, we acquired numerous new financing and advisory contracts in the growth area of corporate finance. We received the Industry Choice Award, with our customers endorsing our expertise as one of the top three banks for export financing internationally for the third time (previously in 2018 and 2020). In commercial real estate financing, focus was on financing sustainable and resilient exposures centered on Germany and the US. New financing was also realized in renewable energies and digital and social infrastructure. Capital markets business was marked by high customer demand in certificates and large mandates in primary markets business. Certificates business generated record sales in the first half of 2021, with particularly strong customer demand for sustainability aspects in the form of ESG impact products. Taking over the interest-rate, currency and commodities management business for savings banks' corporate customers from Hamburg Commercial Bank further strengthened the focus of collaboration with the savings banks following the takeover of parts of BayernLB's interest-rate, currency and commodities management business in 2020. Asset and wealth management also performed well, increasing the volume under management by EUR 6 billion compared to the end of the year to over EUR 135 billion. The coronavirus pandemic again highlighted that the branches are no longer needed to the extent that they once were. For this reason, the omnichannel structure was launched on 1 April 2021. We will continue to provide opportunities for face-to-face interaction between consultants and customers in one of our branches in the future. Customers can state online whether they wish to attend a consultation from home, from the office or via video or by telephone.

LBBW's ***strategic direction*** was based on balancing growth, risk and costs. At the heart of growth fields are areas where LBBW was able to further consolidate existing customer relationships. This included creating corporate finance business, where we invested in reinforcing the sustainability advisory team, expanding our growth sectors pharmaceuticals and healthcare, TM and electronics/IT, utilities and energy, which were supported by our sector experts, and continuing to develop our asset and wealth management in the new organizational structure in order to pool expertise. Of course, LBBW is also working on processes internally to reduce costs. The main successes achieved here in the last six months related to digitalizing further processes. A decision was made last year to reduce staff capacities by over 700 full-time positions. Several conversions are already underway and entire departments are in the process of moving to reduce building costs. In terms of risk, we already enjoy a diversified portfolio thanks to our business model based on the four segments. We monitor our lending standards on an ongoing basis, with stricter regulations introduced last year for real estate in the US and the UK and for airplane financing.

The key financial indicators (financial performance indicators) confirm LBBW's successful business performance in the first half of 2021.

The ***cost/income ratio (CIR)***[1] improved to 67.2% compared to 71.5% in the previous year, primarily in connection with income. Income rose by EUR 160 million, a result chiefly of a sharp increase in net interest income, as well as higher net fee and commission income and net gains from financial instruments measured at fair value through profit or loss. This was offset chiefly by a rise in expenses for the bank levy/deposit guarantee system, as well as higher staff costs. The figure also performed better than expected in planning thanks to income. ***Return on equity (ROE)***[2] rose to 6.3% (previous year: 1.5%), putting it well in excess of target. This was primarily a result of lower allowances for losses on loans and securities, as well as improved income. In the previous year, this had been affected by model adjustments in connection with the pandemic and one larger individual case resulting from a company insolvency.

The LBBW Group's ***common equity Tier 1 capital ratio*** as at the end of the reporting period remained well in excess of the regulatory capital requirements (CRR/CRD V »fully loaded«). At 14.9%, the ratio improved on the previous year-end (14.8%), far higher than the bank's own targets. The changes associated with the CRR II that came into effect on 28 June 2021 are already taken into account in the current ratio.
Supervisory authorities' requirements for the common equity Tier 1 (CET 1) capital ratio were lowered in response to the coronavirus crisis. The European Central Bank now requires only 0.98% of the Pillar 2 capital requirement (previously 1.75%) to be backed by CET 1 capital on a pro rata basis. In addition, the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (Kreditwesengesetz, KWG) was reduced from 1.00% to 0.75% following a change in methodology at the German Federal Financial Supervisory Authority (BaFin). The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. Since the end of the year, LBBW has been required to maintain a common equity Tier 1 capital ratio of 8.73% (currently: 9.75%). Section 10d of the German Banking Act (Kreditwesengesetz, KWG) also requires a countercyclical capital buffer to be held. This covers only a small share of foreign receivables, as the BaFin retracted the introduction of a countercyclical capital buffer for German receivables on account of coronavirus pandemic and various foreign supervisory authorities lowered the requirement. The ECB's capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital, still applies. In addition, a partial amount of CET1 capital is held to meet the Tier 1 capital requirements that go beyond this.

Other LBBW indicators developed as follows.

***Risk weighted assets (RWA)*** remained on par with the previous year in the reporting period at EUR 82.5 billion (31 December 2020: EUR 82.3 billion). As well as changes to methodology under CRR II (including a new method for calculating counterparty risk for derivative transactions, use of SME Supporting Factor), the change was driven largely by ratings effects, with business volume remaining largely stable.

LBBW's ***leverage ratio*** was 4.5% as at the end of the reporting period (fully loaded in accordance with CRR CRR/CRD), on a level with the figure at the end of the previous year. This remains significantly above the current regulatory minimum of 3.0%.

1 LBBW calculates its cost/income ratio (CIR) as the ratio of total administrative expenses, expenses for the bank levy and deposit guarantee system and net income/expenses from restructuring to total net interest income, net fee and commission income, net gains/losses on remeasurement and disposal before allowances for losses and other operating income/expenses.
2 RoE is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet. This figure is adjusted for the unappropriated profit for the current period.

## Results of operations

*Consolidated profit before tax* rose by EUR 328 million to EUR 428 million and so LBBW far surpassed its previous year figure of EUR 100 million in the first half of the 2021 financial year. As well as higher income, reduced allowances for losses on loans and securities also played a role in this. In the previous year, these were heavily influenced by the coronavirus pandemic and one larger individual case. The condensed income statement for the LBBW Group has been presented below:

| | 1 Jan. 2021 – 30 June 2021 | 1 Jan. 2020 – 30 June 2020[1] | Change | |
|---|---|---|---|---|
| | EUR million | EUR million | EUR million | in % |
| Net interest income | 1,026 | 872 | 153 | 17.6 |
| Net fee and commission income | 294 | 274 | 20 | 7.3 |
| Net gains/losses on remeasurement and disposal | 51 | – 182 | 233 | - |
| of which allowances for losses on loans and securities | – 63 | – 281 | 218 | – 77.5 |
| Other operating income/expenses | 62 | 90 | – 28 | – 31.2 |
| *Total operating income/expenses* | *1,433* | *1,055* | *378* | *35.8* |
| Administrative expenses | – 868 | – 837 | – 31 | 3.7 |
| Expenses for bank levy and deposit guarantee system | – 137 | – 118 | – 19 | 15.7 |
| Net income/expenses from restructuring | 0 | 1 | – 1 | – 94.4 |
| *Consolidated profit/loss before tax* | *428* | *100* | *328* | *> 100* |
| *Income taxes* | *– 145* | – 50 | – 95 | > 100 |
| *Net consolidated profit/loss* | *283* | *50* | *233* | *> 100* |

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Restatement of prior year amounts (see Note 3).

*Net interest income* improved substantially, picking up by EUR 153 million to EUR 1,026 million. This was driven to a large degree by an effect from participating in targeted longer-term refinancing operations (TLTRO III). As well as a base rate reduction, the ECB compensates participants with additional interest (50 basis points on the main refinancing rate) for the special interest rate period from 24 June 2020 until 23 June 2021, provided certain lending criteria are met. The ECB's aim is to expand commercial banks' financing activities to support the economy. Even without the EUR 110 million bonus effect from participating in TLTRO III, LBBW improved its net interest income. This was driven largely by considerable growth in profit/loss in Capital Markets Business. In addition, real estate and project finance business increased their contribution to net interest income. For corporate customers, business with large corporates was successful and also played a role in the rise in net income. Ongoing historically low interest rates took a particular toll on the deposit business, resulting in a lower contribution from Private Customers / Savings Banks. Despite the increase in volume, this saw high pressure on margins on account of the level of competition in the sector.

*Net fee and commission income* improved by a moderate EUR 20 million to EUR 294 million. The securities and custody business performed particularly well, picking up by EUR 24 million to EUR 133 million. At EUR 56 million, net gains/losses from the lending business were down slightly on the previous year's figure of EUR 58 million. Income in the payments business was stable, unchanged on the previous year at EUR 46 million.

*Net gains/losses on remeasurement and disposal* picked up by a substantial EUR 233 million to EUR 51 million and were defined by the effects described below:

*Allowances for losses on loans and securities,* which improved by EUR 218 million to EUR – 63 million, were the biggest contributing factor behind this upturn. The previous year was adversely affected chiefly by a larger individual case resulting from a company insolvency. In addition, model adjustments were recognized last year to account for increased risks stemming from the pandemic. Statistical allowances for losses on loans and securities models which were parameterized based on multi-year data were not entirely suitable for this. Given the risk of delayed credit losses emerging after the coronavirus pandemic and the risk that the pandemic will worsen again, LBBW continued its conservative risk policy and increased the adjustments recognized at the end of 2020 by EUR 20 million (net). LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and an ongoing low default rate[1] of 0.5% as at the reporting date 30 June 2021 (previous year: 0.4%).

Net gains *from financial instruments measured at fair value through profit or loss*, which improved by EUR 12 million to EUR 123 million (previous year: EUR 110 million), were shaped by high customer demand for hedging and investment products. Capital market activities, which saw a sharp increase in new business for certificates and in interest books, were particularly instrumental in this increase. The contribution from banking book transactions also increased, reflecting primarily improved net income from financial instruments designated at fair value and syndicated loans.

*Other operating income/expenses* declined by EUR – 28 million and came to EUR 62 million (previous year: EUR 90 million). This decline was attributable predominantly to the EUR 29 million reduction (net) in gains/losses related to legal issues, chiefly because a positive effect in the previous year no longer applied. Potential negative effects resulting from the German Federal Court of Justice’s ruling on customer consent for price changes were also taken into account by recognizing provisions for legal risks. Offsetting this, net gains/losses from recognizing other provisions improved by EUR 6 million to EUR 8 million (net). Gains/losses from investment property declined from EUR 31 million in the previous year to EUR 19 million. This was affected chiefly by a EUR 8 million decrease in currency translation effects.

*Administrative expenses* widened by EUR – 31 million on the previous year to EUR – 868 million (previous year: EUR – 837 million). While wages and salaries remained on par with the previous year, the EUR – 33 million increase in personnel-related provisions caused staff costs to rise from EUR – 489 million to EUR – 521 million. Other administrative expenses remained slightly up on the previous year's figure of EUR – 280 million at EUR – 284 million thanks to cost leverage.

*Expenses for the bank levy and deposit guarantee system* again rose significantly by EUR – 19 million to EUR – 137 million. This was affected by the further increase in the target volume for the bank levy due to the 8% rise in covered deposits in the eurozone and a higher assessment basis resulting from business expansions.

At EUR 428 million, consolidated profit before tax was up considerably on the previous year’s figure of EUR 100 million. Income tax expenses were correspondingly higher, increasing by EUR – 95 million to EUR – 145 million (previous year: EUR –50 million). ***Net consolidated profit/loss after tax*** was EUR 283 million (previous year: EUR 50 million).

1 See also Risk report, »Risk situation of the LBBW Group«, section on portfolio quality.

## Results of operations in the segments

The following description of changes in earnings in the segments is based on the segment structure described in the Group overview in the 2020 annual report. Further information can be found in the notes to the condensed consolidated interim financial statements in the segment report in section C.

The LBBW Group segments' contributions to ***consolidated profit before tax*** of EUR 428 million in the first half of 2021 (previous year: EUR 100 million) were as follows:

| | 1 Jan. 2021 – 30 June 2021 | 1 Jan. 2020 – 31 June 2020[1] | Change | |
|---|---|---|---|---|
| | EUR million | EUR million | EUR million | in % |
| Corporate Customers | 202 | – 37 | 239 | >100 |
| Real Estate/Project Finance | 136 | 107 | 29 | 27.1 |
| Capital Markets Business | 172 | 125 | 47 | 37.6 |
| Private Customers/Savings Banks | 2 | 19 | – 17 | – 89.5 |
| Corporate Items/Reconciliation/Consolidation | – 84 | – 113 | 29 | – 25.7 |
| *Consolidated profit/loss before tax* | *428* | *100* | *328* | *>100* |

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Restatement of prior year amounts (see Note 3).

In the ***Corporate Customers segment***, good operating performance from LBBW's perspective and a considerable lower need for allowances for losses on loans and securities caused net gains to increase markedly to EUR 202 million in the first half of 2021 despite further adjustments. Allowances for losses on loans and securities were substantially affected by an individual case in the first half of 2020. Return on equity (RoE) also saw a marked improvement to 7.3% as a result. Income picked up in a market environment that remains highly competitive, with successes chiefly in the growth field of corporate finance and in export financing. Lending was also stable. TLTRO III bonus payments were also presented on a pro rata basis in the segment and allocated according to the segment structure. Costs were reduced slightly at the same time. The cost/income ratio (CIR) improved measurably to 51.6% as a result (previous year: 61.2%).

The ***Real Estate/Project Finance segment*** boosted its net gains/losses perceptibly in the first half of 2021, improving these to EUR 136 million (previous year: EUR 107 million) by increasing income while keeping costs virtually stable. Return on equity also increased accordingly to 13.7% (previous year: 11.1%). Income was increased noticeably thanks to successful new business. The segment was also involved in one part of the TLTRO III bonus payments. Costs were maintained at the previous year's level despite continuing the growth case with corresponding investments This positive development is also reflected in a further improved cost/income ratio (CIR) of 37.9% (previous year: 45.0%). After almost no allowances for losses on loans and securities were reported in the previous year, these increased in the current year due to further adjustments but LBBW believes these remain at a low level.

A perceptible upturn in customer business and successful cost reductions shored up net gains in the ***Capital Markets Business segment*** sharply to EUR 172 million (previous year: EUR 125 million) and increased return on equity significantly to 14.5% (previous year: 10.4%). Income picked up thanks to a strong start to the year, a result of the targeted expansion of customer business, the positive market environment and high investment requirements on the market. Costs were also reduced in connection with optimization measures successfully implemented in the past, improving the cost/income ratio (CIR) from 66.2% in the previous year to 58.8%.

With the market environment remaining challenging, profit/loss in the ***Private Customers/Savings Banks segment*** came under considerable pressure but remained in positive territory at EUR 2 million (previous year: EUR 19 million). In line with this development, return on equity also declined to 0.4% (previous year: 3.5%). Other positive developments include revenues in the securities business, as well as the successful increase in the financing volume. By contrast, brokerage business remains at the low prior year level on account of the crisis and the deposit business is still suffering from sustained low interest rates. Following the German Federal Court of Justice's ruling in April 2021 on customer consent for price changes, LBBW recognized provisions for the consequences of this as a precautionary measure, which also have a negative effect. Despite successfully reducing costs, the cost/income ratio (CIR) rose to 99.1% (previous year: 93.4%).

Profit/loss before tax in ***Corporate Items/Reconciliation/Consolidation*** (EUR – 84 million) improved noticeably in the first half of 2021 compared to the previous year (EUR – 113 million), with the segment benefiting chiefly from reversals of allowances for losses on loans and securities.

## Net assets and financial position

| Assets | 30 June 2021<br>EUR million | 31 Dec. 2020<br>EUR million | Change<br>EUR million | Change<br>in % |
|---|---|---|---|---|
| Cash and cash equivalents | 60,467 | 13,650 | 46,817 | >100.0 |
| Financial assets measured at amortized cost | 161,110 | 177,502 | – 16,392 | – 9 |
| Loans and advances to banks | 49,159 | 68,465 | – 19,306 | – 28 |
| Loans and advances to customers | 110,987 | 108,116 | 2,871 | 3 |
| Debentures and other fixed-income securities | 964 | 921 | 44 | 5 |
| Financial assets measured at fair value through other comprehensive income | 33,843 | 34,810 | – 967 | – 3 |
| Financial assets designated at fair value | 1,102 | 1,132 | – 30 | – 3 |
| Financial assets mandatorily measured at fair value through profit or loss | 39,855 | 42,185 | – 2,330 | – 6 |
| Shares in investments accounted for using the equity method | 254 | 261 | – 7 | – 3 |
| Portfolio hedge adjustment attributable to assets | 812 | 1,039 | – 226 | – 22 |
| Non-current assets held for sale and disposal groups | 0 | 2 | – 2 | – 78 |
| Intangible assets | 162 | 178 | – 17 | – 9 |
| Investment property | 805 | 796 | 10 | 1 |
| Property and equipment | 765 | 790 | – 25 | – 3 |
| Current income tax assets | 42 | 118 | – 76 | – 64 |
| Deferred income tax assets | 1,021 | 1,107 | – 86 | – 8 |
| Other assets | 3,900 | 2,878 | 1,022 | 36 |
| *Total assets* | *304,140* | *276,449* | *27,690* | *10* |

| Equity and liabilities | 30 June 2021<br>EUR million | 31 Dec. 2020<br>EUR million | Change<br>EUR million | Change<br>in % |
|---|---|---|---|---|
| Financial liabilities measured at amortized cost | 255,669 | 221,627 | 34,041 | 15 |
| Deposits from banks | 98,680 | 78,765 | 19,915 | 25 |
| Deposits from customers | 97,970 | 95,288 | 2,682 | 3 |
| Securitized liabilities | 53,997 | 41,834 | 12,163 | 29 |
| Subordinated capital | 5,021 | 5,740 | – 719 | – 13 |
| Financial liabilities designated at fair value | 5,193 | 6,509 | – 1,315 | – 20 |
| Financial liabilities mandatorily measured at fair value through profit or loss | 24,027 | 28,815 | – 4,788 | – 17 |
| Portfolio hedge adjustment attributable to liabilities | 337 | 693 | – 356 | – 51 |
| Provisions | 2,214 | 2,523 | – 309 | – 12 |
| Liabilities from disposal groups | 0 | 0 | 0 | |
| Income tax liabilities | 70 | 73 | – 2 | – 3 |
| Other liabilities | 2,323 | 2,217 | 106 | 5 |
| Equity | 14,306 | 13,992 | 314 | 2 |
| *Total equity and liabilities* | *304,140* | *276,449* | *27,690* | *10* |
| Guarantee and surety obligations | 7,902 | 7,232 | 670 | 9 |
| Irrevocable loan commitments | 33,948 | 32,677 | 1,271 | 4 |
| *Business volume* | *345,990* | *316,358* | *29,632* | *9* |

## Significant rise in consolidated total assets

As at 30 June 2021, ***total assets*** were up EUR 27.7 billion as against the end of 2020 at EUR 304.1 billion. The rise in total assets is essentially due to higher cash and cash equivalents and deposits from banks, both of which rose by the drawing amount of EUR 8 billion as a result of participating in the ECB's tender program in March 2021.

The ***business volume*** (consolidated total assets including the off-balance-sheet surety and guarantee agreements and irrevocable loan commitments) picked up in line with this, rising by EUR 29.6 billion to EUR 346.0 billion.

The Eurosystem carried out a total of three series of targeted longer-term refinancing operations to improve monetary policy transmission and to create additional lending incentives for banks. In total, ten loan tranches were extended in the period from September 2019 to December 2021 at quarterly intervals as part of TLTRO III. LBBW again took up EUR 8 billion in the tender in March 2021.

## Lending

***Cash and cash equivalents*** amounted to EUR 60.5 billion as at 30 June 2021, a considerable EUR 46.8 billion upturn on the figure for the previous year (EUR 13.6 billion). This was attributable almost exclusively to an increase in central bank balances.

The item ***financial assets measured at amortized cost*** decreased by EUR – 16.4 billion to EUR 161.1 billion, attributable essentially to loans and advances to banks.

***Loans and advances to banks*** saw the largest downturn among financial assets measured at amortized cost, falling by EUR – 19.3 billion to EUR 49.2 billion. This change was particularly noticeable for public-sector loans, which declined by EUR – 16.7 billion to EUR 31.0 billion in connection chiefly with the expiration of a deposit facility with Deutsche Bundesbank. Overnight and term deposits, mainly with major banks, declined by a further EUR – 2.4 billion and other loans by EUR – 0.5 billion.

The portfolio of ***loans and advances to customers*** picked up by EUR 2.9 billion to EUR 111.0 billion. The increase in existing tri-party repo transactions caused a EUR 1.6 billion rise in securities repurchase agreements to EUR 7.0 billion. Mortgage backed loans rose by EUR 0.8 billion to EUR 39.9 billion. This was countered by a EUR – 0.6 billion decline in public-sector loans to EUR 14.6 billion.

***Financial assets measured at fair value through other comprehensive income*** saw a EUR – 1.0 billion decrease to EUR 33.8 billion. Partial sales from securities portfolios to improve the risk profile decreased bonds and debentures by EUR – 0.6 billion to EUR 29.6 billion. Furthermore, loans and advances declined by EUR – 0.3 billion to EUR 3.4 billion.

***Financial assets mandatorily measured at fair value through profit or loss*** also declined by EUR – 2.3 billion to EUR 39.9 billion. Interest-related measurement effects caused positive fair values from derivatives to decline by EUR – 3.5 billion to EUR 19.1 billion. Receivables from securities repurchase agreements rose by EUR 1.7 billion to EUR 4.5 billion. By contrast, Schuldschein loans in the trading portfolio fell by EUR – 1.0 billion in the reporting period to EUR 3.8 billion.

### Funding

Under equity and liabilities, the item ***financial liabilities measured at amortized cost*** was affected by the most significant changes in comparison to the previous year, with growth of EUR 34.0 billion to EUR 255.7 billion.

***Deposits from banks*** climbed by EUR 19.9 billion to EUR 98.7 billion. The volume of overnight and term deposits rose by EUR 14.5 billion to EUR 52.4 billion, chiefly in connection with participating in the ECB's tender program. Securities repurchase transactions concluded mainly with clearing houses increased these by EUR 2.7 billion to EUR 3.2 billion.

At EUR 98.0 billion, the item ***deposits from customers*** was up EUR 2.7 billion against the figure for 31 December 2020. Overnight and term deposits and securities repurchase transactions each rose by EUR 1.7 billion to EUR 26.6 billion and EUR 2.6 billion respectively. Federal states increased their deposits with LBBW the most. This was offset by a EUR – 0.8 billion decline in current account liabilities to EUR 56.5 billion, as asset management companies, among others, reduced their investments.

The volume of ***securitized liabilities*** expanded by EUR 12.2 billion in the reporting period to EUR 54.0 billion. Given the favorable interest rates on the US market, the New York branch increasingly turned to short-term commercial papers and certificates of deposits for their funding, resulting in a significant EUR 10.2 billion rise in securitized money market transactions to EUR 23.1 billion.

LBBW successfully launched a sustainable benchmark issue in 2021. In January it issued a social bond in the form of a EUR 750 million senior non-preferred bond, underscoring its pioneering role in the sustainable investment market. LBBW also used the funds from its third social fund to fund healthcare and social projects and vocational training. Other potential financing objects include schools, care homes, homes for the disabled, hospitals, infrastructure projects and public water supply.

***Subordinated capital*** declined by EUR – 0.7 billion year on year to EUR 5.0 billion in the reporting period in connection with the repayment of subordinated bonds.

***Financial liabilities designated at fair value*** moved down by EUR – 1.3 billion to EUR 5.2 billion. Planned maturities outweighed the volume of new business here, which was reflected predominantly in the securitized liabilities item which declined by EUR – 1.1 billion to EUR 2.8 billion.

As in the items under assets, ***financial liabilities mandatorily measured at fair value through profit or loss*** decreased by EUR – 4.8 billion to EUR 24.0 billion. Interest rate effects also had an impact here on the measurement of derivatives, resulting in a EUR – 3.5 billion decline in negative fair values from derivatives and bringing this figure to EUR 15.5 billion. By contrast, delivery obligations from short sales of securities reported a rise of EUR 0.4 billion to EUR 0.7 billion, with securitized liabilities increasing by EUR 0.2 billion to EUR 6.4 billion.

### Equity

LBBW's ***equity*** increased to EUR 14.3 billion as at 30 June 2021, up by EUR 0.3 billion compared to the end of 2020. Other retained earnings rose by EUR 0.1 billion, in part due to the measurement of pension obligations. By contrast, the servicing of additional equity components and distribution to LBBW's owners reduced equity by EUR – 0.1 billion. Net consolidated profit/loss for the first half of 2021 improved equity by EUR 0.3 billion.

### Financial position

The funding strategy at LBBW is proposed by the Asset Liability Committee (ALCo) and determined by management. Here the Group focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. Excess market liquidity increased again following another adjustment of the refinancing options for the ECB's longer-term tender, which is also reflected in LBBW's extensive liquidity. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The Group LCR was met during the entire reporting period at the times of calculation and came to 131.6% as at 30 June 2021.

# Risk report

## Risk management systems

The risk management methods and processes presented in the combined management report as at 31 December 2020 are still applied by the LBBW Group as at 30 June 2021. Material changes are described below.

### Risk types

Detailed notes on the definition of risks and on the risk management system as a whole can be found in the combined management report for 2020. The following risk types are considered material:

- Counterparty default risks
- Market price risks
- Liquidity risks
- Operational risks
- Development risks
- Real estate risks
- Investment risks
- Reputation risks
- Business risks
- Model risks

### Regulatory framework and development of the risk management process

LBBW is assigned to Directorate General within the ECB, which supervises special banks and less significant banks.

At the start of 2021, the ECB announced that its supervisory work would prioritize areas that have been particularly affected by the coronavirus pandemic. These include managing credit risk, capitalization, business model sustainability and governance.

In addition, the focus of supervisory work increasingly shifted to medium and long-term structural risks. These relate primarily to how banks handle climate and environmental risks. They also cover risks in connection with money laundering, cyber and digitalization risks and the progress made in preparing for the final stages of implementing the Basel III Framework.

The EBA/ECB stress test has also formed a key part of supervisory activities in 2021 to date, with the results of this stress test – both qualitative and quantitative – being included in the 2021 SREP.

The future development and nature of the regulatory framework remains fundamentally dependent on the impact of the coronavirus pandemic on the banking sector.

## Risk situation of the LBBW Group

LBBW manages its risks from two mutually complementary perspectives. To ensure adequate capitalization from an economic point of view, a Group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of these with the capital calculated from an economic perspective (aggregate risk cover). In addition to the economic perspective, LBBW's risk appetite and management concept includes the regulatory steering group. This steering group is responsible for ensuring compliance with regulatory capital and risk parameters at all times. To this end, internal targets are set above the minimum regulatory requirements and compliance is ensured by way of an ongoing monitoring process. Details on the regulatory key figures can be found in the report on results of operations, net assets and financial position, the notes and in the section on liquidity risks.

The economic capital commitment has declined by a total of around EUR 0.1 billion since the end of 2020. The marginal decline in the counterparty default and market price risks is a result essentially of portfolio developments. Develop risks are higher than at the end of 2020 due to new projects.

As at the end of the first half of 2021, aggregate risk cover (ARC) had increased by about EUR 0.4 billion compared to the end of 2020. This rise results primarily from the measurement of pension obligations and current net consolidated profit/loss.

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained at every reporting date in the first half of 2021. The permanent viability required in line with regulations was guaranteed. To test this, specific scenarios were simulated detailing the development of the coronavirus pandemic crisis. The bank retained its risk-bearing capacity even in the severe scenario.

The economic capital limit was maintained at all reporting dates at Group level. The utilization of aggregate risk cover was 52% as at 30 June 2021.

### LBBW Group – Risk-bearing capacity

| | 30 June 2021 | | 31 Dec. 2020 | |
|---|---|---|---|---|
| **EUR million** | **Absolute[1]** | **Utilization** | **Absolute[1]** | **Utilization** |
| Aggregate risk cover | 12,162 | 52% | 11,808 | 55% |
| Economic capital limit[2] | 10,000 | 64% | 10,000 | 65% |
| Correlated total economic capital | 6,351 | | 6,447 | |
| of which interrisk correlations | – 666 | | – 663 | |
| of which counterparty default risks | 3,914 | | 3,969 | |
| of which market price risks | 1,910 | | 1,948 | |
| of which investment risks | 38 | | 38 | |
| of which operational risks | 585 | | 588 | |
| of which development risks | 132 | | 122 | |
| of which real estate risks | 130 | | 131 | |
| of which other risks[3] | 307 | | 314 | |

1 Confidence level 99.9%/1 year holding period.
2 The individual risk types are capped by economic capital limits.
3 In particular reputation, business and model risks.

Other potential effects of the coronavirus pandemic on LBBW's economic and regulatory key performance indicators are regularly analyzed and investigated in stress scenarios. However, the rapid growth of the coronavirus pandemic outbreak means that only very limited exact forecasts can be made.

In counterparty default risks, some individual sectors were hit harder by the pandemic in H1 2021 than others. From a Group perspective, however, there has been no deterioration in portfolio quality. Accordingly, lower market volatility had a positive impact on value-at-risk for market risks. This does not affect the economic capital in market price risk as the model already includes a parameterization for crisis volatility.

# Risk types[1]

## Counterparty risk

### Risk situation of the LBBW Group[2]

The description of the risk situation is based on the credit risk management methods and instruments described in the combined management report for 2020.

The primary parameter in the following comments is gross/net exposure. In this context, gross exposure is defined as the fair value or utilization plus outstanding external loan commitments. Net exposure also takes risk-mitigating effects into account. These include netting and collateral agreements, the hedging effect of credit derivatives or the inclusion of classic credit collateral such as real estate liens, financial collateral, guarantees or bonds.

In addition to the following tables, Note 19 (»Counterparty risk«) contains additional detailed overviews broken down by rating classes, sectors and regions in accordance with IFRS 7.

#### Development of exposure

The following table shows the performance of the two exposure variables and the risk-mitigating effects on the respective reporting date.

**Default risk and effect of risk-mitigating measures**

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| **Gross exposure** | **390,128** | **389,452** |
| Netting/collateral | 111,086 | 123,076 |
| Credit derivatives (protection buy) | 5,294 | 5,378 |
| Classic credit collateral | 44,086 | 42,242 |
| *Net exposure* | *229,663* | *218,756* |

Figures may be subject to rounding differences.

Gross exposure amounted to EUR 390 billion as at 30 June 2021, and is therefore around EUR 1 billion higher than as at the end of 2020. Declining fair values for interest rate derivatives resulted in lower collateral for netting and collateral agreements. Net exposure rose by EUR 11 billion or 5% to around EUR 230 billion.

1 Information on correlated total economic capital for the individual risk types can be found in the section on the risk situation of the LBBW Group.
2 Statements on the risk situation are based on the management approach. Differences compared to the accounting valuations are due to the reasons described in the 2020 Risk report.

The information below on portfolio quality, sectors and regions provide an overview of the aspects relevant to LBBW's risk situation on the basis of its net exposure.

## Portfolio quality

### Rating cluster (internal rating class)

| | EUR million | in % | EUR million | in % |
|---|---|---|---|---|
| **Net exposure** | **30 June 2021** | **30 June 2021** | **31 Dec. 2020** | **31 Dec. 2020** |
| 1(AAAA) | 40,594 | 17.7 | 32,469 | 14.8 |
| 1(AAA) – 1(A–) | 105,918 | 46.1 | 101,581 | 46.4 |
| 2 – 5 | 62,583 | 27.2 | 63,149 | 28.9 |
| 6 – 8 | 11,944 | 5.2 | 12,859 | 5.9 |
| 9 – 10 | 3,707 | 1.6 | 3,943 | 1.8 |
| 11 – 15 | 2,039 | 0.9 | 1,927 | 0.9 |
| 16–18 (default)[1] | 1,059 | 0.5 | 981 | 0.4 |
| Other[2] | 1,819 | 0.8 | 1,848 | 0.8 |
| *Total* | *229,663* | *100.0* | *218,756* | *100.0* |

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 »Default« refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default. The net exposure is presented before accounting for allowances for losses on loans and advances.
2 Non-rated transactions, in particular rating waivers.

The investment grade share (ratings 1(AAAA) to 5) increased to 91.0% as at 30 June 2021 (previous year: 90.1%) chiefly as a result of an increase in exposure in rating category 1(AAAA) at central banks. Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 7.7% (previous year: 8.6%). The top rating class 1 (AAAA) mainly includes the German public sector, as well as central banks. The exposure on default accounts for 0.5% of the entire portfolio.

Some individual sectors were hit harder by the pandemic in H1 2021 than others, but there has been no general deterioration in portfolio quality. The economic environment and how this will develop moving forwards remain uncertain. Exposures are increasingly closely monitored.

## Sectors

The presentation of the sectors by net exposure, credit value-at-risk (CVaR) and default portfolio also provides information on the scope of business activities and the risk situation in the respective sector. The sector classification is based on LBBW's internal risk-oriented industry code.

## Sectors

| EUR million | Net exposure 30 June 2021 | CVaR 30 June 2021 | Net exposure on default 30 June 2021 | Net exposure 31 Dec. 2020 | CVaR 31 Dec. 2020 | Net exposure on default 31 Dec. 2020 |
|---|---|---|---|---|---|---|
| **Financials** | **104,388** | **923** | **19** | **94,516** | **924** | **20** |
| **Corporates** | **84,234** | **1,802** | **1,002** | **82,889** | **1,903** | **916** |
| Automotive | 10,426 | 342 | 533 | 10,943 | 445 | 411 |
| Construction | 8,113 | 169 | 59 | 7,754 | 176 | 61 |
| Chemicals and commodities | 6,000 | 159 | 26 | 6,293 | 176 | 50 |
| of which chemicals | 2,807 | 77 | 0 | 2,923 | 98 | 0 |
| of which commodities | 3,194 | 82 | 25 | 3,370 | 78 | 50 |
| Retail and consumer goods | 13,538 | 245 | 128 | 13,582 | 274 | 147 |
| of which consumer goods | 9,691 | 151 | 28 | 9,627 | 170 | 30 |
| of which durables | 3,847 | 93 | 100 | 3,955 | 104 | 117 |
| Industry | 9,590 | 181 | 118 | 9,855 | 187 | 112 |
| Pharmaceuticals and healthcare[1] | 5,150 | 81 | 4 | 4,796 | 85 | 4 |
| TM and electronics/IT[1] | 7,666 | 114 | 22 | 7,140 | 131 | 28 |
| Transport and logistics | 6,542 | 274 | 6 | 6,378 | 210 | 15 |
| Utilities and energy[1] | 9,667 | 146 | 88 | 8,876 | 139 | 68 |
| of which utilities and disposal companies | 5,708 | 69 | 82 | 5,041 | 63 | 32 |
| of which renewable energies | 3,959 | 77 | 6 | 3,835 | 76 | 37 |
| Other | 7,542 | 90 | 18 | 7,273 | 80 | 19 |
| **Real estate** | **13,823** | **397** | **20** | **12,920** | **381** | **24** |
| Commercial real estate (CRE) | 7,792 | 249 | 16 | 8,556 | 259 | 19 |
| Housing | 6,031 | 148 | 4 | 4,364 | 122 | 5 |
| **Public sector** | **20,868** | **112** | **0** | **22,283** | **146** | **0** |
| **Private individuals** | **6,350** | **65** | **19** | **6,147** | **62** | **20** |
| *Total* | *229,663* | *3,298* | *1,059* | *218,756* | *3,417* | *981* |

Figures may be subject to rounding differences.
1 Growth sectors.

Financials represent the largest of the five main sectors with net exposure of EUR 104 billion as at 30 June 2021. The increase of EUR 10 billion as against the end of 2020 is essentially due to the increased exposure to central banks.

In the corporates portfolio, it was primarily the growth sectors pharmaceuticals and healthcare, telecommunication, media (TM) and electronics/IT and utilities and energy, as well as the construction sector, that contributed EUR 1 billion to net exposure, bringing the total to EUR 84 billion in the first half of 2021. LBBW's growth sectors accounted for 27% of the corporates portfolio, up on 25% in the previous year. Automotive is an important sector for the portfolio and is therefore be monitored closely in the interests of managing sector concentrations. The automotive portfolio was further reduced as at 30 June 2021.

The net exposure in real estate increased by around EUR 1 billion year on year to EUR 14 billion.

Public-sector net exposure was down approximately EUR 1 billion as against the end of 2020 at EUR 21 billion. This decrease relates primarily to German non-central public-sector entities.

With a net exposure of EUR 6 billion, the portfolio of private individuals is in line with the previous year and has a particularly high level of granularity.

Most customers have exposures with a net exposure of up to EUR 10 million. Other exposures also include a few with a net exposure of over EUR 500 million. As at 30 June 2021, the portfolio also had two large exposures (individual exposures with a net exposure of over EUR 3 billion). These are exclusively of very good credit quality in the rating class 1(AAAA).

## Regions

### Geographic breakdown

| Net exposure in % | Share 30 June 2021 | Share 31 Dec. 2020 |
|---|---|---|
| Germany | 62.8 | 65.2 |
| Western Europe (excluding Germany) | 19.9 | 21.9 |
| North America | 11.1 | 7.0 |
| Asia/Pacific | 3.9 | 3.6 |
| Other[1] | 2.3 | 2.1 |
| *Total* | *100.0* | *100.0* |

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions

The share of domestic business in the net exposure as at 30 June 2021 was 62.8%. The basic distribution by region was largely constant, although there were regional shifts in North America, chiefly due to the increased exposure to a central bank as at the reporting date. The focus on the core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will ensure a dominant German share in the future as well. Foreign exposure is spread across Western Europe and North America in particular.

# Market price risks

## Risk situation of the LBBW Group

The LBBW Group's market price risk declined sharply in the first half of 2021. The following table shows the composition of the value-at-risk (99%/10 days) by risk type at LBBW Group level:

### VaR 99%/10 days

| EUR million | Average | Maximum | Minimum | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|---|---|---|
| **LBBW Group** | **122** | **171** | **82** | **82** | **150** |
| Interest rate risk | 66 | 101 | 43 | 43 | 98 |
| Credit spread risk | 88 | 124 | 60 | 63 | 98 |
| Equity risks | 17 | 23 | 7 | 15 | 7 |
| Currency risks[1] | 6 | 23 | 3 | 4 | 5 |

1 Including commodity risks.

The decline in overall risk and swap and credit spread risk stems largely from lower volatility in the parameters included in the risk calculation (e.g. credit spreads, interest rates, equities). All in all, capital markets calmed down significantly in the first half of 2021. This was aided by economic recovery, lower cases of COVID-19, higher vaccination rates and an easing of corona restrictions.

Since the start of 2021, as well as risks from pension obligations LBBW has also recognized risks from a newly established pension fund to cover pension obligations. The equities included in the pension fund increased the equity risk.

The following table shows the composition of the value-at-risk (99%/10 days) by risk type at trading book level:

### VaR 99%/10 days

| EUR million | Average | Maximum | Minimum | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|---|---|---|
| **Trading book** | **15** | **24** | **10** | **12** | **16** |
| Interest rate risk | 5 | 8 | 3 | 6 | 5 |
| Credit spread risk | 12 | 18 | 7 | 10 | 13 |
| Equity risks | 6 | 11 | 4 | 4 | 7 |
| Currency risks[1] | 6 | 10 | 3 | 4 | 5 |

1 Including commodity risks.

In the trading book, too, the decrease in risk chiefly reflects lower volatility in the parameters included in the risk calculation.

Regulatory bodies have accepted the use of the risk model for general interest rate and general equity risks to determine the regulatory capital requirements for market price risks of the CRR portfolio. The CRR portfolio represents the trading book excluding funds that cannot be represented transparently. The internal model for capital adequacy does not cover any specific risks. The risks identified are weighted and applied towards capital backing requirements. The risk model is also used to calculated economic capital for the bank as a whole as part of the risk-bearing capacity assessment. For this, the VaR in a significant stress period is scaled to a cross-risk-type parameter set with regard to confidence level and holding period.

LBBW's risk model is subject to a statistical backward comparison (backtesting) as part of the validation program. The backtesting of clean P/L of the internal risk model for the previous 250 trading days did not give rise to any exceptions for the CRR portfolio.

Additional backtesting on the basis of dirty P/L is performed on account of regulatory requirements. On this basis, no exceptions were found in the CRR portfolio as at the end of the reporting period for the past 250 trading days.

# Liquidity risks

## Risk situation of the LBBW Group

The impact of continued excess liquidity is also reflected in LBBW's extensive liquidity. Despite the pandemic, the customer deposit business was stable and capital market placements attracted lively interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and diversification.

Funding requirements and counterbalancing capacity broke down as follows as at 30 June 2021:

### Overview of funding requirements and counterbalancing capacity

| | 3 months | | 12 months | |
|---|---|---|---|---|
| **EUR billion** | **30 June 2021** | **31 Dec. 2020** | **30 June 2021** | **31 Dec. 2020** |
| Funding requirement from the business portfolio (deterministic cash flow)[1] | – 14.3 | – 5.7 | – 23.7 | – 17.3 |
| Funding requirement from material call risks (stochastic cash flow) | 16.0 | 14.4 | 30.5 | 32.3 |
| Funding potential from free liquidity reserves | 9.1 | 12.2 | 10.5 | 16.4 |
| Funding potential on the market | 53.0 | 49.5 | 65.1 | 64.6 |
| *Surplus* | *60.4* | *53.0* | *68.8* | *66.1* |

1 Values are negative at present as liquidity flows from the business portfolio exceed the funding requirements over a period of three or twelve months.

The funding requirement from the business portfolio in the three and twelve-month forecast is negative if liquidity inflows exceed the outflows and thus de facto result in an investment requirement. In the shorter-term, in particular, this picture is marked by net inflows in EUR (investment requirement), which are offset by funding requirements in key foreign currencies at LBBW (USD and GBP). The funding potential is adequate to compensate for any short-term liquidity outflows and continues to ensure significant surplus on a three month (approximately EUR 60 billion) and 12-month (approximately EUR 69 billion) horizon. The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the twelve-month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

The targeted stress resistance was maintained throughout in the first six months of 2021. The liquidity risk stress scenarios rating downgrade, financial market crisis, and a combination of the two, structured in accordance with the guidelines of MaRisk (BTR 3.2), show that the funding potential via the market, plus the free liquidity buffer, exceeded the potential funding requirements under stress scenarios. Sufficient overcollateralization was also available at all times in the foreign currency stress tests and in the EUR stress test for intraday liquidity.

### Results of the economic stress scenarios

| | Funding requirement (3 months) | | Funding potential (3 months) | |
|---|---|---|---|---|
| **EUR billion** | **30 June 2021** | **31 Dec. 2020** | **30 June 2021** | **31 Dec. 2020** |
| Rating downgrade scenario | 15.0 | 21.3 | 29.9 | 33.8 |
| Financial market crisis scenario | 7.2 | 13.3 | 44.9 | 48.3 |
| Combined scenario of market crisis with downgrade | 7.6 | 13.6 | 39.6 | 43.3 |

The required minimum of 100% for the European liquidity coverage ratio (LCR) was complied with. The Group's LCR was 131.6% as at 30 June 2021 (31 December 2020: 135.4%). LBBW has implemented the net stable funding ratio (NSFR) requirements applicable from June 2021 onwards and meets the requirements in a closely monitored process.

# Operational risks

## Risk situation of the LBBW Group

The comments on the risk situation as at the end of 2020, in particular in connection with the legal risks arising from customer transactions involving complex derivatives and developments in consumer protection law in addition to the partial application of principles developed for consumers to commercial clients, continue to apply. Due to the ongoing development of banking case law, the banking landscape will continue to face legal risks. LBBW takes this into account by monitoring the legal situation on an ongoing basis. On the basis of current knowledge, adequate provision has been made to cover any resulting legal risks.

Further legal risks exist as at 30 June 2021 in fiscal law terms concerning capital gains tax. Here, a developed legal position with a retrospective impact on the basis of current legislation or the latest pronouncements by the tax authorities cannot be ruled out.

IT risk management continues to focus on risks arising from cyberspace threats in particular. These risks are addressed with risk-mitigating measures aimed at prevention, detection and response.

Business continuity management measures taken by LBBW in connection with the coronavirus pandemic remained in place in the first half of the year.

# Other material risks

Regarding the other material risks, namely

- Investment risks
- Real estate risks
- Development risks
- Reputation risks
- Business risks
- Model risk

the statements made in the risk report in the LBBW Group's combined management report for 2020 continue to apply. There were no material changes in the first half of 2021.

# Forecast and opportunity report

## Anticipated economic performance

Prospects for economic development in the second half of the year are encouraging, in part thanks to progress made with COVID-19 vaccinations. LBBW expects the economy to pick up again by the end of the year, driven primarily by higher private household demand as many restrictions are lifted. GDP looks set to rise by 3.2% compared to the previous year in 2021 as a whole. Similar reasoning applies for the eurozone, where growth of 4.5% is expected for the year as a whole. LBBW anticipates GDP growth of 6.0% in the US and 7.5% in China.

These forecasts remain subject to considerable uncertainty. They can be affected considerably by how the coronavirus pandemic develops, especially if there are further waves due to new virus variants.

Central banks in the eurozone and in the US are unlikely to make notable changes to their monetary policy throughout the year. With the deposit rate at –0.50% and the main refinancing rate at 0.00%, there seems to be no more room for maneuver for the ECB's key interest rates. The US Federal Reserve is likely to leave its Fed Funds Target Range at 0.00% – 0.25%. Meanwhile, both central banks are expected to continue buying bonds. At present, the ECB is planning to purchase a total of EUR 1,850 billion in eurozone bonds by the end of March 2022, primarily government bonds. It had used about 64% of this by mid-2021.

Alongside the COVID-19 pandemic, inflation looks set to be another price-relevant issue on financial markets. Price rises in Germany are expected to continue to accelerate in connection with the value-added tax effect. Inflation in Germany based on the latest available figures came to 3.8% in July, compared to 2.2% for the eurozone. The ECB has so far reiterated that this rise is merely temporary. With US inflation also higher than it has been in a long time at 5.4% in June, markets are likely to keep a close eye on inflation.

Regardless of all the risks, we expect to see a moderate rise in yields to – 0.15% for 10-year Bunds in the second half of the year. The EUR/US exchange rate is likely to be USD 1.18 to the euro at the end of 2021, only slightly lower than it is at present. We expect the DAX to come to 16,000 points, somewhat higher than at the mid-year point. Real estate market performance is likely to continue to vary between segments. A tough market environment is expected for office and retail properties, whereas logistics properties could benefit from the boom in online trade. Residential real estate should be stable. Similar developments are likely in the US and the UK.

## Industry and competitive situation

General conditions for the banking sector in Europe continued to be shaped by the coronavirus pandemic in the first six months of 2021. Nevertheless, prospects have improved recently – including for customers – as the economic recovery begins to kick in. This is reflected, for example, in improved rating outlooks by many European banking systems: After being revised downwards on numerous occasions last spring, rating agencies have mostly returned their outlooks to »stable«.

LBBW expects banks' profitability to recover from the steep declines last year. This is because – although eurozone interest rates are expected to remain low – allowances for losses on loans and securities for anticipated credit losses look set to decline. Nonetheless, the negative effects of the pandemic on asset quality will come to light only gradually, with rating agencies in many cases expecting a rise in non-performing loans for Europe's banking systems.

Given its size and low level of concentration, the German banking market is relatively competitive. Accordingly, data from the European Banking Authority (EBA) show that it is less profitable than average by European standards. In addition, the trend towards increasing digitalization is continuing unabated and LBBW expects both regulators and the ECB to increasingly turn their attention to this area. This is also the case for the growing importance of climate and environmental aspects, with the ECB's supervisory authorities, for example, announcing the introduction of a climate stress test in the future. Both issues require banks to make investments. Improving profitability in the long term, in part by further cutting costs, and making changes to business models still represent major challenges for Germany's banking sector.

# Company forecast

## General conditions

The assumption made at the end of 2020 regarding a slow economic recovery setting in in 2021, with risk costs declining but nonetheless exceeding pre-crisis levels, still applies. Low or negative interest rates, which present a challenge to banks' profitability, are also expected to continue.

## Outlook for LBBW

The statements made by LBBW in the company forecast in the 2020 annual report regarding its projections for the 2021 financial year were based on the planning prepared at the end of 2020, which took account of the general conditions including the coronavirus pandemic on the basis of knowledge at this time. The statements made were reviewed in mid-2021. LBBW's current estimates regarding the development of the ***most important financial performance indicators*** and other indicators for the LBBW Group are set out below.

LBBW performed very well in the first half of 2021, increasing consolidated profit/loss before tax considerably. The rest of the year remains shaped by uncertainties that could affect LBBW's income and risk profile.

Based on current estimates, LBBW expects consolidated profit/loss before tax in accordance with IFRS in the hundreds of millions at the end of 2021, a moderate increase on the forecast figure and well in excess of the low figure seen in the previous year due to the crisis. Income during the rest of the year should remain at the expected level, which the bank considers good, while risk costs are likely to remain far below planning. A marked increase in ***return on equity (RoE)*** was already anticipated for the 2021 financial year and this should be exceeded slightly in line with earnings expectations that are moderately higher than planning. Although expenses are marginally higher than planned, the ***cost/income ratio (CIR)*** at the end of 2021 is unlikely to be missed notably.

As already described in the 2020 annual report, LBBW expects ***the common equity Tier 1 (CET 1) capital ratio (fully loaded)*** to decline slightly against the previous year due to operating growth and expected rating effects, where this the common equity Tier 1 (CET 1) capital ratio at the end of 2021 is likely to be slightly higher than planned. This means that the bank is abled to maintain its comfortable capitalization, which should, as expected, be well in excess of the CRR/CRD IV minimum requirements and the SREP[1] requirement of 8.73% at the end of 2021. Even taking into account further current requirements[2], LBBW's common equity Tier 1 (CET 1) capital ratio should be significantly above ECB requirements.

1 Supervisory Review and Evaluation Process.
2 Details can be found in the report on the results of operations, net assets and financial position.

Compared with original planning, LBBW expects to see the following developments for its operating segments in the 2021 financial year:

In the ***Corporate Customers segment***, LBBW expects income from customer business to be moderately higher than the previous year figure and on par with planning at the end of 2021. Corporate finance business and export financing with major customers are a key driver of income here. Segment earnings should also benefit from risk costs remaining somewhat below the planned figure and be moderately above expectations at the end of 2021. In line with the anticipated changes in earnings, ***return on equity (RoE)*** should also be slightly higher than planned. Thanks to the good income situation from the bank's perspective and expenses remaining marginally lower than planned, the ***cost/income ratio (CIR)*** at the end of 2021 is also likely to be marginally better than expected.

Income in the ***Real Estate/Project Finance segment*** for 2021 as a whole may be somewhat higher than planned and thus moderately higher than in the previous year, driven in part by the greater-than-expected expansion of the real estate portfolio at the beginning of the year. With risk costs expected to remain perceptibly lower than expected, segment earnings and ***return on equity (RoE)*** at the end of the year will likely be moderately better than planned. Thanks to the expected income performance, the ***cost/income ratio (CIR)*** should perform slightly better than planned.

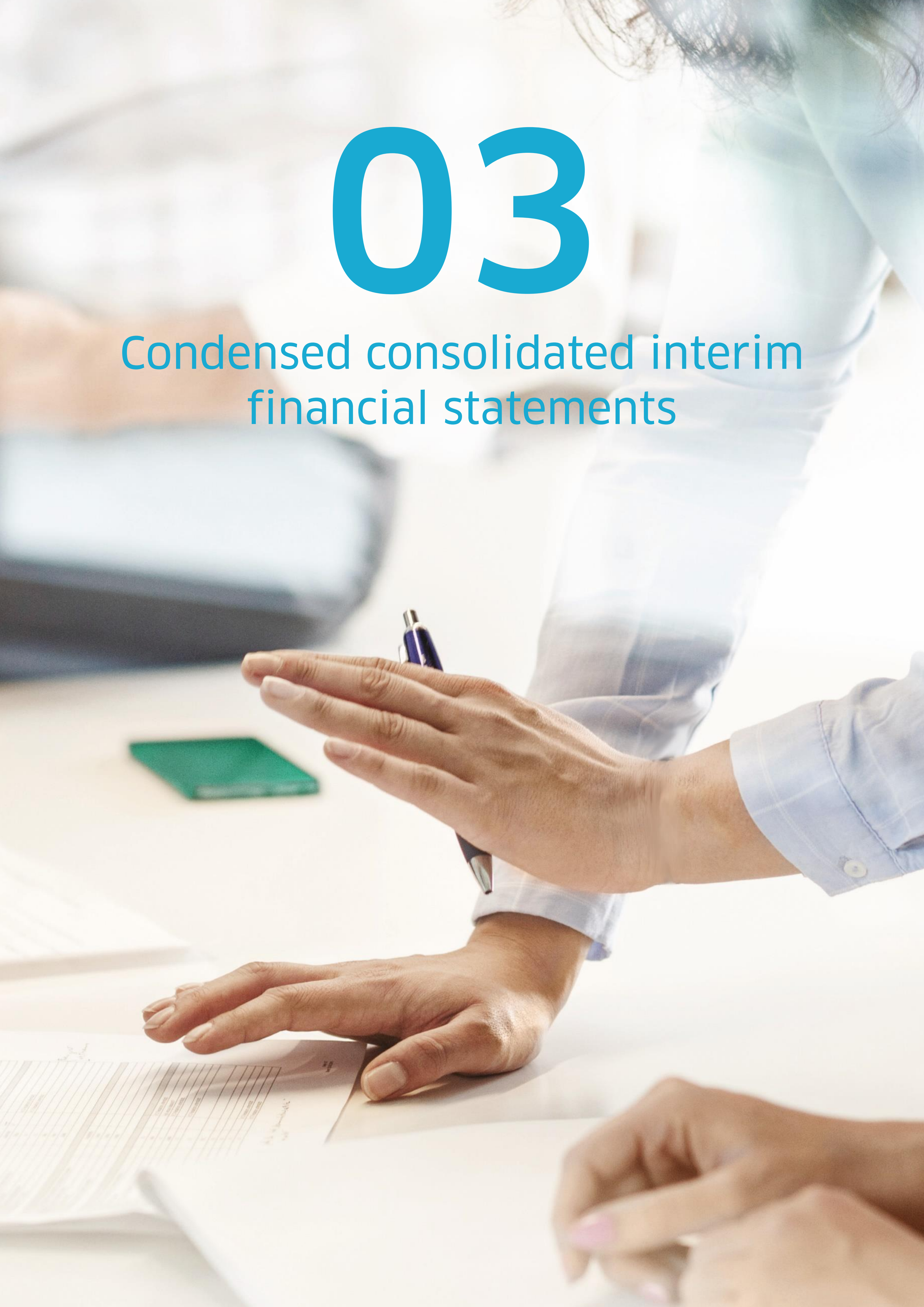
In the ***Capital Markets Business segment,*** LBBW is likely to achieve its targets for the 2021 financial year regarding segment earnings, ***return on equity (RoE)*** and the ***cost/income ratio (CIR)***. The good income situation, especially in the first half of the year, and systematic cost management and efficient use of resources, should make a decisive contribution to this performance in 2021.

Ongoing low interest rates and reticence on the part of customers in brokerage business on account of the coronavirus crisis will likely strain income in the ***Private Customers/Savings Banks segment*** more than previously assumed in the 2021 financial year. In addition, the provisions recognized in the first half of 2021 due to the German Federal Court of Justice's ruling on customer consent for price changes handed down in April 2021 represent an unplanned negative impact on income. Positive developments in the securities business from the bank's perspective are unable to offset the unexpected declines in income, and so segment earnings and, in turn, ***return on equity (RoE)*** are expected to be considerably lower than planned at the end of the year. Although expenses are expected to remain marginally lower than planned, the ***cost/income ratio (CIR)*** at the end of 2021 will therefore also likely be somewhat higher than anticipated.

The opportunities and risks for business performance in 2021 described by LBBW in the company forecast in the 2020 annual report are still valid. In light of current developments, it is worth restating the risks presented by the coronavirus pandemic due to virus variants and, in addition, the risks resulting from recent supply bottlenecks of important industrial raw materials, which could indirectly hurt LBBW's income and risk profile. The German Federal Court of Justice's ruling in April 2021 on customer consent for price changes, the consequences of which cannot yet be assessed in full, presents an additional risk to LBBW's income. As regards risks, institutional guarantees remain an important topic that could have a detrimental effect on LBBW's results of operations, net assets and financial position as a result of regulatory expectations currently being coordinated on future funding.

# 03

# Condensed consolidated interim financial statements



# Condensed consolidated interim financial statements

# Income statement

## for the period 1 January to 30 June 2021

| EUR million | Notes | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020[1] |
|---|---|---|---|
| Net interest income[2] | 7 | 1,026 | 872 |
| Interest income and current income from equity instruments | | 6,135 | 6,350 |
| of which negative interest income | | – 178 | – 96 |
| Interest expenses and current expenses from equity instruments | | – 5,109 | – 5,477 |
| of which positive interest expenses | | 315 | 116 |
| Net fee and commission income | 8 | 294 | 274 |
| Fee and commission income | | 365 | 344 |
| Fee and commission expenses | | – 71 | – 70 |
| Net gains/losses on remeasurement and disposal | 9 | 51 | – 182 |
| of which allowances for losses on loans and securities | | – 63 | – 281 |
| Other operating income/expenses | 10 | 62 | 90 |
| Administrative expenses | 11 | – 868 | – 837 |
| Expenses for bank levy and deposit guarantee system | 12 | – 137 | – 118 |
| Net income/expenses from restructuring | 13 | 0 | 1 |
| *Consolidated profit/loss before tax* | | *428* | *100* |
| Income taxes | 14 | – 145 | – 50 |
| *Net consolidated profit/loss* | | *283* | *50* |
| of which attributable to shareholders after tax | | 283 | 51 |

1 Restatement of prior year amounts (see Note 3).
2 Information on the overview of interest income and interest expenses for the categories »Financial assets measured at amortized cost« and »Financial instruments measured at fair value through other comprehensive income« can be found in Note 7.

# Statement of comprehensive income

## for the period 1 January to 30 June 2021

| EUR million | Notes | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020[1] |
|---|---|---|---|
| *Net consolidated profit/loss* | | *283* | *50* |
| **Items that will not be transferred subsequently to the income statement** | | | |
| Retained earnings | 38 | 148 | 138 |
| Actuarial gains/losses before tax | | 212 | – 17 |
| Realized gains/losses from the sale of equity instruments | | 0 | 152 |
| Income taxes | 14 | – 64 | 3 |
| Measurement gains/losses from own credit rating | 38 | – 35 | 97 |
| Measurement gains/losses from own credit rating before tax | | – 49 | 140 |
| Income taxes | 14 | 15 | – 43 |
| Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income) | 38 | 7 | – 228 |
| Measurement gains/losses before tax | | 8 | – 87 |
| Transfer to realized gains/losses from the sale of equity instruments | | 0 | – 152 |
| Income taxes | | – 2 | 11 |
| **Items that will be transferred subsequently to the income statement when specific conditions are met** | | | |
| Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income) | 38 | 25 | – 61 |
| Measurement gains/losses before tax | | 31 | – 104 |
| Change in allowances for losses on loans and securities | | – 0 | 1 |
| Transferred to income statement | | 8 | 10 |
| Income taxes | 14 | – 15 | 32 |
| Currency translation differences | 38 | 5 | – 7 |
| Changes before tax | | 5 | – 7 |
| *Net consolidated profit/loss in equity* | | *149* | *– 61* |
| *Net consolidated total comprehensive income* | | *433* | *– 10* |
| of which attributable to shareholders after tax | | 432 | – 10 |

1 Restatement of prior year amounts (see Note 3).

# Balance sheet

## as at 30 June 2021

### Assets

| EUR million | Notes | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|---|
| Cash and cash equivalents | 16 | 60,467 | 13,650 |
| Financial assets measured at amortized cost | 17 | 161,110 | 177,502 |
| Loans and advances to banks | | 49,159 | 68,465 |
| Loans and advances to customers | | 110,987 | 108,116 |
| Debentures and other fixed-income securities | | 964 | 921 |
| Financial assets measured at fair value through other comprehensive income | 18 | 33,843 | 34,810 |
| Financial assets designated at fair value | 21 | 1,102 | 1,132 |
| Financial assets mandatorily measured at fair value through profit or loss | 22 | 39,855 | 42,185 |
| Shares in investments accounted for using the equity method | 6 | 254 | 261 |
| Portfolio hedge adjustment attributable to assets | | 812 | 1,039 |
| Non-current assets and disposal groups held for sale | 29 | 0 | 2 |
| Intangible assets | 30 | 162 | 178 |
| Investment property | 31 | 805 | 796 |
| Property and equipment | 32 | 765 | 790 |
| Current income tax assets | 33 | 42 | 118 |
| Deferred income tax assets | 33 | 1,021 | 1,107 |
| Other assets | 35 | 3,900 | 2,878 |
| *Total assets* | | *304,140* | *276,449* |

## Equity and liabilities

| EUR million | Notes | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|---|
| Financial liabilities measured at amortized cost | 23 | 255,669 | 221,627 |
| Deposits from banks | | 98,680 | 78,765 |
| Deposits from customers | | 97,970 | 95,288 |
| Securitized liabilities | | 53,997 | 41,834 |
| Subordinated capital | | 5,021 | 5,740 |
| Financial liabilities designated at fair value | 24 | 5,193 | 6,509 |
| Financial liabilities mandatorily measured at fair value through profit or loss | 25 | 24,027 | 28,815 |
| Portfolio hedge adjustment attributable to liabilities | | 337 | 693 |
| Provisions | 34 | 2,214 | 2,523 |
| Current income tax liabilities | 33 | 40 | 49 |
| Deferred income tax liabilities | 33 | 30 | 24 |
| Other liabilities | 35 | 2,323 | 2,217 |
| *Equity* | *38* | *14,306* | *13,992* |
| Share capital | | 3,484 | 3,484 |
| Capital reserve | | 8,240 | 8,240 |
| Retained earnings | | 1,443 | 1,243 |
| Other comprehensive income | | 76 | 74 |
| Net consolidated profit/loss | | 283 | 172 |
| *Shareholders' equity* | | *13,526* | *13,214* |
| Additional equity components | | 745 | 745 |
| Equity attributable to non-controlling interests | | 35 | 33 |
| *Total equity and liabilities* | | *304,140* | *276,449* |

# Statement of changes in equity

## for the period 1 January to 30 June 2021

| EUR million | Share capital | Capital reserve | Retained earnings[1,2] | Valuation reserve for equity instruments | Valuation reserve for debt instruments | Measurement gains/losses from investments accounted for using the equity method |
|---|---|---|---|---|---|---|
| *Equity as at 31 December 2019* | *3,484* | *8,240* | *824* | *185* | *-67* | *0* |
| Restatement of prior year amounts | 0 | 0 | -80 | 0 | 0 | 0 |
| *Equity as at 1 January 2020* | *3,484* | *8,240* | *744* | *185* | *-67* | *0* |
| Allocation to retained earnings | 0 | 0 | 442 | 0 | 0 | 0 |
| Net consolidated profit/loss in equity | 0 | 0 | 138 | -228 | -61 | 0 |
| Net consolidated profit/loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Net consolidated total comprehensive income | 0 | 0 | 138 | -228 | -61 | 0 |
| Servicing of additional equity components | 0 | 0 | -13 | 0 | 0 | 0 |
| Other changes in equity | 0 | 0 | -1 | 0 | 0 | 0 |
| *Equity as at 30 June 2020* | *3,484* | *8,240* | *1,310* | *-43* | *-128* | *0* |
| Net consolidated profit/loss in equity | 0 | 0 | -68 | 5 | 189 | 0 |
| Net consolidated profit/loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Net consolidated total comprehensive income | 0 | 0 | -68 | 5 | 189 | 0 |
| Other changes in equity | 0 | 0 | 1 | 0 | 0 | -1 |
| *Equity as at 31 December 2020* | *3,484* | *8,240* | *1,243* | *-38* | *61* | *-1* |
| *Equity as at 1 January 2021* | *3,484* | *8,240* | *1,243* | *-38* | *61* | *-1* |
| Transfer to retained earnings | 0 | 0 | 172 | 0 | 0 | 0 |
| Distribution to shareholders | 0 | 0 | -89 | 0 | 0 | 0 |
| Net consolidated profit/loss in equity | 0 | 0 | 148 | 7 | 25 | 0 |
| Net consolidated profit/loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Net consolidated total comprehensive income | 0 | 0 | 148 | 7 | 25 | 0 |
| Servicing of additional equity components | 0 | 0 | -30 | 0 | 0 | 0 |
| Other changes in equity | 0 | 0 | -1 | 0 | 0 | 0 |
| *Equity as at 30 June 2021* | *3,484* | *8,240* | *1,443* | *-32* | *87* | *-2* |

1 Restatement of prior year amounts (see Note 3).
2 Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«.

| Measurement gains/losses from own credit rating | Currency translation reserve | Net consolidated profit/loss[1] | Shareholders' equity[1] | Additional equity components | Equity attributable to non-controlling interests | Total[1] |
|---|---|---|---|---|---|---|
| *4* | *30* | *445* | *13,146* | *745* | *32* | *13,923* |
| 0 | 0 | -3 | -83 | 0 | 0 | -83 |
| *4* | *30* | *442* | *13,063* | *745* | *32* | *13,840* |
| 0 | 0 | -442 | 0 | 0 | 0 | 0 |
| 97 | -7 | 0 | -61 | 0 | 0 | -61 |
| 0 | 0 | 51 | 51 | 0 | 0 | 50 |
| 97 | -7 | 51 | -10 | 0 | 0 | -10 |
| 0 | 0 | 0 | -13 | 0 | 0 | -13 |
| 0 | 0 | 0 | -1 | 0 | 0 | -1 |
| *101* | *24* | *51* | *13,038* | *745* | *32* | *13,815* |
| -63 | -9 | 0 | 54 | 0 | 0 | 54 |
| 0 | 0 | 122 | 122 | 0 | 0 | 122 |
| -63 | -9 | 122 | 175 | 0 | 0 | 176 |
| 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| *38* | *15* | *172* | *13,214* | *745* | *33* | *13,992* |
| *38* | *15* | *172* | *13,214* | *745* | *33* | *13,992* |
| 0 | 0 | -172 | 0 | 0 | 0 | 0 |
| 0 | 0 | 0 | -89 | 0 | 0 | -89 |
| -35 | 5 | 0 | 149 | 0 | 0 | 149 |
| 0 | 0 | 283 | 283 | 0 | 0 | 283 |
| -35 | 5 | 283 | 432 | 0 | 0 | 433 |
| 0 | 0 | 0 | -30 | 0 | 0 | -30 |
| 0 | 0 | 0 | -1 | 0 | 1 | 0 |
| *3* | *19* | *283* | *13,526* | *745* | *35* | *14,306* |

# Condensed cash flow statement

## for the period 1 January to 30 June 2021

| EUR million | Notes | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020[1] |
|---|---|---|---|
| *Cash and cash equivalents at the beginning of the period* | *16* | *13,650* | *18,331* |
| Cash flow from operating activities | | 47,906 | 14,757 |
| Cash flow from investing activities | | -73 | 279 |
| Cash flow from financing activities | | -781 | -366 |
| Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement | | -235 | 8 |
| *Cash and cash equivalents at the end of the period* | *16* | *60,467* | *33,009* |

1 Restatement of prior year amounts (see Note 3).

The increase in cash and cash equivalents at the end of the period essentially stems from the maturity of the deposit facility from loans and advances to banks.

In addition to the cash change in equity (dividend payment, issuing and servicing additional equity components), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. During the period under review, the volume of subordinated capital held decreased by EUR – 719 million from the previous year. In addition to a cash reduction of EUR – 682 million, the change resulted from measurement effects of EUR – 35 million and an effect from present value accounting of EUR – 29 million. In addition, changes in exchange rates of EUR 26 million and other changes of EUR 1 million changed the amount of subordinated capital.

# Selected notes to the consolidated interim financial statements

**for the first half of the 2021 financial year**

## A. Material changes

### 1. Basis of Group accounting

Landesbank Baden-Württemberg (LBBW (Bank)), as the parent company of the Group (LBBW), is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with four registered offices in Germany: in Stuttgart (Am Hauptbahnhof 2, 70173 Stuttgart), Karlsruhe (Ludwig-Erhard-Allee 4, 76131 Karlsruhe), Mannheim (Augustaanlage 33, 68165 Mannheim) and Mainz (Rheinallee 86, 55120 Mainz). The commercial register numbers at the responsible district court are as follows: district court of Stuttgart HRA 12704, district court of Mannheim HRA 104440 (for Karlsruhe) and HRA 4356 (for Mannheim) and district court of Mainz HRA 40687.

The LBBW Group operates locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and selectively takes advantage of growth opportunities in selected economic areas such as North-Rhine Westphalia, Bavaria and the greater Hamburg area.

LBBW offers the full range of products and services throughout Germany that a medium-sized universal bank provides. In the state capital Stuttgart, BW-Bank fulfills the role of a savings bank as LBBW's customer bank. LBBW also assists its corporate customers and those of the savings banks in their international operations. Subsidiaries specializing in specific areas of business such as leases, factoring, asset management, real estate or equity finance diversify and supplement LBBW's portfolio of services within the Group.

The consolidated interim financial statements of LBBW as at 30 June 2021 were prepared in accordance with Section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with Section 117 no. 2 WpHG pursuant to the International Financial Reporting Standards (IFRS) as adopted in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and effective for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

### 2. Accounting principles

The reporting period for the consolidated interim financial statements covers the period from 1 January to 30 June 2021. The consolidated interim financial statements as at 30 June 2021 do not contain all the information and disclosures required of the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2020. Unless explicitly stated, the interim financial statements apply the same accounting policies as the 2020 consolidated financial statements.

The consolidated interim financial statements are based on the going concern principle.

In accordance with IFRS 10.19 and IAS 28.35, financial statements at LBBW are prepared using uniform accounting policies across the Group. These were applied consistently to the reporting periods shown, unless stated otherwise. The financial statements of the fully consolidated companies or investments accounted for using the equity method are prepared as at the balance sheet date of the consolidated interim financial statements of LBBW.

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated interim financial statements are generally rounded to EUR millions in accordance with commercial principles. This may result in minor aggregation differences, though these do not have any adverse effect on the quality of reporting. The reporting year is the calendar year.

### 3. Changes and estimates

The section below provides an explanation of IFRS relevant to LBBW that are to be applied for the first time in the financial year or that are to be applied in the future.

### IFRS applied for the first time

The following IFRS were applied for the first time in the 2021 financial year.

- Extension of the Temporary Exception from Applying IFRS 9 – Amendments to IFRS 4 Insurance Contracts
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
  This amendment contains changes that are relevant to LBBW and is described below.

### Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

These standard amendments relate to accounting for items resulting from the IBOR reform. In particular, it sets out how to account for changes in calculating contractual cash flows as a result of the IBOR reform (e.g. switching reference interest rates, activating fallback clauses etc.). Under certain conditions, the standard also allows hedge relationships to be continued after the transition to the new reference interest rates. At LBBW, these amendments affect the accounting of a number of products in lending and capital markets business, as well as hedge accounting. These changes are effective for the first time in the 2021 financial year. The European Commission endorsed these amendments as at 13 January 2021.

## IFRS to be applied in the future

The following IFRS are not yet effective, no or only immaterial effects are expected and LBBW does not intend to apply them early on a voluntary basis:

| Title of IFRS | First-time adoption expected in | Endorsement (yes/no) | IFRS subject matter |
|---|---|---|---|
| Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16 | H2 2021 | No | This amendment provides relief to lessees when accounting for rent concessions during COVID- - 19. |
| Reference to the Conceptual Framework – Amendments to IFRS 3 | 2022 financial year | Yes | These amendments relate to a reference to the IFRS conceptual framework. |
| Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 | 2022 financial year | Yes | Under this amendment, proceeds generated when the property and equipment is not yet ready for use are recognized directly in profit or loss. |
| Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37 | 2022 financial year | Yes | This amendment specifies the costs to be included when assessing whether a contract is onerous. |
| Annual Improvements to IFRS 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41 | 2022 financial year | Yes | These amendments establish minor changes to the standards. |
| Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies | 2023 financial year | No | The amendments to IAS 1 and IFRS Practice Statement 2 provide more detail on the disclosure requirements for accounting policies. |
| Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates | 2023 financial year | No | The amendments to IAS 8 are intended to provide a better distinction between changes in estimates and changes in methods. |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 | 2023 financial year | No | These amendments provide clarification where there is doubt surrounding applying IAS 12 to exemptions on the recognition of deferred taxes. |
| Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 | 2023 financial year | No | This amendment updates the Standard IAS 1 by clarifying in which cases an existing right to defer settlement of liabilities results in this being classified as »non-current« (more than 12 months). |
| IFRS 17 »Insurance Contracts« and Amendments to IFRS 17 | 2023 financial year | No | This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4. |

## Adjustments

LBBW Bank's pension obligations were transferred to a pension fund in the 2020 financial year, as part of which the measurement assumptions were subjected to an in-depth analysis. The assumptions regarding annuity utilization, which were corrected retrospectively as at 31 December 2020, and the excessive measurement of the claim to a surviving dependents pension led to a retrospective EUR - 84.8 million decline in equity as at 30 June 2020. Pension obligations rose by EUR 121.9 million, with deferred income tax assets increasing by EUR 37.1 million. Staff costs also increased by EUR - 2.7 million in the first half of the 2020 financial year and deferred tax expenses improved by EUR 0.8 million.

Where significant estimates and changes in estimates and/or complex judgments were required, the assumptions made are explained in detail in the Notes to the corresponding items.

The Notes were revised in the 2020 financial year, which also had an effect on the 2021 half-yearly financial report. Related topics were merged and reordered to make the information more transparent and easier to understand. With the aim of placing greater emphasis on the information relevant to decision-making, the disclosure of data with no additional information content was also dispensed with.

### 4. Events after the end of the reporting period

LBBW published a press release together with Landesbank Hessen-Thüringen (Helaba) explaining that the two banks are seeking to bundle expertise in a variety of areas regarding business with savings banks. A corresponding Memorandum of Understanding (MoU) was signed.

Both parties agreed not to disclose any details. The agreement is subject to approval by competition authorities. Details regarding the nature of this pooling of expertise will be addressed in further discussions.

# B. Group of companies

## 5. Basis of consolidation

In addition to LBBW (Bank) as the parent company, 92 subsidiaries (31 December 2020: 90 subsidiaries) including five structured entities were included in the consolidated interim financial statements.

The following subsidiaries were consolidated for the first time in 2021:

- KI Campus 1 GmbH & Co. KG
- KI Campus 2 GmbH & Co. KG

Five joint ventures and five associates (unchanged from the previous year) were accounted for using the equity method in the consolidated financial statements.

A total of 48 subsidiaries (unchanged on 31 December 2020: 48 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These are predominantly property and shelf companies.

## 6. Shares in investments accounted for using the equity method

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Associates | 251 | 259 |
| Joint ventures | 2 | 3 |
| *Total* | *254* | *261* |

Investments in associates, joint ventures and subsidiaries that are not incorporated in the consolidated financial statements on account of their immaterial importance, are recognized under »Financial assets mandatorily measured at fair value through profit or loss«.

# C. Segment reporting

LBBW's segment reporting for the first half of 2021 has been prepared in accordance with the provisions of IFRS 8. Following the »management approach«, segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions about the allocation of resources and the assessment of the performance of the segments on this basis.

## Segment definition

The segments presented below are based on the organizational structures, taking into account customer and product responsibilities. Subsidiaries and equity investments are assigned to the individual segments according to their business orientation.

There have been no changes to LBBW's segmentation in comparison to 2020. The description of the individual segments can be found in the 2020 Annual Report.

## Measurement methods

Segment information is based on LBBW's internal control data, which combine external financial reporting methods and economic measurement methods. The resulting differences in measurement and reporting compared to the IFRS Group figures are presented in the reconciliation statement.

LBBW's income and expenses are allocated to the individual segments in which they arise. There is therefore no significant income resulting from transactions between the segments.

Net interest income is calculated at segment level using the market interest method. Interest income and expense are netted and shown as net interest income. This also includes capital benefit, i.e. investment income from restricted equity.

Besides direct personnel and material expenses, the administrative expenses of a segment include expenses assigned on the basis of intragroup cost allocation.

The assets on the balance sheet are reported as segment assets. They are allocated to the segments on the basis of internal management reporting.

The average restricted capital in the segments is calculated on the basis of calculated risk-weighted assets and an imputed Tier 1 capital backing ratio. Unlike for the Group, a segment's return on equity (RoE) is calculated as the ratio of (annualized) consolidated profit/loss before tax to the maximum planned and average restricted equity in the reporting period.[1]

1 For definitions of Group return on equity and the cost/income ratio, see the report on the results of operations, net assets and financial position.

The segment reporting also takes account the retroactive adjustments to the income statement (regarding IAS 8 – see Note 3).

## Segment results

| 1 Jan. – 30 June 2021<br>EUR million | Corporate Customers | Real Estate/ Project Finance | Capital Markets Business | Private Customers/ Savings Banks | Corporate Items/ Reconciliation/ Consolidation | LBBW Group |
|---|---|---|---|---|---|---|
| Net interest income | 491 | 201 | 234 | 132 | – 33 | 1,026 |
| Net fee and commission income | 84 | 7 | 65 | 126 | 12 | 294 |
| Net gains/losses on remeasurement and disposal | – 81 | – 16 | 115 | 1 | 32 | 51 |
| of which allowances for losses on loans and securities | – 85 | – 17 | 0 | 0 | 38 | – 63 |
| Other operating income/expenses | 13 | 38 | 4 | – 13 | 19 | 62 |
| *Total operating income/expenses* | *507* | *230* | *418* | *246* | *32* | *1,433* |
| Administrative expenses | – 285 | – 84 | – 213 | – 244 | – 41 | – 868 |
| Expenses for bank levy and deposit guarantee system | – 20 | – 10 | – 32 | 0 | – 75 | – 137 |
| *Consolidated profit/loss before tax* | *202* | *136* | *172* | *2* | *– 84* | *428* |
| Income taxes | | | | | | – 145 |
| *Net consolidated profit/loss* | | | | | | *283* |
| Assets (EUR billion) | 59.9 | 31.2 | 168.1 | 39.5 | 5.4 | 304.1 |
| Risk-weighted assets[1] (EUR billion) | 37.2 | 13.7 | 18.5 | 8.2 | 5.0 | 82.5 |
| Tied-up equity[1] (EUR billion) | 5.0 | 1.8 | 2.3 | 1.1 | 3.6 | 13.7 |
| Return on equity (RoE) (in %) | 7.3 | 13.7 | 14.5 | 0.4 | | 6.3 |
| Cost/income ratio (CIR) (in %) | 51.6 | 37.9 | 58.8 | 99.1 | | 67.2 |

1 In accordance with CRR/CRD IV.

| 1 Jan. – 30 June 2020<br>EUR million | Corporate Customers | Real Estate/ Project Finance | Capital Markets Business | Private Customers/ Savings Banks | Corporate Items/ Reconciliation/ Consolidation[2] | LBBW Group[2] |
|---|---|---|---|---|---|---|
| Net interest income | 414 | 152 | 176 | 146 | – 16 | 872 |
| Net fee and commission income | 112 | 10 | 48 | 124 | – 20 | 274 |
| Net gains/losses on remeasurement and disposal | – 253 | – 9 | 145 | – 1 | – 63 | – 182 |
| of which allowances for losses on loans and securities | – 234 | – 4 | 0 | 1 | – 44 | – 281 |
| Other operating income/expenses | 0 | 45 | 1 | – 4 | 48 | 90 |
| *Total operating income/expenses* | *273* | *198* | *370* | *265* | *– 51* | *1,055* |
| Administrative expenses | – 294 | – 82 | – 218 | – 246 | 3 | – 837 |
| Expenses for bank levy and deposit guarantee system | – 16 | – 9 | – 27 | 0 | – 66 | – 118 |
| Net income/expenses from restructuring | 0 | 0 | 0 | 0 | 1 | 1 |
| *Consolidated profit/loss before tax* | *– 37* | *107* | *125* | *19* | *– 113* | *100* |
| Income taxes | | | | | | – 50 |
| *Net consolidated profit/loss* | | | | | | *50* |
| Assets (EUR billion) | 64.4 | 31.3 | 152.4 | 36.1 | 5.6 | 289.7 |
| Risk-weighted assets[1] (EUR billion) | 39.1 | 13.9 | 17.6 | 8.1 | 5.0 | 83.8 |
| Tied-up equity[1] (EUR billion) | 4.9 | 1.7 | 2.4 | 1.1 | 3.4 | 13.5 |
| Return on equity (RoE) (in %) | <0 | 11.1 | 10.4 | 3.5 | | 1.5 |
| Cost/income ratio (CIR) (in %) | 61.2 | 45.0 | 66.2 | 93.4 | | 71.5 |

1 In accordance with CRR/CRD IV.
2 Restatement of prior year amounts (see Note 3).

## Corporate Items, Reconciliation and Consolidation

| EUR million | Corporate Items | | Reconciliation/Consolidation | | Corporate Items/ Reconciliation/Consolidation | |
|---|---|---|---|---|---|---|
| | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020[2] | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020[2] |
| Net interest income | – 2 | – 6 | – 31 | – 9 | – 33 | – 16 |
| Net fee and commission income | 2 | – 6 | 11 | – 14 | 12 | – 20 |
| Net gains/losses on remeasurement and disposal | 39 | – 51 | – 7 | – 13 | 32 | – 63 |
| of which allowances for losses on loans and securities | 38 | – 44 | 0 | 0 | 38 | – 44 |
| Other operating income/expenses | 20 | 48 | 0 | 0 | 19 | 48 |
| *Total operating income/expenses* | *59* | *– 15* | *– 27* | *– 36* | *32* | *– 51* |
| Administrative expenses | – 41 | 3 | 0 | 0 | – 41 | 3 |
| Expenses for bank levy and deposit guarantee system | – 75 | – 66 | 0 | 0 | – 75 | – 66 |
| Net income/expenses from restructuring | 0 | 1 | 0 | 0 | 0 | 1 |
| *Consolidated profit/loss before tax* | *– 57* | *– 77* | *– 27* | *– 36* | *– 84* | *– 113* |
| Assets (EUR billion) | 4.4 | 6.1 | 1.0 | – 0.5 | 5.4 | 5.6 |
| Risk weighted assets[1] (EUR billion) | 5.4 | 5.3 | – 0.4 | – 0.3 | 5.0 | 5.0 |
| Tied-up equity[1] (EUR billion) | 3.6 | 3.4 | – 0.1 | – 0.0 | 3.6 | 3.4 |

1 In accordance with CRR/CRD IV.
2 Restatement of prior year amounts (see Note 3).

### Reconciliation of segment results to the consolidated income statement

In the first half of 2021, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax came to EUR – 27 million (previous year: EUR – 36 million) and is essentially due to the following factors:

- In internal management reporting, net interest income is calculated on the basis of the market interest method. Differences compared to the income statement therefore result from prior-period net interest income and measurements specific to IFRS not included in internal management reporting.
- IFRS specific items such as offsetting result from repurchase of own issues.

# D. Notes to the income statement

## 7. Net interest income

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---:|---:|
| *Interest income and current income from equity instruments* | *6,135* | *6,350* |
| Interest income | 6,085 | 6,346 |
| Trading derivatives | 3,735 | 3,798 |
| Lending and money market transactions | 935 | 1,208 |
| Hedging derivatives | 927 | 816 |
| Fixed-income securities and debentures | 78 | 100 |
| Early termination fees[1] | 45 | 30 |
| Leasing business | 121 | 114 |
| Other | 244 | 281 |
| Current income from equity instruments | 49 | 4 |
| Equities and other non-fixed-income securities | 47 | 2 |
| Equity investments and affiliates | 2 | 2 |
| of which negative interest income | – 178 | – 96 |
| *Interest expenses and current expenses from equity instruments* | *– 5,109* | *– 5,477* |
| Interest expenses | – 5,109 | – 5,477 |
| Trading derivatives | – 3,543 | – 3,615 |
| Hedging derivatives | – 947 | – 820 |
| Deposits | – 38 | – 370 |
| Securitized liabilities | – 195 | – 189 |
| Leasing business | – 24 | – 15 |
| Lease liabilities | – 1 | – 1 |
| Subordinated capital | – 101 | – 125 |
| Other | – 260 | – 341 |
| of which positive interest expenses | 315 | 116 |
| ***Total*** | ***1,026*** | ***872*** |

1 The offsetting effect from refinancing costs is included in interest expenses.

Participating in the third series of targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 8 billion in the reporting period. LBBW accounts for the base rate reduction and the new additional interest reductions as government grants in accordance with IAS 20. Income generated as a result of the reductions is reported as a reduction in interest expenses (net presentation) and recognized when there is reasonable assurance that the Group will meet the conditions for the reduction. The conditions for recognizing additional interest rate reductions of EUR 110 million (previous year: EUR 0 million) for the period from 24 June 2020 to 23 June 2021 were met as at 30 June 2021. Alongside the base rate reduction of EUR 61 million (previous year: EUR 9 million), net interest income for H1 2021 includes a total of EUR 171 million (previous year: EUR 9 million) in connection with participating in tender programs. This was offset by negative interest income from deposits held by LBBW with central banks, banks and customers. Accounts payable from TLTRO III as at the end of the reporting period still came to EUR 27.78 billion (previous year: EUR 19.95 billion).

Net interest income from financial assets and liabilities not measured at fair value through profit or loss is distributed on an accrual basis and breaks down as follows:

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| **Financial assets measured at amortized cost** | | |
| Interest income | 984 | 1,219 |
| of which negative interest income | – 169 | – 94 |
| **Financial assets measured at fair value through other comprehensive income** | | |
| Interest income | 115 | 153 |
| of which negative interest income | – 6 | – 3 |
| **Financial liabilities measured at amortized cost** | | |
| Interest expenses | – 182 | – 611 |
| of which positive interest expenses | 314 | 116 |

Positive interest expenses include the effects from participating in targeted longer-term refinancing operations ((TLTRO III) described above.

## 8. Net fee and commission income

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Fee and commission income* | *365* | *344* |
| Securities and custody business | 178 | 148 |
| Payments business | 57 | 62 |
| Brokerage business | 22 | 21 |
| Loans and guarantees[1] | 61 | 62 |
| Other | 47 | 51 |
| *Fee and commission expenses* | *– 71* | *– 70* |
| Securities and custody business | – 46 | – 40 |
| Payments business | – 11 | – 16 |
| Loans and guarantees[1] | – 5 | – 4 |
| Brokerage business | – 2 | – 3 |
| Leasing business | – 1 | – 1 |
| Other | – 6 | – 6 |
| *Total* | *294* | *274* |

1 Includes lending, trustee, guarantee and credit business.

Income from payment transactions, securities and custody business are recognized on a pro-rata basis over the performance period. The transaction price is determined on the basis of the agreed payment and is recognized in the amount at which no reimbursement is anticipated. These services include providing credit and debit cards and services as part of portfolio management and custodian business. Fees within the context of credit transactions and the guarantee business are recognized on a pro rata basis over the performance period. Services are billed either during the year or at the end of the year depending on the type of service provided.

Net fee and commission income resulted mainly from financial assets and financial assets measured at fair value through profit or loss.

## 9. Net gains/losses on remeasurement and disposal

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| Net income/expenses from investments accounted for using the equity method | 1 | – 0 |
| Net gains/losses from financial assets measured at amortized cost | – 64 | – 281 |
| Net gains/losses from financial instruments measured at fair value through other comprehensive income | – 8 | – 11 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 123 | 110 |
| *Total* | *51* | *– 182* |

## Net income/expenses from investments accounted for using the equity method

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Net gains/losses on measurement* | *1* | *– 0* |
| Net gains/losses from investments in associates | 1 | 0 |
| Current income | 11 | 2 |
| Impairment | – 10 | – 2 |
| *Total* | *1* | *– 0* |

## Net gains/losses from financial assets measured at amortized cost

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Net gains/losses on remeasurement (allowances for losses on loans and securities)* | *– 63* | *– 280* |
| Reversal of/disposals from allowances for losses on loans and securities | 228 | 146 |
| Net gains/losses from provisions for lending business | 67 | 9 |
| Recoveries on loans and securities previously written off | 7 | 8 |
| Direct loan write-offs | – 3 | – 3 |
| Gains/losses from financial assets that were already impaired when purchased or originated | – 24 | – 11 |
| Additions to allowances for losses on loans and securities | – 337 | – 428 |
| Other expenses for the lending business | – 2 | – 1 |
| *Realized gains/losses* | *– 1* | *– 1* |
| Securities net gains/losses on disposal | – 1 | – 1 |
| *Total* | *– 64* | *– 281* |

The previous year was adversely affected chiefly by a larger individual case resulting from a company insolvency. In addition, model adjustments were recognized last year to account for increased risks stemming from the pandemic. Statistical allowances for losses on loans and securities models which were parameterized based on multi-year data were not entirely suitable for this. Given the risk of delayed credit losses emerging after the coronavirus pandemic and the risk that the pandemic will worsen again, LBBW continued its conservative risk policy and increased the adjustments recognized at the end of 2020 by EUR 20 million (net). LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and an ongoing low default rate[1] of 0.5% as at the reporting date 30 June 2021 (previous year: 0.4%).

1 See also Risk report, »Risk situation of the LBBW Group«, section on portfolio quality

## Net gains/losses from financial instruments measured at fair value through other comprehensive income

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Net gains/losses on remeasurement (allowances for losses on loans and securities)* | *0* | *– 1* |
| Reversal of/disposals from allowances for losses on loans and securities | 1 | 1 |
| Additions to allowances for losses on loans and securities | – 1 | – 2 |
| *Realized gains/losses* | *– 8* | *– 10* |
| Net gains/losses on disposal | – 8 | – 10 |
| *Total* | *– 8* | *– 11* |

## Net gains/losses from financial instruments measured at fair value through profit or loss

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Net gains/losses from hedging transactions* | *– 4* | *1* |
| Portfolio fair value hedge | – 4 | 0 |
| of which hedged items | – 170 | 363 |
| of which hedging instruments | 166 | – 363 |
| Micro fair value hedge | – 1 | 1 |
| of which hedged items | – 13 | – 9 |
| of which hedging instruments | 12 | 10 |
| *Net trading gains/losses* | *67* | *166* |
| Lending business | – 5 | – 7 |
| Equity transactions | – 158 | – 615 |
| Foreign exchange transactions | 52 | 21 |
| Economic hedging derivatives | – 31 | 120 |
| Interest rate transactions | 202 | 637 |
| Gains/losses from foreign exchange/commodity products | 7 | 10 |
| *Net gains/losses from financial instruments designated at fair value* | *88* | *– 53* |
| Unrealized gains/losses | 88 | – 53 |
| *Net gains/losses from financial instruments measured at fair value through profit or loss not classified as held for trading and financial investments in equity instruments* | *– 28* | *– 3* |
| Net gains/losses from credits and loans | – 40 | 51 |
| Net gains/losses from equity investments | 2 | – 6 |
| Net gains/losses from shares and other equity instruments | 10 | – 48 |
| *Total* | *123* | *110* |

## 10. Other operating income/expenses

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Other operating income* | *170* | *168* |
| Disposal of inventories | 56 | 16 |
| Reversal of other provisions | 13 | 26 |
| Revenue from property services | 7 | 8 |
| Income from cost refunds by third parties | 13 | 16 |
| Operating leases | 10 | 11 |
| Fixed assets and intangible assets | 0 | 1 |
| Lease income from investment property | 23 | 23 |
| Net income from the fair value measurement of investment property | 7 | 9 |
| Foreign currency translation on investment property | 0 | 8 |
| Miscellaneous operating income | 41 | 50 |
| *Other operating expenses* | *– 108* | *– 78* |
| Disposal of inventories | – 47 | – 9 |
| Addition to other provisions | – 13 | – 20 |
| Operating leases | – 3 | – 3 |
| Operating expenses for leased properties | – 9 | – 9 |
| Net losses from the fair value measurement of investment property | – 2 | – 0 |
| Miscellaneous operating expenses | – 34 | – 37 |
| *Total* | *62* | *90* |

Increase in/reversal of other provisions resulted in net income of EUR 0 million (previous year: EUR 6 million). Provisions for legal risks were reversed on a net basis in the same period of the previous year.

The sub-item income and expenses from the disposal of inventories includes revenues in girder fabrication, revenues from real estate business, revenues from the sale of new properties, revenues from construction services, revenues from development measures and revenues from the sale of undeveloped land.

Miscellaneous operating income includes income from construction contracts, primarily in connection with software development.

## 11. Administrative expenses

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| *Staff costs* | *– 521* | *– 489* |
| Wages and salaries | – 360 | – 361 |
| Expenses for pensions and benefits | – 55 | – 58 |
| Social security contributions | – 61 | – 60 |
| Other staff costs | – 44 | – 10 |
| *Other administrative expenses* | *– 284* | *– 280* |
| IT costs | – 168 | – 150 |
| Legal and consulting expenses | – 22 | – 29 |
| Expenses from leases | – 1 | – 1 |
| Cost of premises | – 24 | – 26 |
| Association and other contributions | – 21 | – 21 |
| Advertising, public relations and representation costs | – 7 | – 7 |
| Audit costs | – 4 | – 4 |
| Miscellaneous administrative expenses | – 36 | – 42 |
| *Depreciation, amortization and write-downs*[1] | *– 63* | *– 67* |
| Amortization and write-downs of intangible assets | – 30 | – 31 |
| Depreciation and write-downs of property and equipment | – 11 | – 16 |
| Depreciation and write-downs on right-of-use assets | – 21 | – 21 |
| *Total* | *– 868* | *– 837* |

1 Including depreciation/amortization and impairment.

## 12. Expenses for bank levy and deposit guarantee system

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| Expenses for bank levy | – 104 | – 88 |
| Expenses for deposit guarantee system | – 33 | – 30 |
| *Total* | *– 137* | *– 118* |

## 13. Net income/expenses from restructuring

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| Reversal of provisions for restructuring measures | 0 | 1 |
| *Total* | *0* | *1* |

## 14. Income taxes

| EUR million | 1 Jan. – 30 June 2021 | 1 Jan. – 30 June 2020 |
|---|---|---|
| Income taxes from previous years | – 18 | 2 |
| Income taxes from the reporting period | – 100 | – 34 |
| Deferred income taxes | – 27 | – 18 |
| *Total* | *– 145* | *– 50* |

The notional effective tax rate for the Group in the reporting period was 34% (previous year: 49%).

Risks exist as at 30 June 2021 in fiscal law terms concerning capital gains tax. Here, a developed legal position with a retrospective impact on the basis of current legislation or the latest pronouncements by the tax authorities cannot be ruled out.

# E. Financial instruments

## Accounting policies

### 15. Determining fair value

#### General information

Fair value is the price at which an asset could be bought and sold at the measurement date in an orderly transaction between market participants.

When determining the fair value, a company specifies the preferred (i.e. the principal) market for the asset or liability or, in the absence thereof, the most advantageous market. LBBW defines the principal market as the market with the highest trading volume and highest level of market activity for the cash-generating unit. This is not necessarily the market on which LBBW's trading activity is the highest. LBBW sees the most advantageous market as that market on which – taking transaction and transport costs into account – the maximum proceeds can be achieved or the lowest amount must be paid when transferring a liability.

When calculating fair values, LBBW uses prices (if available) from the principal market, provided these represent prices used within the scope of regular and current transactions. These are reviewed on the basis of the following criteria: timely availability, amount, executability and bid-offer spreads.

If prices quoted on active markets are not available, measurement methods, prices for similar assets or liabilities on active markets and prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for measurement methods are based on inputs observable on the markets if available. The application of these models and the use of these parameters requires assumptions and assessments on the part of the management, the extent of which depends on price transparency with regard to the financial instrument and its market and the complexity of the instrument. A significant amount of subjective assessment is necessary, particularly if there are no inputs observable on the markets.

The aim of the applying measurement methods is to determine the price at which a transaction for a financial asset or liability could take place between knowledgeable third parties at the end of the reporting period. Measurement methods therefore have to include all factors which market participants would take into account when determining prices.

The fair values of holdings measured at fair value are subject to the LBBW Group's internal controls and processes that set out the standards for the independent review or validation of fair values. These controls and procedures are monitored by the »Independent Valuation« organizational unit within the »Risk Control« division. The models, the data used in them and the resulting fair values are regularly reviewed by the »Risk Methods Markets« organizational unit.

The following table contains an overview of the measurement models used for financial instruments:

| Financial instruments | Measurement models | Material inputs |
|---|---|---|
| Interest rate swaps and options | Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models | Yield curves, swaption volatility, cap volatility, correlations, mean revers |
| Forward rate agreements | Net present value method | Yield curves |
| Forward commodity agreements, currency forwards | Net present value method | Commodity rates/exchange rates, yield curves |
| Stock/index options, equity index/dividend futures | Black-Scholes, local volatility model, present value method | Equity prices, share volatility, dividends, interest rates (swap, repo) |
| Currency options | Garman-Kohlhagen (modified Black-Scholes) | FX rates, yield curves, FX volatility |
| Commodity options | Garman-Kohlhagen (modified Black-Scholes) | Commodity rates, yield curves, commodity volatility |
| Credit derivatives | Intensity model, credit correlation model | Credit spreads, yield curves, correlations |
| Money market transactions | Net present value method | Credit spreads, yield curves |
| Securities repurchase transactions | Net present value method | Yield curves |
| Schuldschein loans, loans | Net present value method | Credit spreads, yield curves |
| Securities, forward security transactions | Net present value method | Securities prices, credit spreads, yield curves |
| Own bearer notes and Schuldschein loans issued | Net present value method | Yield curves, own credit spread |
| Investments and shares in affiliates | Net asset value method, discounted cash flow method, income value method | Capitalization rate, projected figures |
| Securitized transactions | Net present value method | Liquidity spreads, yield curves, prepayments, arrears and default rates, loss severity |

The valuation and the use of material parameters for non-current assets and disposal groups held for sale, as well as liabilities from disposal groups, is performed in line with the original balance sheet items.

The following table shows how financial instruments are assigned to product classes:

| Product class | Financial instruments |
|---|---|
| **Financial assets measured at fair value** | |
| Derivatives | Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options, interest rate swaps |
| Equity instruments | Investment units, equities, equity investments, shares in affiliates |
| Debentures and other fixed-income securities | Securities, forward security agreements, money market transactions, borrower's note loans |
| Receivables | Schuldschein loans, money market transactions, loans |
| **Financial assets measured at amortized cost** | |
| Cash and cash equivalents | Cash, balances with central banks, public-sector bills and bills of Exchange |
| Receivables | Loans, Schuldschein loans, securities repurchase transactions, money market transactions |
| Debentures and other fixed-income securities | Money market transactions, bonds and debentures |
| **Financial liabilities measured at fair value** | |
| Derivatives | Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options, interest rate swaps |
| Delivery obligations from short sales of securities | Delivery obligations from short sales of securities |
| Deposits | Schuldschein loans, money market transactions |
| Securitized liabilities | Issued debentures |
| Other financial liabilities | Subordinated deposits, Schuldschein loans, money market transactions |
| **Financial liabilities measured at amortized cost** | |
| Securitized liabilities | Issued debentures, money market transactions |
| Subordinated capital | Bonds, participation certificates |
| Other financial liabilities | Schuldschein loans, loans, forwards, money market transactions, securities repurchase transactions |

## Securities

To the extent possible, the securities in the trading portfolio are measured using market prices or liquid prices of the relevant OTC market. If no active market price is available, fixed-income securities are measured using the discounted cash flow method based on yield curves dependent on the rating or sector and credit spreads derived from market data.

## Derivatives

Exchange-traded derivatives are measured using market prices. The fair values of equity-based and raw materials based derivatives are calculated uniformly using models on the basis of the portfolio approach.

The fair value of OTC derivatives is calculated using measurement models. A distinction is made between simple derivatives traded on liquid markets (such as interest rate swaps, cross-currency interest rate swaps and currency options) and complex derivatives that are traded on illiquid markets.

Simple derivatives traded on active markets are valued using recognized valuation measures that resort at most to non-observable parameters on a minor scale.

Derivatives whose fair value is calculated on the basis of complex methods using non-observable parameters with a material influence on the valuation are classified in Level III of the measurement hierarchy. In order to reduce price uncertainty from the unobservable parameters as far as possible, these are calibrated so that measurements from observed transactions or offers for comparable instruments, consensus prices of price service agencies or valuations of other market participants from matching processes match LBBW's own measurements to the extent possible.

For certain complex interest derivatives, the interest-interest correlations required for measurement by reference to option price models are based on expert estimates which are partially gained from historical observations and partially from correlations derived from market prices. The »Correlation« parameter is assumed to be non-observable in this case and a Day One Reserve is formed for these complex interest rate derivatives.

LBBW uses the portfolio exception in accordance with IFRS 13.48 to measure derivatives in the following cases:

- The adjustment amount is calculated on the basis of the net risk positions for some fair value adjustments (e.g. close-out costs).
- When measuring counterparty risks in relation to OTC derivatives, for which netting agreements were entered into with the counterparty, the credit value adjustments (hereinafter referred to as CVA) were calculated on net positions.

The fair value of securitizations for which the market prices of market services providers are available is measured on the basis of these prices and classified as Level II (see fair value hierarchy). The fair values of securitization transactions for which current market prices are not sufficiently available (Level III) are calculated using measurement models. These are standard market models based on the discounted cash flow method.

If the fair value of financial instruments calculated using measurement methods does not sufficiently take into account factors such as bid-offer spreads or close-out costs, liquidity, model, credit or counterparty risk, the Bank calculates valuation adjustments. In some cases, the methods used take into account parameters that are not observable on the market. Valuation adjustments are currently made within LBBW for the following issues in particular:

- Recognition of counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives
- Weaknesses in the models or inputs used, for example, model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day one profit or loss on specific complex derivatives and loans measured at fair value

Refinancing effects represent a price component for unsecured derivatives and are included in the fair value measurement as a funding valuation adjustment (FVA). At LBBW, refinancing effects are taken into account in the measurement when calculating the present value by way of premiums on the discount rates.

### Equity instruments

If available, quoted prices on active markets are used to calculate the fair value of listed equity investments assigned to the category »Financial assets mandatorily measured at fair value through profit or loss« or »Financial assets measured at fair value through other comprehensive income«. For non-listed equity investments or if prices traded on an active market are not available, the fair value is measured using a measurement method. In these cases, LBBW essentially measures fair value using the net income value, the discounted cash flow or the net asset value method. The valuation method is selected on the basis of a fixed decision tree. The fair value of real estate leasing special purpose vehicles is measured on the basis of the DCF method. The net income value approach is used to measure all other major equity investments. If the application of the net income value approach entails considerable uncertainty or is not reliable due to a lack of data, the net asset value method is used, provided the equity investment's business activities are stable.

### Receivables

The fair value of assets and liabilities measured at amortized cost is calculated by discounting the future cash flows, taking into account rating-dependent spreads (exception: repurchase transactions). If rating-dependent spreads are derived from rating information obtained from external sources, this constitutes Level II classification. Rating information obtained from internal sources constitutes Level III classification. The fair values of receivables with a default rating are determined on the basis of expected future cash flows. The carrying amount is stated as the fair value of current assets and liabilities (e.g. current account assets and liabilities).

### Determining rating-induced changes in fair value

At LBBW, a rating-induced change in fair value is calculated as the difference between the following two amounts:

- Fair value based on the current credit spread at the reporting date
- Fair value based on the current credit spread at the time of comparison

To be able to take into account the instrument-specific credit risk that is decisive for the rating-induced changes in fair value, a spread curve appropriate to the risk profile is used. Primary market prices are used to form the spread curves; in the absence of primary market activity, secondary market prices and approximation methods based on liquid market prices of comparable bonds may be employed.

## Financial assets

### 16. Cash and cash equivalents

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Balances with central banks | 60,273 | 13,437 |
| Cash | 195 | 213 |
| *Total, net* | *60,467* | *13,650* |

Balances with central banks included balances with Deutsche Bundesbank of EUR 43,476 million (previous year: EUR 7,141 million).

## 17. Financial assets measured at amortized cost

### Loans and advances to banks

The breakdown of loans and advances to banks by type of business is as follows:

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Public-sector loans | 31,021 | 47,685 |
| Current account claims | 854 | 1,279 |
| Securities repurchase transactions | 10,176 | 10,191 |
| Other loans | 1,140 | 1,658 |
| Schuldschein loans | 70 | 70 |
| Overnight and term money | 4,029 | 6,418 |
| Mortgage loans | 759 | 699 |
| Other receivables | 1,132 | 484 |
| *Total, gross* | *49,182* | *68,485* |
| Allowances for losses on loans and securities | – 23 | – 20 |
| *Total, net* | *49,159* | *68,465* |

The item Loans and advances to banks also includes transmitted loans of EUR 25.6 billion (previous year: EUR 24.6 billion) in the sub-item public-sector loans. In the previous year the sub-item public-sector loans included a deposit facility with the central bank of EUR 17.3 billion. This is no longer the case as at the end of the current reporting period.

### Loans and advances to customers

The breakdown of loans and advances to customers by type of business is as follows:

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Other loans | 21,507 | 21,863 |
| Mortgage loans | 40,174 | 39,299 |
| Public-sector loans | 14,679 | 15,328 |
| Receivables from finance leases | 5,333 | 5,433 |
| Transmitted loans | 3,045 | 2,972 |
| Securities repurchase transactions | 7,013 | 5,371 |
| Current account claims | 1,993 | 2,245 |
| Overnight and term money | 6,612 | 5,510 |
| Schuldschein loans | 7,336 | 7,311 |
| Other receivables | 4,472 | 3,860 |
| *Total, gross* | *112,164* | *109,193* |
| Allowances for losses on loans and securities | – 1,177 | – 1,077 |
| *Total, net* | *110,987* | *108,116* |

As well as the transmitted loans shown in the table, transmitted loans are also included in the sub-items mortgage loans and public-sector loans. In total, the item »Loans and advances to customers« includes EUR 7.7 billion (previous year: EUR 7.6 billion) in transmitted loans.

## Debentures and other fixed-income securities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Government bonds and government debentures | 320 | 344 |
| Other bonds and debentures | 652 | 584 |
| *Total, gross* | *972* | *929* |
| Allowances for losses on loans and securities | - 8 | - 8 |
| *Total, net* | *964* | *921* |

## Development of allowances for losses on loans and securities and gross carrying amounts

The following table shows the allowances for losses on loans and securities deducted from assets:

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Balance as at 1 January 2021* | *44* | *520* | *541* | *- 0* | *1,104* |
| Changes | 23 | 76 | 60 | 1 | 161 |
| Transfer to Stage 1 | 9 | - 9 | - 1 | 0 | - 0 |
| Transfer to Stage 2 | - 5 | 7 | - 1 | 0 | 0 |
| Transfer to Stage 3 | - 1 | - 14 | 14 | 0 | 0 |
| Additions | 37 | 126 | 137 | 1 | 300 |
| Reversals | - 16 | - 34 | - 75 | - 0 | - 126 |
| Utilization | 0 | - 0 | - 13 | 0 | - 13 |
| Additions | 10 | 9 | 18 | 0 | 37 |
| Disposals | - 3 | - 21 | - 78 | 0 | - 102 |
| Other changes | 0 | 1 | 7 | - 0 | 8 |
| *Balance as at 30 June 2021* | *74* | *586* | *548* | *1* | *1,208* |

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Balance as at 1 January 2020* | *59* | *294* | *549* | *1* | *904* |
| Changes | - 23 | 214 | 4 | - 1 | 194 |
| Transfer to Stage 1 | 14 | - 13 | - 1 | 0 | - 0 |
| Transfer to Stage 2 | - 13 | 18 | - 5 | 0 | - 0 |
| Transfer to Stage 3 | - 2 | - 8 | 10 | 0 | 0 |
| Additions | 10 | 283 | 161 | 0 | 454 |
| Reversals | - 31 | - 66 | - 99 | - 1 | - 198 |
| Utilization | 0 | 0 | - 62 | 0 | - 62 |
| Additions | 15 | 24 | 29 | 0 | 68 |
| Disposals | - 7 | - 11 | - 52 | - 0 | - 71 |
| Other changes | - 0 | - 2 | 11 | 0 | 10 |
| *Balance as at 31 December 2020* | *44* | *520* | *541* | *- 0* | *1,104* |

For more details on changes in allowances for losses on loans and securities see Notes 9 and 19.

The gross carrying value of financial assets measured at amortized cost as at the end of the reporting period was EUR 162,318 million (previous year: EUR 178,607 million) and broke down as follows: EUR 136,412 million Stage 1 (previous year: EUR 138,686 million), EUR 24,756 million Stage 2 (previous year: EUR 38,840 million), EUR 1,116 million Stage 3 (previous year: EUR 1,053 million) and EUR 35 million in credit impairment at recognition (previous year: EUR 28 million).

Stage 2 and 3 financial assets for which adjustments were made to the contract during the reporting period and that were not derecognized were as follows:

| **30 June 2021**<br>**EUR million** | **Stage 2**<br>**Life-time expected credit loss** | **Stage 3**<br>**Impairment after recognition** | **Credit impairment at recognition** | **Total** |
|---|---|---|---|---|
| Amortized cost before contract amendment in the current financial year | 1,793 | 395 | 2 | 2,190 |

| **31 Dec. 2020**<br>**EUR million** | **Stage 2**<br>**Life-time expected credit loss** | **Stage 3**<br>**Impairment after recognition** | **Credit impairment at recognition** | **Total** |
|---|---|---|---|---|
| Amortized cost before contract amendment in the current financial year | 1,555 | 159 | 9 | 1,723 |

As in the previous year, in the reporting period no financial assets of Stage 2 or 3 were allocated to Stage 1 after adjustments were made to the contract.

## 18. Financial assets measured at fair value through other comprehensive income

| **EUR million** | **30 June 2021** | **31 Dec. 2020** |
|---|---|---|
| *Debentures and other fixed-income securities* | *30,362* | *31,039* |
| Money market instruments | 752 | 826 |
| Bonds and debentures | 29,610 | 30,213 |
| *Receivables* | *3,413* | *3,712* |
| *Equity instruments* | *68* | *59* |
| Equity investments | 65 | 56 |
| Shares in affiliates | 3 | 3 |
| *Total* | *33,843* | *34,810* |

Note 20 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

### Development of allowances for losses on loans and securities and gross carrying amounts

Allowances for losses on loans and securities for financial assets mandatorily measured at fair value through other comprehensive income developed as follows:

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Balance as at 1 January 2021* | *3* | *0* | *0* | *0* | *3* |
| Changes | – 1 | 0 | 0 | 0 | – 0 |
| Reversals | – 1 | 0 | 0 | 0 | – 1 |
| *Balance as at 30 June 2021* | *3* | *0* | *0* | *0* | *3* |

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Balance as at 1 January 2020* | *3* | *0* | *0* | *0* | *3* |
| Changes | 0 | – 0 | 0 | 0 | 0 |
| Additions | 2 | 0 | 0 | 0 | 2 |
| Reversals | – 2 | – 0 | 0 | 0 | – 2 |
| Additions | 1 | 0 | 0 | 0 | 1 |
| *Balance as at 31 December 2020* | *3* | *0* | *0* | *0* | *3* |

The gross carrying value of financial assets mandatorily measured at fair value through other comprehensive income as at the end of the reporting period was EUR 33,775 million (previous year: EUR 34,751 million) and broke down as follows: EUR 33,768 million Stage 1 (previous year: EUR 34,751 million) and EUR 7 million Stage 2 (previous year: EUR 0 million).

## 19. Counterparty risk

The quantitative information on credit risk is based on the management approach. By contrast to the basis of consolidation for accounting purposes under IFRS, only the SüdLeasing Group and LBBW México Sofom are included in consolidation under the management approach. In line with internal risk management, the primary parameter in the information below is gross/net exposure.

### Collateral

The LBBW has high standards for collateral. Guidelines and collateral strategy requirements ensure that collateral is of a high quality. In addition to the individual measurement of collateral, its carrying amount is also subject to LGD modeling haircuts (recovery rates).

The following table shows the maximum counterparty risk and the effect of risk-mitigating measures.

| 30 June 2021<br>EUR million | Gross exposure | Netting/ collateral | Credit derivatives (protection buy) | Credit collateral | Net exposure |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 88,130 | 64,646 | 5,246 | 744 | 17,495 |
| Trading assets | 86,009 | 63,540 | 5,246 | 744 | 16,479 |
| Derivatives | 63,088 | 51,114 | 4,019 | 594 | 7,361 |
| Equity instruments | 816 | 788 | 0 | 0 | 29 |
| Debentures and other fixed-income securities | 6,644 | 2,475 | 202 | 0 | 3,967 |
| Receivables | 15,461 | 9,165 | 1,024 | 150 | 5,123 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | 1,205 | 196 | 0 | 0 | 1,008 |
| Equity instruments | 589 | 196 | 0 | 0 | 393 |
| Receivables | 616 | 0 | 0 | 0 | 615 |
| Positive fair values from derivative hedging instruments | 917 | 909 | 0 | 0 | 8 |
| Financial assets designated at fair value | 934 | 0 | 0 | 0 | 934 |
| Debentures and other fixed-income securities | 57 | 0 | 0 | 0 | 57 |
| Receivables | 876 | 0 | 0 | 0 | 876 |
| Financial assets measured at fair value through other comprehensive income | 33,672 | 36 | 0 | 0 | 33,636 |
| Equity instruments | 1,485 | 0 | 0 | 0 | 1,485 |
| Debentures and other fixed-income securities | 29,417 | 6 | 0 | 0 | 29,411 |
| Receivables | 2,770 | 30 | 0 | 0 | 2,740 |
| **Financial assets measured at amortized cost** | | | | | |
| Cash and cash equivalents | 17,890 | 0 | 0 | 0 | 17,890 |
| Loans and advances to banks | 70,323 | 33,745 | 0 | 618 | 35,959 |
| Loans and advances to customers | 111,676 | 12,659 | 49 | 39,765 | 59,203 |
| Debentures and other fixed-income securities | 903 | 0 | 0 | 0 | 903 |
| *Total* | *323,527* | *111,086* | *5,294* | *41,128* | *166,020* |
| Loan commitments and other agreements | 66,601 | 0 | 0 | 2,958 | 63,643 |
| *Total exposure* | *390,128* | *111,086* | *5,294* | *44,086* | *229,663* |

| 31 Dec. 2020<br>EUR million | Gross exposure | Netting/<br>collateral | Credit derivatives (protection buy) | Credit collateral | Net exposure |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 101,154 | 75,177 | 5,378 | 960 | 19,639 |
| Trading assets | 90,976 | 66,099 | 5,378 | 960 | 18,539 |
| Derivatives | 67,894 | 54,506 | 4,192 | 676 | 8,521 |
| Equity instruments | 714 | 667 | 0 | 0 | 47 |
| Debentures and other fixed-income securities | 4,811 | 1,527 | 199 | 0 | 3,085 |
| Receivables | 17,558 | 9,399 | 988 | 284 | 6,887 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | 1,232 | 191 | 0 | 0 | 1,041 |
| Equity instruments | 583 | 191 | 0 | 0 | 392 |
| Receivables | 650 | 0 | 0 | 0 | 649 |
| Positive fair values from derivative hedging instruments | 8,946 | 8,888 | 0 | 0 | 58 |
| Financial assets designated at fair value | 939 | 0 | 0 | 0 | 938 |
| Debentures and other fixed-income securities | 58 | 0 | 0 | 0 | 58 |
| Receivables | 881 | 0 | 0 | 0 | 880 |
| Financial assets measured at fair value through other comprehensive income | 34,107 | 0 | 0 | 0 | 34,107 |
| Equity instruments | 1,476 | 0 | 0 | 0 | 1,476 |
| Debentures and other fixed-income securities | 29,688 | 0 | 0 | 0 | 29,688 |
| Receivables | 2,943 | 0 | 0 | 0 | 2,943 |
| **Financial assets measured at amortized cost** | | | | | |
| Cash and cash equivalents | 7,406 | 0 | 0 | 0 | 7,406 |
| Loans and advances to banks | 70,033 | 34,378 | 0 | 537 | 35,117 |
| Loans and advances to customers | 111,227 | 13,521 | 0 | 36,849 | 60,857 |
| Debentures and other fixed-income securities | 850 | 0 | 0 | 0 | 850 |
| *Total* | *325,715* | *123,076* | *5,378* | *38,347* | *158,914* |
| Loan commitments and other agreements | 63,737 | 0 | 0 | 3,895 | 59,842 |
| *Total exposure* | *389,452* | *123,076* | *5,378* | *42,242* | *218,756* |

The combined effect of netting and collateral agreements, credit derivatives (protection buy) and credit collateral (risk mitigation) in relation to the maximum counterparty risk of EUR 390 billion as at 30 June 2021 is EUR 160 billion or 41.1% in total (previous year: 43.8%). The lower share of risk mitigation is mainly on account of collateral performance of interest rate derivatives. Credit collateral increased. Nonetheless, there are differences between segments – for example, credit collateral is higher for real estate financing than for corporate customers.

In exceptional cases (< 1% of the portfolio), the securities cover the gross exposure in full, meaning that no impairment losses are recognized.

### Credit-impaired assets

Credit-impaired assets in accordance with IFRS 9 are financial instruments in default (rating 16 to 18). These rating classes accounted for gross exposure of EUR 1.3 billion as at 30 June 2021.

The table below shows the maximum counterparty risk and the effect of risk-mitigating measures on credit-impaired assets:

| 30 June 2021<br>EUR million | Gross exposure | Netting/ collateral | Credit derivatives (protection buy) | Credit collateral | Net exposure |
|---|---|---|---|---|---|
| **Financial assets measured at amortized cost** | | | | | |
| Loans and advances to banks | 21 | 0 | 0 | 3 | 18 |
| Loans and advances to customers | 1,031 | 0 | 0 | 257 | 775 |
| *Total* | *1,053* | *0* | *0* | *260* | *793* |
| Loan commitments and other agreements | 268 | 0 | 0 | 13 | 255 |
| *Total exposure* | *1,320* | *0* | *0* | *273* | *1,048* |

| 31 Dec. 2020<br>EUR million | Gross exposure | Netting/ collateral | Credit derivatives (protection buy) | Credit collateral | Net exposure |
|---|---|---|---|---|---|
| **Financial assets measured at amortized cost** | | | | | |
| Loans and advances to banks | 18 | 0 | 0 | 0 | 18 |
| Loans and advances to customers | 935 | 0 | 0 | 243 | 692 |
| *Total* | *953* | *0* | *0* | *243* | *710* |
| Loan commitments and other agreements | 268 | 0 | 0 | 15 | 253 |
| *Total exposure* | *1,222* | *0* | *0* | *258* | *963* |

## Default risk and concentrations

The following information is based on the tables in the risk report for counterparty risk. However, unlike those tables, only financial instruments subject to the scope of the impairment provisions of IFRS 9 are presented here.

*Gross exposure by rating cluster (internal rating class)*

| 30 June 2021<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| 1 (AAAA) | 35,997 | 3 | 0 | 0 | 36,000 |
| 1 (AAA)–1 (A-) | 143,669 | 1,528 | 0 | 4 | 145,201 |
| 2–5 | 53,585 | 20,749 | 0 | 10 | 74,344 |
| 6–8 | 8,604 | 8,782 | 0 | 0 | 17,386 |
| 9–10 | 1,111 | 4,108 | 0 | 0 | 5,218 |
| 11–15 | 1,365 | 3,021 | 0 | 0 | 4,386 |
| 16–18 (default)[1] | 0 | 0 | 1,270 | 50 | 1,320 |
| Other[2] | 3,185 | 49 | 0 | 0 | 3,233 |
| *Total* | *247,515* | *38,239* | *1,270* | *65* | *287,089* |

1 »Default« refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before accounting for allowances for losses on loans and securities.
2 Non-rated transactions, in particular rating waivers.

| 31 Dec. 2020<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| 1 (AAAA) | 26,588 | 54 | 0 | 0 | 26,643 |
| 1 (AAA)–1 (A-) | 132,516 | 9,997 | 0 | 4 | 142,518 |
| 2–5 | 36,095 | 37,614 | 0 | 14 | 73,722 |
| 6–8 | 5,639 | 12,713 | 0 | 0 | 18,352 |
| 9–10 | 686 | 4,486 | 0 | 0 | 5,172 |
| 11–15 | 865 | 3,240 | 0 | 5 | 4,111 |
| 16–18 (default)[1] | 0 | 0 | 1,209 | 12 | 1,222 |
| Other[2] | 2,747 | 525 | 0 | 0 | 3,271 |
| *Total* | *205,136* | *68,630* | *1,209* | *35* | *275,011* |

1 »Default« refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before accounting for allowances for losses on loans and securities.
2 Non-rated transactions, in particular rating waivers.

*Gross exposure by sector*

| 30 June 2021<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Financials* | *128,699* | *1,126* | *20* | *0* | *129,845* |
| *Corporates* | *65,970* | *27,112* | *1,188* | *53* | *94,323* |
| Automotive | 5,634 | 4,868 | 549 | 47 | 11,098 |
| Construction | 7,372 | 1,460 | 70 | 3 | 8,905 |
| Chemicals and commodities | 3,516 | 2,878 | 26 | 0 | 6,419 |
| of which chemicals | 1,720 | 1,554 | 0 | 0 | 3,275 |
| of which commodities | 1,795 | 1,324 | 25 | 0 | 3,144 |
| Retail and consumer goods | 11,530 | 5,103 | 218 | 0 | 16,851 |
| of which consumer goods | 8,854 | 2,806 | 67 | 0 | 11,727 |
| of which durables | 2,676 | 2,296 | 151 | 0 | 5,123 |
| Industry | 7,576 | 3,045 | 152 | 0 | 10,772 |
| Pharmaceuticals and healthcare[1] | 4,395 | 1,154 | 6 | 3 | 5,558 |
| TM and electronics/IT[1] | 5,592 | 2,229 | 25 | 0 | 7,847 |
| Transport and logistics | 4,993 | 3,140 | 25 | 0 | 8,158 |
| Utilities and energy[1] | 7,779 | 2,006 | 94 | 0 | 9,879 |
| of which utilities and disposal companies | 4,388 | 1,261 | 88 | 0 | 5,736 |
| of which renewable energies | 3,392 | 745 | 6 | 0 | 4,142 |
| Other | 7,584 | 1,230 | 23 | 0 | 8,837 |
| *Real estate* | *25,887* | *8,691* | *27* | *2* | *34,607* |
| Commercial real estate (CRE) | 15,417 | 7,468 | 20 | 0 | 22,905 |
| Housing | 10,470 | 1,223 | 7 | 2 | 11,702 |
| *Public sector* | *16,655* | *84* | *0* | *0* | *16,739* |
| *Private individuals* | *10,304* | *1,226* | *35* | *10* | *11,575* |
| *Total* | *247,515* | *38,239* | *1,270* | *65* | *287,089* |

1 Growth sectors.

| 31 Dec. 2020<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| *Financials* | *119,667* | *1,217* | *22* | *0* | *120,906* |
| *Corporates* | *37,377* | *55,082* | *1,116* | *15* | *93,590* |
| Automotive | 1,226 | 9,860 | 441 | 6 | 11,533 |
| Construction | 2,808 | 5,677 | 83 | 3 | 8,570 |
| Chemicals and commodities | 1,275 | 5,479 | 62 | 0 | 6,816 |
| of which chemicals | 830 | 2,601 | 0 | 0 | 3,431 |
| of which commodities | 445 | 2,878 | 61 | 0 | 3,384 |
| Retail and consumer goods | 10,127 | 6,552 | 232 | 0 | 16,911 |
| of which consumer goods | 9,341 | 2,441 | 74 | 0 | 11,856 |
| of which durables | 786 | 4,112 | 158 | 0 | 5,056 |
| Industry | 2,820 | 8,054 | 149 | 0 | 11,024 |
| Pharmaceuticals and healthcare[1] | 3,267 | 2,157 | 7 | 3 | 5,433 |
| TM and electronics/IT[1] | 3,376 | 4,067 | 33 | 0 | 7,475 |
| Transport and logistics | 1,411 | 6,401 | 16 | 0 | 7,828 |
| Utilities and energy[1] | 5,165 | 4,231 | 71 | 3 | 9,470 |
| of which utilities and disposal companies | 2,396 | 3,040 | 34 | 3 | 5,473 |
| of which renewable energies | 2,769 | 1,192 | 37 | 0 | 3,997 |
| Other | 5,902 | 2,603 | 24 | 0 | 8,529 |
| *Real estate* | *21,363* | *10,863* | *31* | *10* | *32,267* |
| Commercial real estate (CRE) | 13,951 | 8,979 | 23 | 8 | 22,961 |
| Housing | 7,412 | 1,884 | 8 | 2 | 9,306 |
| *Public sector* | *16,664* | *85* | *0* | *0* | *16,748* |
| *Private individuals* | *10,065* | *1,384* | *41* | *10* | *11,500* |
| *Total* | *205,136* | *68,630* | *1,209* | *35* | *275,011* |

1 Growth sectors.

The exposures in financials and the public sector (and the German public sector in particular) generally have very good, stable credit quality with a low exposure share in stage 2.

In relative terms, there is a higher share of stage 2 exposure in the corporates and real estate portfolio. In the automotive sector, for example, this is rooted partly in long-term uncertainty regarding change in the industry and the impact on manufacturers and suppliers. Furthermore, the economic risks caused by the coronavirus pandemic resulted in a significant rise in the share of stage 2 exposures compared to pre-crisis levels (see also development of allowances for losses on loans and securities in Note 9 and Note 17).

*Gross exposure by region*

| 30 June 2021<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| Germany | 140,043 | 23,112 | 1,094 | 27 | 164,277 |
| Western Europe (excluding Germany) | 66,611 | 7,414 | 35 | 28 | 74,089 |
| North America | 29,233 | 3,223 | 11 | 3 | 32,469 |
| Asia/Pacific | 6,671 | 2,149 | 19 | 0 | 8,839 |
| Other[1] | 4,956 | 2,342 | 111 | 7 | 7,415 |
| *Total* | *247,515* | *38,239* | *1,270* | *65* | *287,089* |

1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions)

| 31 Dec. 2020<br>EUR million | Stage 1<br>12-month expected credit loss | Stage 2<br>Life-time expected credit loss | Stage 3<br>Impairment after recognition | Credit impairment at recognition | Total |
|---|---|---|---|---|---|
| Germany | 116,099 | 46,220 | 1,002 | 30 | 163,351 |
| Western Europe (excluding Germany) | 59,026 | 13,197 | 64 | 5 | 72,293 |
| North America | 20,195 | 4,428 | 17 | 0 | 24,639 |
| Asia/Pacific | 5,881 | 2,225 | 18 | 0 | 8,124 |
| Other[1] | 3,935 | 2,560 | 108 | 0 | 6,603 |
| *Total* | *205,136* | *68,630* | *1,209* | *35* | *275,011* |

1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions)

### Forbearance

As at 30 June 2021, LBBW held assets with a net carrying amount of EUR 1,374 million (31 December 2020: EUR 987 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 328 million (31 December 2020: EUR 294 million) sub-portfolio of the assets for which forbearance measures have been adopted comprise credit-impaired assets.

LBBW has received guarantees of EUR 324 million (31 December 2020: EUR 316 million) for assets with forbearance measures.

The risk report contains further information on impairment on the portfolio.

## 20. Equity instruments voluntarily measured at fair value through other comprehensive income

For some financial investments in equity instruments LBBW exercises the fair value through other comprehensive income option in accordance with IFRS 9.5.7.5. These essentially comprise equity investments in a real estate company held with no intention to sell.

Equity instruments measured voluntarily at fair value through other comprehensive income amounted to EUR 68 million as at the end of the reporting period (previous year: EUR 59 million; see Note 18).

Dividends of EUR 1 million (previous year: EUR 1 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the reporting period. As in the previous year, these relate entirely to equity instruments held at the reporting date.

## 21. Financial assets designated at fair value

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Debentures and other fixed-income securities* | *59* | *58* |
| Bonds and debentures | 59 | 58 |
| *Receivables* | *1,043* | *1,074* |
| *Total* | *1,102* | *1,132* |

## 22. Financial assets mandatorily measured at fair value through profit or loss

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Positive fair values from derivative hedging instruments | 378 | 1,673 |
| Trading assets | 38,389 | 39,405 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments | 1,088 | 1,107 |
| *Total* | *39,855* | *42,185* |

## Positive fair values from derivative hedging instruments

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Positive fair values from portfolio fair value hedges | 58 | 1,293 |
| Positive fair values from micro fair value hedges | 320 | 379 |
| *Total* | *378* | *1,673* |

## Trading assets

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Positive fair values from derivative financial instruments* | *19,143* | *22,657* |
| *Debentures and other fixed-income securities* | *6,388* | *4,919* |
| Money market instruments | 452 | 275 |
| Bonds and debentures | 5,936 | 4,644 |
| *Receivables* | *12,099* | *11,115* |
| Schuldschein loans | 3,821 | 4,785 |
| Other money market transactions | 2,886 | 2,558 |
| Receivables from securities repurchase agreements | 4,521 | 2,842 |
| Other receivables | 871 | 930 |
| *Equity instruments* | *759* | *714* |
| Equities | 394 | 310 |
| Investment fund units | 361 | 400 |
| Other securities | 4 | 4 |
| *Total* | *38,389* | *39,405* |

### Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Debentures and other fixed-income securities* | *2* | *5* |
| Silent partner contributions | 2 | 5 |
| *Receivables* | *622* | *659* |
| Loans and advances to customers | 622 | 659 |
| *Equity instruments* | *464* | *443* |
| Equities | 5 | 5 |
| Investment fund units | 279 | 275 |
| Equity investments | 154 | 138 |
| Shares in affiliates | 26 | 25 |
| *Total* | *1,088* | *1,107* |

## Financial liabilities

### 23. Financial liabilities measured at amortized cost

### Deposits from banks

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Securities repurchase transactions | 3,246 | 542 |
| Transmitted loans | 33,336 | 32,142 |
| Schuldschein loans | 2,748 | 2,837 |
| Overnight and term money | 52,440 | 37,971 |
| Public-sector registered covered bonds issued | 352 | 367 |
| Current account liabilities | 2,728 | 2,243 |
| Mortgage-backed registered covered bonds issued | 116 | 123 |
| Other liabilities | 3,714 | 2,541 |
| *Total* | *98,680* | *78,765* |

Participating in targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 8 billion in March 2021. Accounts payable from TLTRO III as at the end of the reporting period still came to EUR 27.78 billion (previous year: EUR 19.95 billion).

### Deposits from customers

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Current account liabilities | 56,456 | 57,287 |
| Overnight and term money | 26,568 | 24,909 |
| Schuldschein loans | 2,459 | 2,230 |
| Securities repurchase transactions | 2,637 | 954 |
| Public-sector registered covered bonds issued | 1,860 | 2,041 |
| Savings deposits | 5,190 | 5,238 |
| Mortgage-backed registered covered bonds issued | 192 | 192 |
| Other liabilities | 2,606 | 2,435 |
| *Total* | *97,970* | *95,288* |

## Securitized liabilities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Issued debentures* | *30,852* | *28,898* |
| Mortgage-backed covered bonds | 8,173 | 8,444 |
| Public-sector covered bonds | 4,575 | 4,585 |
| Other debentures | 18,104 | 15,868 |
| *Other securitized liabilities* | *23,145* | *12,936* |
| *Total* | *53,997* | *41,834* |

## Subordinated capital

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Typical silent partners' contributions | 897 | 950 |
| Subordinated liabilities | 4,098 | 4,672 |
| Capital generated from profit participation rights | 27 | 117 |
| *Total* | *5,021* | *5,740* |

## 24. Financial liabilities designated at fair value

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Schuldschein loans | 735 | 769 |
| Securitized liabilities | 2,788 | 3,920 |
| Subordinated deposits | 46 | 132 |
| Junior bonds | 659 | 655 |
| Money market transactions | 119 | 117 |
| Other | 846 | 915 |
| *Total* | *5,193* | *6,509* |

## 25. Financial liabilities mandatorily measured at fair value through profit or loss

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Negative fair values from derivative hedging instruments | 782 | 2,867 |
| Trading liabilities | 23,245 | 25,948 |
| *Total* | *24,027* | *28,815* |

## Negative fair values from derivative hedging instruments

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Negative fair values from portfolio fair value hedges | 161 | 2,089 |
| Negative fair values from micro fair value hedges | 620 | 775 |
| Negative fair values from group fair value hedges | 0 | 4 |
| *Total* | *782* | *2,867* |

## Trading liabilities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Negative fair values from derivatives* | *15,500* | *19,030* |
| *Other trading liabilities* | *7,746* | *6,918* |
| Delivery obligations from short sales of securities | 651 | 252 |
| Securitized liabilities | 6,427 | 6,194 |
| Schuldschein loans | 248 | 236 |
| Liabilities from securities repurchase agreements | 34 | 0 |
| Money market transactions | 384 | 236 |
| Other | 2 | 0 |
| *Total* | *23,245* | *25,948* |

## 26. Issuing activities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Securitized liabilities | 53,997 | 41,834 |
| Securitized liabilities designated at fair value | 2,788 | 3,920 |
| Securitized liabilities mandatorily measured at fair value through profit or loss | 6,427 | 6,194 |
| *Total* | *63,212* | *51,949* |

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 498,225 million (previous year: EUR 989,620 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 1,515 million (previous year: EUR 4,337 million) and the volume of repayments to a nominal of EUR 339,389 million (previous year: EUR 683,350 million).

## Fair value

### 27. Fair value and carrying amount of financial instruments

The following table compares the carrying amounts and fair values of financial instruments measured at amortized cost:

#### Assets

| EUR million | 30 June 2021 Carrying amount | 30 June 2021 Fair value | 31 Dec. 2020 Carrying amount | 31 Dec. 2020 Fair value |
|---|---|---|---|---|
| **Financial assets measured at amortized cost** | | | | |
| Cash and cash equivalents | 60,467 | 60,467 | 13,650 | 13,650 |
| Loans and advances to banks | 49,159 | 49,369 | 68,465 | 68,860 |
| Loans and advances to customers | 110,987 | 113,687 | 108,116 | 112,465 |
| Debentures and other fixed-income securities | 964 | 970 | 921 | 924 |

#### Equity and liabilities

| EUR million | 30 June 2021 Carrying amount | 30 June 2021 Fair value | 31 Dec. 2020 Carrying amount | 31 Dec. 2020 Fair value |
|---|---|---|---|---|
| **Financial liabilities measured at amortized cost** | | | | |
| Deposits from banks | 98,680 | 99,414 | 78,765 | 79,802 |
| Deposits from customers | 97,970 | 98,794 | 95,288 | 96,362 |
| Securitized liabilities | 53,997 | 53,302 | 41,834 | 42,730 |
| Subordinated capital | 5,021 | 5,650 | 5,740 | 6,300 |

### 28. Fair value hierarchy

The fair values used when measuring financial instruments are assigned to a three-level fair value hierarchy, taking into account the measurement methods and parameters used to carry-out this measurement. If parameters from different levels are used to determine the fair value, the resulting fair value is assigned to the next level whose parameters have a material effect on fair value measurement.

The three-level fair value hierarchy with Level I, Level II, and Level III – the terminology provided for in IFRS 13 – is specified as follows at LBBW:

- All financial instruments with unadjusted prices quoted on active markets are assigned to the first group (Level I).
- Derivatives measured using models, tradable credits, structured Group debt instruments designated at fair value, units in investment funds and certain corporate/financial and government bonds with automatic provision from market information systems (observable parameters) and liquid asset-backed securities are assigned to the second group (Level II).
- Level III comprises financial instruments for which one or more parameters are not based on observable market data and these data have a more than immaterial effect on the fair value of an instrument. These include complex OTC derivatives, certain private equity investments, certain high-grade structured bonds including illiquid asset-backed securities and structured securitizations.

The following table shows the breakdown of the balance sheet classifications by measurement method:

## Assets

| | Prices traded on active markets (Level I) | | Measurement method – on the basis of externally observable parameters (Level II) | | Measurement method – on the basis externally unobservable parameters (Level III) | |
|---|---|---|---|---|---|---|
| **EUR million** | **30 June 2021** | **31 Dec. 2020** | **30 June 2021** | **31 Dec. 2020** | **30 June 2021** | **31 Dec. 2020** |
| **Financial assets measured at fair value** | | | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 2,330 | 1,099 | 36,576 | 40,006 | 949 | 1,080 |
| Trading assets | 2,323 | 1,092 | 35,352 | 37,434 | 714 | 879 |
| Derivatives | 0 | 0 | 19,104 | 22,577 | 38 | 80 |
| Equity instruments | 316 | 242 | 443 | 472 | 0 | 0 |
| Debentures and other fixed-income securities | 2,006 | 850 | 4,382 | 4,069 | 0 | 0 |
| Receivables | 1 | 0 | 11,422 | 10,315 | 675 | 799 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | 7 | 7 | 845 | 900 | 235 | 201 |
| Equity instruments | 7 | 7 | 279 | 275 | 178 | 161 |
| Debentures and other fixed-income securities | 0 | 0 | 0 | 0 | 2 | 5 |
| Receivables | 0 | 0 | 566 | 625 | 56 | 35 |
| Positive fair values from derivative hedging instruments | 0 | 0 | 378 | 1,673 | 0 | 0 |
| Financial assets designated at fair value | 35 | 15 | 1,067 | 965 | 0 | 152 |
| Debentures and other fixed-income securities | 35 | 15 | 23 | 43 | 0 | 0 |
| Receivables | 0 | 0 | 1,043 | 922 | 0 | 152 |
| Financial assets measured at fair value through other comprehensive income | 23,663 | 24,141 | 10,177 | 10,666 | 3 | 3 |
| Equity instruments | 65 | 56 | 0 | 0 | 3 | 3 |
| Debentures and other fixed-income securities | 23,598 | 24,085 | 6,764 | 6,954 | 0 | 0 |
| Receivables | 0 | 0 | 3,413 | 3,712 | 0 | 0 |
| Non-current assets and disposal groups held for sale | 0 | 0 | 0 | 0 | 0 | 2 |

## Equity and liabilities

| EUR million | Prices traded on active markets (Level I) | | Measurement method – on the basis of externally observable parameters (Level II) | | Measurement method – on the basis externally unobservable parameters (Level III) | |
|---|---|---|---|---|---|---|
| | 30 June 2021 | 31 Dec. 2020 | 30 June 2021 | 31 Dec. 2020 | 30 June 2021 | 31 Dec. 2020 |
| **Financial liabilities measured at fair value** | | | | | | |
| Financial liabilities mandatorily measured at fair value through profit or loss | 658 | 114 | 23,249 | 28,556 | 121 | 145 |
| Trading liabilities | 658 | 114 | 22,467 | 25,689 | 121 | 145 |
| Derivatives | 0 | 0 | 15,379 | 18,885 | 121 | 145 |
| Delivery obligations from short sales of securities | 625 | 114 | 26 | 138 | 0 | 0 |
| Deposits | 1 | 0 | 667 | 471 | 0 | 0 |
| Securitized liabilities | 32 | 0 | 6,396 | 6,194 | 0 | 0 |
| Negative fair values from derivative hedging instruments | 0 | 0 | 782 | 2,867 | 0 | 0 |
| Financial liabilities designated at fair value | 0 | 0 | 5,062 | 6,119 | 131 | 390 |
| Securitized liabilities | 0 | 0 | 3,315 | 4,317 | 131 | 259 |
| Other financial liabilities | 0 | 0 | 1,747 | 1,802 | 0 | 131 |

## Transfers between levels

If the main parameters used in fair value measurement change, the classification in the fair value hierarchy is also adjusted. As at the end of the reporting period, the necessary reclassifications between Levels I to III are carried out based on defined quality criteria for the market data used in measurement. Prompt availability, volume, executability and bid-offer spreads of the market data used play a particular role.

For financial instruments measured using models, LBBW's Risk Controlling identifies the model parameters required for fair value measurement. The models are subject to a regular validation process and the observability of the necessary model inputs is monitored in Risk Controlling's price review process. This allows those financial instruments to be identified that must be transferred between Levels II and III of the measurement hierarchy.

The following transfers were made between Levels I and II in the fair value hierarchy since the last reporting date:

## Assets

| EUR million | Reclassification from Level I to Level II | | Reclassification from Level II to Level I | |
|---|---|---|---|---|
| | 30 June 2021 | 31 Dec. 2020 | 30 June 2021 | 31 Dec. 2020 |
| **Financial assets measured at fair value** | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 1,012 | 133 | 1,548 | 141 |
| Trading assets | 248 | 133 | 465 | 141 |
| Equity instruments | 7 | 64 | 11 | 7 |
| Debentures and other fixed-income securities | 241 | 69 | 454 | 134 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | 764 | 0 | 1,084 | 0 |
| Debentures and other fixed-income securities | 764 | 0 | 1,084 | 0 |
| Financial assets designated at fair value | 0 | 19 | 20 | 0 |
| Debentures and other fixed-income securities | 0 | 19 | 20 | 0 |
| Financial assets measured at fair value through other comprehensive income | 0 | 403 | 0 | 767 |
| Debentures and other fixed-income securities | 0 | 403 | 0 | 767 |

## Equity and liabilities

| EUR million | Reclassification from Level I to Level II | | Reclassification from Level II to Level I | |
|---|---|---|---|---|
| | 30 June 2021 | 31 Dec. 2020 | 30 June 2021 | 31 Dec. 2020 |
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities mandatorily measured at fair value through profit or loss | 53 | 9 | 0 | 33 |
| Trading liabilities | 53 | 9 | 0 | 33 |
| Delivery obligations from short sales of securities | 53 | 0 | 0 | 33 |
| Securitized liabilities | 0 | 9 | 0 | 0 |

In the first half of 2021, LBBW reclassified instruments from Level I to II of the fair value hierarchy as there were no longer quoted prices from active markets for the corresponding financial instruments. Instruments were also reclassified in the other direction as quoted prices from active markets became available again.

## Development of Level III

The development of the portfolios of financial instruments measured at fair value, which were calculated using valuation models which include material non-observable parameters (Level III), is shown in the tables below. The unrealized profit and loss on Level III financial instruments is based on both observable and unobservable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

## Assets

| | Financial assets measured at fair value through other comprehensive income | Financial assets designated at fair value | Financial assets mandatorily measured at fair value through profit and loss | | | | | Non-current assets and disposal groups held for sale | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Equity instruments | Receivables | Trading assets | | Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments | | | | |
| EUR million | | | Derivatives | Receivables | Equity instruments | Debentures and other fixed-income securities | Receivables | | |
| *Carrying amount as at 1 January 2021* | *3* | *152* | *80* | *799* | *161* | *5* | *35* | *2* | *1,237* |
| Gains and losses recognized in net consolidated profit/loss | 0 | - 2 | - 8 | 27 | 2 | 0 | 1 | 0 | 19 |
| Net interest income and current net income from equity instruments | 0 | - 4 | 1 | 2 | 0 | 0 | 0 | 0 | 0 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 0 | 1 | - 9 | 24 | 2 | 0 | 0 | 0 | 19 |
| Additions through acquisitions | 0 | 0 | 0 | 174 | 25 | 0 | 0 | 0 | 199 |
| Disposals through sales | 0 | 0 | 0 | 0 | - 10 | - 3 | 0 | - 2 | - 15 |
| Repayments/offsetting | 0 | 0 | - 1 | - 325 | 0 | 0 | - 1 | 0 | - 327 |
| Reclassification to Level III | 0 | 0 | 6 | 0 | 0 | 0 | 21 | 0 | 27 |
| Reclassification from Level III | 0 | - 149 | - 39 | 0 | 0 | 0 | 0 | 0 | - 188 |
| *Carrying amount as at 30 June 2021* | *3* | *0* | *38* | *675* | *178* | *2* | *56* | *0* | *952* |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 0 | - 2 | - 8 | 24 | 2 | 0 | 0 | 0 | 16 |
| Net interest income and current net income from equity instruments | 0 | - 4 | 1 | 0 | 0 | 0 | 0 | 0 | - 3 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 0 | 1 | - 9 | 24 | 2 | 0 | 0 | 0 | 18 |

| | Financial assets measured at fair value through other comprehensive income | Financial assets designated at fair value | Financial assets mandatorily measured at fair value through profit and loss | | | | | Non-current assets and disposal groups held for sale | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Equity instruments | Receivables | Trading assets | | Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments | | | | |
| EUR million | | | Derivatives | Receivables | Equity instruments | Debentures and other fixed-income securities | Receivables | | |
| *Carrying amount as at 1 January 2020* | *392* | *153* | *328* | *343* | *175* | *5* | *112* | *57* | *1,566* |
| Gains and losses recognized in net consolidated profit/loss | 0 | - 1 | 93 | 10 | - 8 | 0 | 4 | - 0 | 98 |
| Net interest income and current net income from equity instruments | 0 | - 3 | 0 | 4 | 0 | 0 | 2 | 0 | 4 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 0 | 1 | 93 | 6 | - 8 | 0 | 2 | 0 | 94 |
| Other earnings items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - 0 | - 0 |
| Income and expenses recognized in other comprehensive income[1] | - 46 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - 46 |
| Additions through acquisitions | 0 | 0 | 0 | 691 | 6 | 0 | 0 | 0 | 697 |
| Disposals through sales | - 343 | 0 | 0 | 0 | - 12 | 0 | 0 | - 44 | - 399 |
| Repayments/offsetting | 0 | 0 | - 202 | - 297 | 0 | 0 | - 56 | 0 | - 555 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - 13 | - 13 |
| Reclassification to Level III | 0 | 0 | 0 | 52 | 0 | 0 | 0 | 0 | 52 |
| Reclassification from Level III | 0 | 0 | - 139 | - 1 | 0 | 0 | - 25 | 0 | - 164 |
| Transfers in accordance with IFRS 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 |
| *Carrying amount as at 31 December 2020* | *3* | *152* | *80* | *799* | *161* | *5* | *35* | *2* | *1,237* |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 0 | - 1 | - 13 | 6 | - 8 | 0 | 1 | - 0 | - 15 |
| Net interest income and current net income from equity instruments | 0 | - 3 | 0 | 2 | 0 | 0 | - 1 | 0 | - 2 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 0 | 1 | - 13 | 5 | - 8 | 0 | 2 | 0 | - 13 |

1 Amounts recognized under »Revaluation reserve«.

## Equity and liabilities

| EUR million | Financial liabilities designated at fair value | | Financial liabilities mandatorily measured at fair value through profit or loss | Total |
|---|---|---|---|---|
| | Securitized liabilities | Other financial liabilities | Trading liabilities | |
| | | | Derivatives | |
| *Carrying amount as at 1 January 2021* | *259* | *131* | *145* | *535* |
| Gains and losses recognized in net consolidated profit/loss | – 15 | 1 | 12 | – 3 |
| Net interest income and current net income from equity instruments | – 3 | – 1 | 1 | – 3 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | – 11 | 1 | 10 | 0 |
| Income and expenses recognized in other comprehensive income[1] | 1 | – 0 | 0 | 0 |
| Repayments/offsetting | – 21 | – 31 | – 9 | – 61 |
| Reclassification from Level III | – 92 | – 100 | – 27 | – 219 |
| *Carrying amount as at 30 June 2021* | *131* | *0* | *121* | *252* |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | – 15 | 1 | 12 | – 3 |
| Net interest income and current net income from equity instruments | – 3 | – 1 | 1 | – 3 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | – 11 | 1 | 10 | 0 |

1 Amounts recognized under »Revaluation reserve«.

| EUR million | Financial liabilities designated at fair value | | Financial liabilities mandatorily measured at fair value through profit or loss | Total |
|---|---|---|---|---|
| | Securitized liabilities | Other financial liabilities | Trading liabilities | |
| | | | Derivatives | |
| *Carrying amount as at 1 January 2020* | *330* | *134* | *176* | *640* |
| Gains and losses recognized in net consolidated profit/loss | – 18 | – 3 | – 14 | – 34 |
| Net interest income and current net income from equity instruments | – 1 | – 0 | – 0 | – 1 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | – 17 | – 2 | – 14 | – 33 |
| Repayments/offsetting | – 43 | 0 | – 16 | – 59 |
| Reclassification from Level III | – 10 | 0 | – 1 | – 11 |
| *Carrying amount as at 31 December 2020* | *259* | *131* | *145* | *535* |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | – 18 | – 3 | – 14 | – 34 |
| Net interest income and current net income from equity instruments | – 1 | – 0 | – 0 | – 1 |
| Net gains/losses from financial instruments measured at fair value through profit or loss | – 17 | – 2 | – 14 | – 33 |

As parameters observable on the market in H1 2021 were no longer available or these were now considered to have a material influence on fair value, LBBW made reclassifications from Level II to Level III. Offsetting this, parameters that were again observable were available on the market or the influence of non-observable parameters on fair value was considered immaterial, and so LBBW made reclassifications from Level III to II.

## Sensitivity analysis Level III

If the model value of financial instruments is based on unobservable market parameters, alternative parameters are used to determine the potential estimation uncertainty. For most of the securities and derivatives classified as Level III, only one unobservable parameter is included in the fair value calculation, preventing any interactions between Level III parameters. The overall sensitivity of the products whose fair value calculation includes more than one unobservable parameter is immaterial. Interactions between these inputs have therefore not been calculated.

For the investments classified as Level III, sensitivities are essentially calculated by shifting the individual beta factors up or down. If no beta factors are used in measurement, the sensitivities are calculated on the basis of the average percentage change in fair value. This is based on the upward/downward shift of the investments whose measurement is based on a beta factor.

The information is intended to show the potential effects of the relative uncertainty in the fair values of financial instruments, the measurement of which is based on unobservable parameters:

## Assets

| | Positive changes in fair value | | Negative changes in fair value | |
|---|---|---|---|---|
| | Net gains/losses from financial instruments measured at fair value and revaluation reserve | | Net gains/losses from financial instruments measured at fair value and revaluation reserve | |
| **EUR million** | **30 June 2021** | **31 Dec. 2020** | **30 June 2021** | **31 Dec. 2020** |
| **Financial assets measured at fair value** | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | 16.4 | 18.3 | – 15.2 | – 16.7 |
| Trading assets | 10.0 | 11.6 | – 10.4 | – 11.7 |
| Derivatives | 1.0 | 0.8 | – 1.3 | – 0.9 |
| Receivables | 9.1 | 10.8 | – 9.1 | – 10.8 |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | 6.4 | 6.7 | – 4.8 | – 5.0 |
| Equity instruments | 4.7 | 4.7 | – 3.1 | – 3.1 |
| Receivables | 1.7 | 1.9 | – 1.7 | – 1.9 |
| *Total* | *16.4* | *18.3* | *– 15.2* | *– 16.7* |

## Equity and liabilities

| EUR million | Positive changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve 30 June 2021 | Positive changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve 31 Dec. 2020 | Negative changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve 30 June 2021 | Negative changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve 31 Dec. 2020 |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities mandatorily measured at fair value through profit or loss | 1.4 | 2.6 | – 1.2 | – 2.7 |
| Trading liabilities | 1.4 | 2.6 | – 1.2 | – 2.7 |
| Derivatives | 1.4 | 2.6 | – 1.2 | – 2.7 |
| Financial liabilities designated at fair value | 0 | 0.4 | 0 | – 0.3 |
| Securitized liabilities | 0 | 0.4 | 0 | – 0.3 |
| *Total* | *1.4* | *3.0* | *– 1.2* | *– 3.0* |

### Significant unobservable Level III parameters

The significant unobservable parameters of the financial instruments measured at fair value and classified as Level III are shown in the following tables.

The range shown below depicts the highs and lows in the non-observable parameters on which the valuations in the Level III category were based. As the financial instruments in question differ significantly, the range of certain parameters can be considerable.

The parameter shifts in the table depict the changes in the unobservable parameters that are tested in the sensitivity analysis. The parameter shifts in the table depict the changes in the unobservable parameters that are tested in the sensitivity analysis. They thus provide information on the range of alternative parameters selected by LBBW for its calculation of fair value.

## Assets

| 30 June 2021<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | | | | |
| Trading assets | | | | |
| Derivatives | Option price models | Interest rate correlation | – 82% – 100% | relative – 20%/+ 10% |
| | Net present value method | Liquidity spread (bp) | 16 | absolute – 5bp/+ 5bp |
| Receivables | Net present value method | Credit spread (bp) | 52 – 435 | relative –10 – 30%/ +10 – 30% |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | | | | |
| Equity instruments | Net asset value method | n/a | n/a | n/a |
| | Discounted cash flow method | Capitalization rate | 1.48% – 3.43% | Shift individually per instrument |
| | Net income value method | Beta factor | 1.00 – 1.19 | relative +/– 5% |
| Receivables | Net present value method | Credit spread (bp) | 214 – 220 | relative – 30%/+ 30% |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Equity instruments | Net asset value method | n/a | n/a | n/a |
| | Discounted cash flow method | n/a | n/a | n/a |
| | Net income value method | n/a | n/a | n/a |

| 31 Dec. 2020<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Financial assets mandatorily measured at fair value through profit or loss | | | | |
| Trading assets | | | | |
| Derivatives | Option price models | Interest rate correlation | – 82% – 100% | relative – 20%/+ 10% |
| Receivables | Net present value method | Credit spread (bp) | 73 – 472 | relative –10 – 30%/ +10 – 30% |
| Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments | | | | |
| Equity instruments | Net asset value method | n/a | n/a | n/a |
| | Net income value method | Beta factor | 1.00 – 1.23 | relative + 5%/– 5% |
| Receivables | Net present value method | Credit spread (bp) | 233 – 238 | relative – 30%/+ 30% |
| Financial assets measured at fair value through other comprehensive income | | | | |
| Equity instruments | Net asset value method | n/a | n/a | n/a |
| | Discounted cash flow method | n/a | n/a | n/a |
| | Net income value method | n/a | n/a | n/a |

## Equity and liabilities

| 30 June 2021<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities mandatorily measured at fair value through profit or loss | | | | |
| Trading liabilities | | | | |
| Derivatives | Option price models | Interest rate correlation | – 82% – 100% | relative – 20%/+ 10% |
| | TRS model | Discount curve (bp) | 24 – 79 | relative – 30%/+ 30% |

| 31 Dec. 2020<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities mandatorily measured at fair value through profit or loss | | | | |
| Trading liabilities | | | | |
| Derivatives | Option price models | Interest rate correlation | – 81% – 100% | relative – 20%/+ 10% |
| | Net present value method | Probability of premature termination | 15% | absolute – 10%/+ 10% |
| | TRS model | Discount curve (bp) | 27 – 94 | relative – 30%/+ 30% |

## Day One Profit or Loss

The use of unobservable parameters for the measurement of financial instruments can lead to differences between the transaction price and the fair value. This deviation is referred to as day one profit or loss, which is distributed throughout the term of the financial instrument through profit or loss.

Credit spreads and correlations between interest rates and default risks of different asset classes are not consistently observable on the market or cannot be derived from prices observed on the market. Market participants can have different opinions on the characteristics of the unobservable parameters used in these models, hence the transaction price can deviate from what LBBW considers to be the fair value.

LBBW recognizes day one profits for trading portfolios of interest rate-linked derivatives.

The table below shows the changes in day one profits for the first half of the 2021 financial year in comparison to the end of 2020, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

| EUR million | 2021 | 2020 |
|---|---|---|
| *Balance as at 1 January* | *2* | *1* |
| New transactions (allocations) | 0 | 1 |
| Income recognized in the income statement in the reporting period (reversals) | – 1 | 0 |
| *As at 30 June/31 December* | *1* | *2* |

# F. Other

## 29. Non-current assets and disposal groups held for sale

In the course of the constant optimization of its portfolio, LBBW held or concluded negotiations for the sale of non-current assets held for sale and disposal groups in the period under review.

Compared with the previous year, the following changes arose in relation to the non-current assets and disposal groups classified as held for sale:

- Two investment properties were sold in the first half of 2021. This affects the »Corporate Items« segment.
- Sales negotiations were conducted for two properties reported as property and equipment. The contract has already been signed for both properties. This affects the »Corporate Items« segment.
- In addition, sales negotiations for another property reported as property and equipment were conducted. This affects the »Corporate Items« segment.

The main groups of assets and liabilities held for sale were as follows:

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| **Assets** | | |
| Investment property | 0 | 2 |
| *Total* | *0* | *2* |

The reclassification of non-current assets in accordance with IFRS 5 did not result in any impairment in the period under review.

## 30. Intangible assets

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Purchased software | 52 | 62 |
| Advance payments and cost for development and preparation | 24 | 20 |
| Internally generated intangible assets | 38 | 47 |
| Other purchased intangible assets | 47 | 49 |
| *Total* | *162* | *178* |

### 31. Investment property

Property leased out to third parties for purposes of generating profit is reported separately in the balance sheet as »Investment property« according to IAS 40 as long as it is held to earn rental income and/or for capital appreciation. Where mixed-use properties exist and the non-owner-occupied parts can be sold separately or leased out separately, these parts are accounted for separately. Mixed-use properties with a leased portion of over 80% of the total area are consistently derecognized from property and equipment and classified in their entirety as »Investment property«.

Investment property is measured initially at cost including transaction costs. Remeasurement is at fair value on the closing date. This is determined primarily from model-based valuations. Regular actuarial reports are obtained for material investment properties to validate the fair value from the model-based valuations.

In the measurement of investment property, the estimating uncertainties are based on the assumptions used to calculate future cash flows. Changes in parameters such as the inflation rate, interest rate, anticipated cost trends and leasing, market conditions and vacancy rates affect future cash flows and, consequently, the fair value.

The value of investment property is assessed based on cash calculated per property on the basis of the discounted cash flow method. The contributions to earnings determined by this method are checked for plausibility and verified by means of reference figures from broker associations, past experience from LBBW's own disposals and appraisals by external experts. In order to ensure that the appraisals are available at the time the financial statements are drawn up, the management team responsible decides for which properties external appraisals are to be commissioned in the second half of the year. In line with internal provisions, it must be ensured that an appraisal of the main properties is conducted at least once every three years by an independent expert.

Fair value is calculated using the discounted cash flow method based on the following assumption. As a valuation object, the respective building serves as an independent, strategic cash-generating unit. The expected cash flows generated per cash-generating unit are calculated assuming income from property management. For a detailed planning period of ten years, the cash generated is calculated as the net amount of payments received and payments made in connection with management of the property. A residual value for the cash-generating unit is forecast for the end of the planning period by capitalizing the cash generated in the tenth year as a perpetual annuity.

The following table illustrates the changes in carrying amounts:

| EUR million | Investment property | Rights-of-use from leases | Total |
|---|---|---|---|
| *Carrying amount as at 1 January 2021* | *768* | *28* | *796* |
| Additions | 0 | 1 | 1 |
| Currency translation differences | 3 | 0 | 3 |
| Changes in fair value from assets (through profit or loss) | 7 | – 2 | 6 |
| *Carrying amount as at 30 June 2021* | *778* | *27* | *805* |

| EUR million | Investment property | Rights-of-use from leases | Total |
|---|---|---|---|
| *Carrying amount as at 1 January 2020* | *624* | *30* | *655* |
| Additions | 52 | 0 | 52 |
| Disposals | – 2 | – 0 | – 2 |
| Reclassification to non-current assets or disposal groups held for sale | – 2 | 0 | – 2 |
| Currency translation differences | – 8 | – 1 | – 10 |
| Changes in fair value from assets (through profit or loss) | 28 | – 1 | 27 |
| Reclassification from/to inventories and property and equipment | 75 | 0 | 75 |
| *Carrying amount as at 31 December 2020* | *768* | *28* | *796* |

»Investment property« is measured on the basis of externally unobservable parameters (Level III). The tables below show the significant unobservable parameters of the investment property. Corresponding statements on financial instruments (see Note 28) also apply.

| 30 June 2021<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| Investment property | Discounted cash flow method | Rent dynamization/indexing | 1.5% | n/a |
| | | Discount rate | 3.2% – 8.8% | |
| | | Risk of loss of rent | 1.0% – 4.0% | |
| | | Basic maintenance costs | EUR 4.00 – EUR 19.00/m² | |
| | | Administrative costs (% of target rent) | 1.0% – 6.5% | |

| 31 Dec. 2020<br>EUR million | Measurement methods | Significant unobservable parameters | Range | Parameter shift |
|---|---|---|---|---|
| Investment property | Discounted cash flow method | Rent dynamization/indexing | 1.50% | n/a |
| | | Discount rate | 3.00% – 8.76% | |
| | | Risk of loss of rent | 0.00% – 4.00% | |
| | | Basic maintenance costs | EUR 4.00 – EUR 19.00/m² | |
| | | Administrative costs (% of target rent) | 1.00% – 10.00% | |

The development of investment property measured at fair value, which was calculated using valuation models which include material non-observable parameters (Level III), is shown in the table below.

| EUR million | 2021 | 2020 |
|---|---|---|
| *Carrying amount as at 1 January* | *796* | *655* |
| Gains and losses recognized in net consolidated profit/loss | 6 | 29 |
| Other earnings items | 6 | 29 |
| Additions through acquisitions | 1 | 52 |
| Disposals through sales | – 0 | – 2 |
| Other changes | 3 | 63 |
| Transfers in accordance with IFRS 5 | 0 | – 2 |
| *Carrying amount as at 30 June/31 December* | *805* | *796* |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 6 | 29 |
| Other earnings items | 6 | 29 |

## 32. Property and equipment

Amortization and write-downs (both scheduled and unscheduled) are recognized under the »Depreciation and write-downs of property and equipment« item in »Administrative expenses«. Reversals of impairment losses and gains and losses on the disposal of property and equipment are recorded under »Other operating income/expenses«.

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Land and buildings | 276 | 281 |
| Leased assets under operating leases | 136 | 137 |
| Operating and office equipment | 74 | 72 |
| Technical equipment and machinery | 9 | 9 |
| Rights-of-use from leases | 264 | 279 |
| Advance payments and assets under construction | 7 | 11 |
| *Total* | *765* | *790* |

## 33. Income taxes

### Income tax assets

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Current income tax assets | 42 | 118 |
| Domestic | 26 | 107 |
| Abroad | 16 | 11 |
| Deferred income tax assets | 1,021 | 1,107 |
| *Total* | *1,063* | *1,225* |

## Income tax liabilities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Current income tax liabilities | 40 | 49 |
| Deferred income tax liabilities | 30 | 24 |
| *Total* | *70* | *73* |

## 34. Provisions

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Provisions for pensions | 1,453 | 1,667 |
| Provisions for litigation and recourse risk | 180 | 210 |
| Provisions for lending business | 209 | 277 |
| Other personnel-related provisions | 127 | 126 |
| Other provisions | 245 | 243 |
| *Total* | *2,214* | *2,523* |

LBBW made changes to payment options and interest for some of its service agreements relating to company pension schemes in the first half of the year. The plan amendment resulted in a non-recurring past service cost of EUR 14 million. As part of this, measurement factors for payments of the pension credits were adjusted for other individual pension schemes. The amendment to be recognized through other comprehensive income increased pension obligations by EUR 15 million, while net actuarial profit/loss declined by EUR – 10 million after deferred taxes.

Potential negative effects resulting from the German Federal Court of Justice's ruling on customer consent for price changes were taken into account by recognizing provisions for litigation and recourse risks.

The following table shows the development of provisions for credit risks:

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Total |
|---|---|---|---|---|
| *Balance as at 1 January 2021* | *11* | *155* | *111* | *277* |
| Changes | 2 | – 62 | 4 | – 56 |
| Transfer to Stage 1 | 3 | – 3 | 0 | – 0 |
| Transfer to Stage 2 | – 2 | 2 | – 0 | – 0 |
| Transfer to Stage 3 | – 0 | – 5 | 5 | 0 |
| Additions | 9 | 15 | 34 | 58 |
| Reversals | – 7 | – 72 | – 36 | – 115 |
| Additions | 2 | 1 | 5 | 7 |
| Disposals | – 1 | – 7 | – 11 | – 18 |
| Other changes | 0 | 0 | – 1 | – 1 |
| *Balance as at 30 June 2021* | *14* | *88* | *107* | *209* |

| EUR million | Stage 1 12-month expected credit loss | Stage 2 Life-time expected credit loss | Stage 3 Impairment after recognition | Total |
|---|---|---|---|---|
| *Balance as at 1 January 2020* | *18* | *30* | *97* | *146* |
| Changes | – 12 | 125 | – 1 | 113 |
| Transfer to Stage 1 | 4 | – 4 | 0 | 0 |
| Transfer to Stage 2 | – 5 | 8 | – 3 | 0 |
| Transfer to Stage 3 | – 0 | – 1 | 1 | 0 |
| Additions | 2 | 136 | 31 | 170 |
| Reversals | – 13 | – 14 | – 30 | – 57 |
| Additions | 7 | 3 | 39 | 49 |
| Disposals | – 2 | – 3 | – 24 | – 29 |
| Other changes | – 0 | – 0 | – 1 | – 2 |
| *Balance as at 31 December 2020* | *11* | *155* | *111* | *277* |

## 35. Other assets and other liabilities

### Other assets

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Inventories | 908 | 802 |
| Receivables from tax authorities | 56 | 71 |
| Other miscellaneous assets | 2,936 | 2,006 |
| *Total* | *3,900* | *2,878* |

### Other liabilities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| **Liabilities from** | | |
| Other taxes | 157 | 40 |
| Employment | 11 | 15 |
| Trade payables | 59 | 63 |
| Non-controlling interests | 3 | 3 |
| Leasing | 312 | 326 |
| Advances received | 253 | 198 |
| Other miscellaneous liabilities | 1,528 | 1,571 |
| *Total* | *2,323* | *2,217* |

## 36. Off-balance-sheet transactions

### Contingent liabilities

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Sureties and guarantee agreements | 7,902 | 7,232 |
| Other contingent liabilities | 183 | 151 |
| *Total* | *8,085* | *7,383* |

Contingent liabilities chiefly comprise sureties and guarantee agreements:

- In accordance with Section 765(1) of the German Civil Code (BGB), a surety is a contractual obligation by the guarantor to the creditor of a third party to be responsible for the third party's obligation.
- Guarantee agreements are all contractual commitments that do not qualify as a surety and that concern the responsibility for a certain success or performance or for the non-occurrence of a certain disadvantage or damage.
- A documentary letter of credit is a promise given by a bank to make payment on presentation of specific documents.

This does not include financial guarantees.

In the event of objective indications of impairment, any loss is to be calculated using probability-weighted scenarios. The amount of the provision is determined by the present-value amount at which the Bank expects the beneficiary under a guarantee to make a claim against it, minus expected inflows e.g. from rights (rights of recourse, securities etc.). It is recognized under »Provisions for credit risks«.

In addition to (legal) risks, other contingent liabilities also include payment obligations towards the restructuring fund (bank levy) payable in part or in full on first demand in the event of resolution measures and for which cash collateral has been provided.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which came into force on 3 July 2015, governs the future financial resources of statutory and bank-related guarantee systems, including the bank-related guarantee system of the Sparkassen-Finanzgruppe. LBBW makes an irrevocable commitment to the owner of the bank-related guarantee system, German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV), to make further payments on first demand e. g. in the compensation case pursuant to Section 10 EinSiG, in addition to the annual contribution. Other contingent liabilities include collateral provided in this context.

## Contingent claims

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Legal disputes | 7 | 7 |
| *Total* | *7* | *7* |

## 37. Related party disclosures

The LBBW Group performs related party transactions in the ordinary course of business. The extent of these transactions is shown in the table below:

| 30 June 2021<br>EUR million | Shareholders | Members of the Board of Managing Directors and Supervisory Board | Non-consolidated subsidiaries | Associates | Joint ventures | Other related parties |
|---|---|---|---|---|---|---|
| Financial assets measured at amortized cost | 506 | 4 | 2 | 79 | 0 | 892 |
| Financial assets measured at fair value through other comprehensive income | 705 | 0 | 16 | 171 | 0 | 0 |
| Financial assets designated at fair value | 23 | 0 | 0 | 0 | 0 | 0 |
| Financial assets mandatorily measured at fair value through profit or loss | 1,969 | 0 | 7 | 99 | 0 | 375 |
| *Total assets* | *3,203* | *4* | *24* | *349* | *0* | *1,267* |
| Financial liabilities measured at amortized cost | 1,766 | 11 | 42 | 84 | 11 | 12,430 |
| Financial liabilities mandatorily measured at fair value through profit or loss | 0 | 0 | 0 | 43 | 0 | 126 |
| Provisions | 0 | 0 | 0 | 0 | 3 | 0 |
| *Total equity and liabilities* | *1,766* | *11* | *42* | *126* | *14* | *12,556* |
| Off-balance-sheet transactions | 303 | 1 | 9 | 85 | 3 | 1,062 |

| 31 Dec. 2020<br>EUR million | Shareholders | Members of the Board of Managing Directors and Supervisory Board | Non-consolidated subsidiaries | Associates | Joint ventures | Other related parties |
|---|---|---|---|---|---|---|
| Financial assets measured at amortized cost | 582 | 4 | 2 | 110 | 0 | 940 |
| Financial assets measured at fair value through other comprehensive income | 732 | 0 | 22 | 171 | 0 | 0 |
| Financial assets designated at fair value | 24 | 0 | 0 | 0 | 0 | 0 |
| Financial assets mandatorily measured at fair value through profit or loss | 2,514 | 0 | 6 | 82 | 4 | 516 |
| *Total assets* | *3,852* | *4* | *30* | *363* | *4* | *1,456* |
| Financial liabilities measured at amortized cost | 579 | 10 | 44 | 120 | 10 | 11,908 |
| Financial liabilities mandatorily measured at fair value through profit or loss | 0 | 0 | 0 | 53 | 0 | 146 |
| Provisions | 0 | 0 | 0 | 0 | 3 | 0 |
| *Total equity and liabilities* | *580* | *10* | *44* | *174* | *13* | *12,054* |
| Off-balance-sheet transactions | 383 | 1 | 9 | 90 | 3 | 1,080 |

Related party transactions resulted in material effects in net interest income of EUR 147 million (previous year: EUR 99 million).

## 38. Equity

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| Share capital | 3,484 | 3,484 |
| Capital reserve | 8,240 | 8,240 |
| Retained earnings | 1,443 | 1,243 |
| Other comprehensive income | 76 | 74 |
| Net consolidated profit/loss | 283 | 172 |
| *Shareholders' equity* | *13,526* | *13,214* |
| Additional equity components | 745 | 745 |
| Equity attributable to non-controlling interests | 35 | 33 |
| *Total* | *14,306* | *13,992* |

Retained earnings included cumulative actuarial gains/losses after tax of EUR – 1,155 million (previous year: EUR – 1,303 million). Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«. As part of profit appropriation for 2019 and 2020, EUR 89 million has already been distributed to the owners of LBBW (Bank) this year in line with the guidelines issued by the ECB.

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR 3 million (previous year: EUR 38 million) in connection with the measurement of LBBW's own credit rating was included in other comprehensive income. LBBW's own credit spread (OCS) also declined considerably compared to the end of 2020 as a result of narrowing spreads on capital markets for financials.

Equity includes taxes recognized in other comprehensive income of EUR 474 million (previous year: EUR 540 million).

The detailed development of the individual components of the Equity item is shown in statement of changes in equity.

## 39. Equity and total amount at risk

The following table shows the structure of the LBBW Group's own funds and the total amount of risk under current supervisory law (»phase-in«) as at the reporting date 30 June 2021:

| EUR million | 30 June 2021 | 31 Dec. 2020 |
|---|---|---|
| *Own funds* | *18,204* | *18,732* |
| Tier 1 capital | 13,439 | 13,632 |
| of which common equity Tier 1 capital (CET 1) | 12,454 | 12,406 |
| of which additional Tier 1 capital (AT 1) | 985 | 1,226 |
| Supplementary capital (Tier 2) | 4,765 | 5,100 |
| *Total amount at risk* | *82,357* | *82,042* |
| Risk weighted exposure amounts for credit, counterparty and dilution risk, advance payments and other risk exposure amounts | 69,644 | 70,207 |
| Risk exposure amount for settlement and supply risks | 1 | 2 |
| Total exposure amount for position, foreign exchange and commodity risk | 6,286 | 5,951 |
| Total risk exposure amount for »operational risks« | 4,815 | 4,745 |
| Total amount of risk due to CVA | 1,611 | 1,137 |
| *Total capital ratio (in %)* | *22.1* | *22.8* |
| *Tier 1 capital ratio (in %)* | *16.3* | *16.6* |
| *Common equity Tier 1 (CET 1) capital ratio (in %)* | *15.1* | *15.1* |

The common equity Tier I (CET 1) of the LBBW Group increased marginally as against the end of the previous year. This is a result chiefly of actuarial gains and revaluation reserves for securities. Offsetting this, there was a rise in various deductions, especially for prudent valuation and the new deductions for securitization exposures and non-performing-loans. Additional tier 1 capital (AT 1) declined due to the fact that the threshold in accordance with the CRR transitional provisions decreases every year. Supplementary capital (T2) decreased overall. Offsetting silent partners' contributions that, in accordance with CRR, no longer fulfill the conditions for AT 1 and instead meet only the conditions for T2, resulted in an increase. This was countered by the repayment of an issue and the amortization of Tier 2 capital components on the basis of the number of days that have passed. The total amount of risk increased marginally compared to the end of the previous year. Credit risk declined slightly. The main reasons for this development were rating changes for receivables measured using the internal rating approach, the use of the SME Supporting Factor in accordance with CRR II and the increase in collateral included. The upturn in the total exposure amount for position, for position, foreign exchange and commodity risk is the result mainly of new transactions and rating changes for exchange-traded debt instruments. The total amount of risk due to credit valuation adjustments increased primarily as a result of changes to market values and the new method of calculating the counterparty default risk of derivatives in accordance with CRR II.

LBBW publishes further information in accordance with Article 435 et seqq. CRR, including on own funds and own funds requirements under Article 437 and 438 CRR, in its Disclosure report pursuant to Section 26a of the German Banking Act (Kreditwesengesetz - KWG). The Disclosure report is updated each quarter and can be found on LBBW’s website under »Disclosure report«.

# 04

## Further information

# Responsibility statement

To the best of our knowledge, and in accordance with the applicable framework for half-year financial reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected future development of the Group in the remainder of the financial year.

Stuttgart, Karlsruhe, Mannheim and Mainz, 10 August 2021

The Board of Managing Directors

RAINER NESKE
Chairman

ANASTASIOS AGATHAGELIDIS

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

# Review report

**To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany**

We have reviewed the condensed consolidated half-year financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, which comprise the statement of financial position as at 30 June 2021, the statement of profit and loss and the statement of comprehensive income, the condensed statement of cash flows, the statement of changes in equity, and selected explanatory notes to the financial statements, as well as the interim group management report of the Company for the period from 1 January to 30 June 2021, which form part of the half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). The Company's executive directors are responsible for the preparation of the condensed consolidated half-year financial statements that comply with the International Financial Reporting Standards (IFRS) for interim financial reporting as adopted by the EU, and the interim group management report that complies with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to express a conclusion on the condensed consolidated half-year financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated half-year financial statements and of the interim group management report in compliance with German Generally Accepted Standards for Reviews of Annual Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance to preclude that the condensed consolidated half-year financial statements are not prepared, in all material respects, in accordance with the IFRS for interim financial reporting as adopted by the EU, or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not been engaged to perform an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, are not prepared, in all material respects, in accordance with the IFRS for interim financial reporting as adopted by the EU, or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart/Germany, 12 August 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

signed Klaus Löffler

Wirtschaftsprüfer
(German Public Auditor)

signed Herbert Apweiler

Wirtschaftsprüfer
(German Public Auditor)

# Note regarding forward-looking statements

This half-yearly financial report contains forward-looking statements. Forward-looking statements are identified by the use of words such as »expect«, »intend«, »anticipate«, »plan«, »believe«, »assume«, »aim«, »estimate«, »will«, »shall«, »forecast« and similar expressions. These statements are based on the current estimates and forecasts by the Board of Managing Directors and on currently available information. Forward-looking statements are not deemed to be guarantees of the future developments and results set out therein and involve a number of risks and uncertainties. If any of these or other risks or uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, the actual results may differ materially from those expressed or implied by such statements.

The LBBW Group assumes no obligation to continuously update any forward-looking statements, as these are based solely on the circumstances valid on the day of publication.

Breaking new ground

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