LBBW

Breaking new ground

Annual report 2022

Key figures

Income statement (EUR million)	01/01 – 31/12/2022	01/01 – 31/12/2021
Net interest income	2,305	2,031
Net fee and commission income	628	598
Net gains/losses on remeasurement and disposal	55	35
of which allowances for losses on loans and securities	– 239	– 240
Other operating income/expenses	1,061	93
of which badwill	972	0
Total operating income/expenses	*4,048*	*2,757*
Administrative expenses	– 1,985	– 1,802
Expenses for bank levy and deposit guarantee system	– 188	– 137
Net income/expenses from restructuring	– 2	– 1
Consolidated profit/loss before tax (excluding badwill)	901	817
Consolidated profit/loss before tax	*1,873*	*817*
Income taxes	– 363	– 399
Net consolidated profit/loss (excluding badwill)	538	418
Net consolidated profit/loss	*1,510*	*418*
Key figures in %	**01/01 – 31/12/2022**	**01/01 – 31/12/2021**
Return on equity (RoE)	13.4	6.0
Return on equity (RoE) (excluding badwill)	6.2	6.0
Cost/income ratio (CIR)	50.7	64.7
Cost/income ratio (CIR) (excluding badwill)	65.6	64.7
Balance sheet figures (EUR billion)	**31/12/2022**	**31/12/2021**
Total assets	324.2	282.3
Equity	15.4	14.2
Ratios in accordance with CRR/CRD V (after full implementation)	**31/12/2022**	**31/12/2021**
Risk weighted assets (EUR billion)	93.5	84.6
Common equity tier 1 (CET 1) capital ratio (in %)	14.1	14.6
Total capital ratio (in %)	20.0	21.4
Employees	**31/12/2022**	**31/12/2021**
Group	10,384	9,893

Rating	Moody's Investors Service	Rating	Fitch Ratings	Rating	DBRS Morningstar
Long-term Issuer Rating	Aa3, stable	Long-term Issuer Default Rating	A–, stable	Long-term Issuer Rating	A (high), stable
Long-term Bank Deposits	Aa3, stable	Long-term Deposit	A	Long-term Deposits	A (high), stable
Senior Unsecured Bank Debt	Aa3, stable	Long-term Senior Preferred Debt	A	Long-term Senior Debt	A (high), stable
Junior Senior Unsecured Bank Debt	A2	Long-term Senior Non-Preferred Debt	A–	Senior Non-Preferred Debt	A, stable
Short-term Ratings	P–1	Short-term Issuer Default Rating	F1	Short-term Ratings	R-1 (middle), stable
Baseline Credit Assessment (financial strength)	baa2	Viability Rating (financial strength)	bbb+	Intrinsic Assessment (financial strength)	A
Public-sector covered bonds	Aaa	Public-sector covered bonds	-	Public-sector covered bonds	-
Mortgage-backed covered bonds	Aaa	Mortgage-backed covered bonds	-	Mortgage-backed covered bonds	-

(as at 8 March 2023)

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Foreword and reports

Foreword by the Board of Managing Directors

Dear Readers,

Rapid changes in the economy and in society are part of our daily reality as a bank. The 2022 financial year once again showed this all too clearly.

As part of forward-looking corporate governance, we adapted our company strategy to account for these circumstances at an early stage last year and continued to refine it. Under the two-pronged approach of "growth and relevance", we have successfully worked on expanding LBBW's significance in a national and international market environment and generating further growth. Five strategic guidelines show us the way here: We aim to help bring about a sustainable transformation of the economy, support our customers with innovative solutions, improve our resilience as a bank, inspire our employees and make a real contribution to society.

Focusing on this, we want to maintain our profitable growth and become even more relevant for our stakeholders in business and society. And we achieved this in the 2022 financial year, a year dominated by previously unimaginable challenges. One key milestone in our company's strategic further development was the successful takeover of Berlin Hyp.

Thanks to this, LBBW reported its best operating earnings since 2006 at EUR 901 million. Including a non-recurring positive effect from the acquisition of Berlin Hyp, consolidated profit before tax came to EUR 1.873 billion.

This strong performance was driven by extremely lively customer business. Income – without the non-recurring effect – rose by 11% across the Group. In corporate business, we again stepped up our cross-selling and, in turn, further increased our relevance to customers. Demand was particularly high for hedging products in interest rate, currency and commodities management and corporate finance solutions. In the Real Estate/Project Finance segment, income picked up both in real estate financing and in the project finance business. In our capital market activities, investment and hedging products and certificates performed particularly well and, in turn, supported savings banks business. We also considerably bolstered our income in the Asset and & Wealth Management growth area. Among the bank's private customers, interest rate developments also resulted in very strong deposit business.

Despite the considerable economic strain on companies and private households, our bank's risk situation is very robust – and it is vital that we continue strengthening this resilience. Accordingly, we further expanded our allowances for losses on loans and securities as part of model adjustments. Even in these volatile times, the common equity Tier 1 capital ratio is 14.1% despite the integration of Berlin Hyp, still easily exceeding regulatory requirements.

As a whole, the last year once again showed that our business model of a mittelstand-minded universal bank with a strong focus on sustainability is efficient and successful. By acquiring Berlin Hyp and successfully consolidating it in record time, we strengthened a key core business area and increased our relevance within the Sparkassen-Finanzgruppe perceptibly. This creates a strong foundation that puts our bank in an excellent position for the future.

We would like to expressly thank our employees. With their outstanding teamwork and personal commitment, they are what makes the bank's success possible in the first place. Given this, we were also delighted to take advantage of the opportunity to show our staff how much we appreciate them by granting a EUR 2,000 inflation premium.

We would also like to thank our business partners for their successful collaboration. You can rest assured that we will continue doing our utmost to earn the trust placed in us.

Sincerely,

The Board of Managing Directors

Rainer Neske
Chairman

Anastasios Agathagelidis

Andreas Götz

Karl Manfred Lochner

Stefanie Münz

Dr. Christian Ricken

Thorsten Schönenberger

Report of the Supervisory Board

Ladies and gentlemen,

During the past financial year, we advised the Board of Managing Directors on the management of the company and regularly monitored the management of LBBW. The Board of Managing Directors provided us with regular, timely, and comprehensive information concerning key developments at the Bank and the Group in 2022. The economic situation of the individual business units and the business situation of the LBBW Group were the subject of intense discussion. The Board of Managing Directors informed us on the risk, liquidity and capital management of the Bank, as well as of transactions and events of considerable importance for the Bank, and took advice from us on these matters. The Supervisory Board was involved in decisions of major importance for LBBW and, when required, granted its approval after extensive consultation and examination. We also exchanged ideas with the Board of Managing Directors on significant developments in domestic and European banking supervisory legislation, while critically scrutinizing and monitoring LBBW's management and corporate planning. Between the meetings, I, in my capacity as Chairman of the Supervisory Board, maintained close contact with the Chairman of the Board of Managing Directors.

Supervisory Board meetings

In the year under review, the Supervisory Board held five ordinary meetings, which were attended by representatives of the competent statutory and regulatory authorities. In all the Supervisory Board meetings, the Board of Managing Directors reported on the ongoing situation and particularly on the development of income, expenditure, risks and capital ratios. Questions from the Supervisory Board were answered promptly and to our satisfaction. When necessary, we examined matters relating to the Board of Managing Directors and legal issues. In addition, we continuously discussed the statutory, regulatory and supervisory law frameworks. The board repeatedly discussed the unique challenges in the financial year, primarily the impact of the pandemic and the war between Russia and Ukraine.

In our first ordinary meeting of the year on 21 February 2022, we discussed the preliminary results for the 2021 financial year and other current issues, chiefly the integration of Berlin Hyp into the LBBW Group. At the meeting, we also took note of the 2022 IT strategy and the result of the 2022 risk taker selection. We also agreed on total variable remuneration for the bank for the 2021 financial year and set the variable remuneration for the Board of Managing Directors for the 2021 financial year. The ECB's regular "Supervisory Review and Evaluation Process (SREP)" was also on the agenda at the meeting.

The focus of the 30 March 2022 meeting was the 2021 annual financial statements. The Board of Managing Directors and the statutory auditor reported extensively on the previous financial year. After an assessment of the reports and an in-depth discussion, the Supervisory Board agreed with the Audit Committee's recommendation not to raise any objections against the annual or the consolidated financial statements. The Supervisory Board adopted the annual financial statements as at 31 December 2021 prepared by the Board of Managing Directors and approved the 2021 consolidated financial statements. Additionally, we followed the proposal made by the Audit Committee and recommended to the annual general meeting that Deloitte GmbH Wirtschaftsprüfungsgesellschaft be appointed as statutory auditor and auditor in accordance with Section 89 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) for the 2022 financial year. We also discussed the update to the Group strategy.

On 4 July 2022, the Board of Managing Directors presented its assessment of the macroeconomic environment, including in view of the Russia/Ukraine war and informed us of the current status of the Berlin Hyp acquisition and other current issues. The bank's trade and export financing was discussed at length, as were regulatory topics.

At the meeting on 27 September 2022, we addressed the financial integration of Berlin Hyp, as well as taking note of the remuneration structure report for the 2021 financial year and the 2022 remuneration control report. The meeting also assessed the annual evaluation of the Board of Managing Directors and Supervisory Board. We also looked at the implementation of the revised ESMA/EBA guidelines to assess the suitability of management body members at LBBW and issues relating to remuneration. In addition, we discussed regulatory topics.

On 12 December 2022, we approved the business plan for the 2023 financial year and took note of the medium-term planning. The meeting also looked at the 2023 business strategy, which also included discussing sustainability aspects in detail. We also addressed the 2023 Group remuneration strategy and approved the changes to the remuneration model in view of the strategy update. At the meeting, the 2023 training plan for the Supervisory Board was also passed and other current topics discussed.

Supervisory Board committees

The Supervisory Board established a total of four committees from among its members: the Risk Committee, Audit Committee, Compensation Control Committee and Executive Committee, with the latter assuming the statutory duties of the Nomination Committee. The current membership of the committees is printed on page 12 and 13 of this Annual Report.

The Executive Committee held five ordinary meetings in the reporting period. Its deliberations centered on preparing the meetings of the Supervisory Board. The Executive Committee also discussed the evaluation of the Board of Managing Directors and the Supervisory Board in 2022 in accordance with KWG and the assessment of management body members’ suitability as per ESMA/EBA guidelines. Furthermore, the Executive Committee approved the mandates of the Board of Managing Directors and reviewed the Board of Managing Directors’ principles for the appointment of senior management.

The Compensation Control Committee fulfilled its statutory responsibilities in four meetings in 2022. In particular, it reviewed LBBW’s remuneration systems according to the requirements of the Remuneration Ordinance for Institutions. The Head of Human Resources provided extensive information on the Bank’s remuneration structure. The Remuneration Officer participated regularly in the committee meetings and presented a comprehensive annual report on activities undertaken. Moreover, in fulfilling its primary responsibility the Compensation Control Committee deliberated on questions relating to the remuneration of the Board of Managing Directors and prepared decisions to be taken by the Supervisory Board.

The Audit Committee held a total of four meetings in 2022. It discussed the annual financial statements and the consolidated financial statements of LBBW as well as the audit reports of the statutory auditor. It requested the auditor’s declaration of independence and prepared the Supervisory Board’s recommendation to the annual general meeting concerning the appointment of Deloitte GmbH Wirtschaftsprüfungsgesellschaft as the statutory auditor again. The Audit Committee also agreed on the main points of the audit and the statutory auditor’s fee. The Audit Committee received regular reports on the current status and results of the audit of annual financial statements and monitored the implementation of the audit. It also discussed mandates for the statutory auditor within the scope of non-audit services. Furthermore, the Audit Committee discussed the half-yearly financial report with the Board of Managing Directors and the statutory auditor as well as the non-financial statement. As well as this, it satisfied itself of the efficacy of internal control, risk management, auditing and compliance systems, and monitored the accounting process. The Committee also took note of the annual report by the Anti Money Laundering Officer and the annual report on the organization of the internal control system. In all meetings, the management of the Group Auditing department also reported on its work.

In a total of eleven meetings, the Risk Committee held in-depth discussions on the Bank's risk situation and risk management as well as its exposure for which reporting duties apply in accordance with the law, the articles of association and the bylaws, taking note/granting its approval of these. Within the framework of regular risk reporting of the Board of Managing Directors, the Risk Committee deliberated in depth the Bank's risk-bearing capacity and the Bank's main types of risk. The Risk Committee also discussed the Group risk strategy as derived from the business strategy, as well as the Bank's credit, market-price, liquidity, real estate, development and investment risk and operational risk strategies with the Board of Managing Directors, taking particular account of Berlin Hyp. The Risk Committee also discussed the non-financial risk (NFR) strategy, going into particular detail about sustainability and reputation risks and information and communication technology risks, with the Board of Managing Directors. There was also detailed reporting on ESG, such as the ECB's climate stress test and financed emissions, and projects in connection with NFR. The Risk Committee also examined whether the Bank's remuneration system took adequate account of the Bank's risk, capital and liquidity structure. In addition, it took note of the annual report on country limits and utilization, the updates of the restructuring plan in accordance with the German Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions, the stress test concept, the ICAAP/ILAAP planning scenarios and the implementation of BCBS 239. The Risk Committee also regularly discussed other current topics and business areas. These included reports on the integration of Berlin Hyp, pension funds, the LCR portfolio and significant exposures under credit risk and non-financial risk aspects and portfolio reports on developments in core sectors, including the automotive portfolio. The Board of Managing Directors kept the Risk Committee informed on the current status and effects of the Russia/Ukraine war on business performance, including using sector reports for utilities and energy and reports on the development of individual country limits and utilization. It also focused on information about the impact of interest rate developments and other current risk-relevant events.

The committee chairpersons regularly reported in detail on the work of the committees at the ordinary meetings of the full Supervisory Board.

All members of the Supervisory Board attended the meetings of the Supervisory Board and the committees in 2022, with only a few exceptions (average attendance 94%).

Training and development measures

The members of the Supervisory Board assumed responsibility for taking part in the training and development measures which they required to perform their duties. They were given appropriate support for this by LBBW. In addition to individual training, the Supervisory Board also received training on IT security on 21 February 2022, on sector analysis and expertise on 4 July 2022 and on compliance on 27 September 2022.

Annual and consolidated financial statements

The statutory auditor Deloitte audited the annual financial statements and the consolidated financial statements of LBBW for 2022 including the management report, issuing an unqualified auditor's certificate. The annual financial statements were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The documentation relating to the financial statements and the principal auditor's reports were forwarded to all members of the Supervisory Board in good time. Furthermore, the members of the Audit Committee received all the relevant audit reports. The statutory auditor attended the committee meetings pertaining to the annual financial statements, elaborated on the main results of the audit and was available to answer any questions. At its balance sheet meeting on 23 March 2023, the Audit Committee discussed the documentation relating to the financial statements in detail with the Board of Managing Directors and the statutory auditor.

At its meeting on 27 March 2023, following an assessment of the reports and an in-depth discussion, the Supervisory Board adopted the annual financial statements drawn up as at 31 December 2022 and approved the consolidated financial statements for 2022.

Conflicts of interest

The Risk Committee dealt with the credit approvals stipulated by Section 15 of the German Banking Act (Kreditwesengesetz, KWG) and in accordance with its bylaws. Those members of the Supervisory Board who at the time at which the resolutions were passed were members of the decision-making bodies of the borrowers concerned or were exposed to a possible conflict of interests for any other reasons did not participate in the deliberations and voting. To that extent the provisions governing the handling of conflicts of interest set out in the Municipal Code for Baden-Württemberg apply accordingly to the Supervisory Board.

Legal matters

The Supervisory Board and the individual committees continuously obtained detailed information on any significant legal matters. Where necessary, we consulted with external specialists.

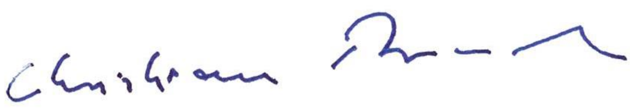
Personnel changes in the Supervisory Board

Prof. Reinhart, who resigned from the Supervisory Board effective 30 September 2021, was succeeded by Mr. Thomas Strobl, Minister of the Interior, Digitalization and Local Government for the State of Baden-Wurttemberg, on 21 February 2022.

The employee representatives Ms. Sabine Lehmann and Mr. Christian Rogg left the board with effect from 31 December 2022. They were succeeded on the bank's Supervisory Board by Mr. Christian Hirsch and Mr. Marc Oliver Kiefer effective 22 February 2023.

On behalf of the members of the Supervisory Board I would like to thank the Board of Managing Directors as well as all member of staff for their great personal dedication and outstanding performance under what were once again challenging conditions in the successful 2022 financial year.

For the Supervisory Board



CHRISTIAN BRAND
Chairman

Supervisory Board of LBBW

Chairman

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairman

DR. DANYAL BAYAZ
Minister of Finance of the State of Baden-Wurttemberg

Members

JÖRG ARMBORST
Employee Representative of Landesbank Baden-Württemberg

JENS BAUMGARTEN
Employee Representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

CHRISTIAN HIRSCH
(since 22 February 2023)
Employee Representative of Landesbank Baden-Württemberg

BERNHARD ILG
Lord Mayor (retired)

GABRIELE KELLERMANN
Deputy Chairman of the Board of Managing Directors at BBBank eG

MARC OLIVER KIEFER
(since 22 February 2023)
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

SABINE LEHMANN
(until 31 December 2022)
Employee Representative of Landesbank Baden-Württemberg

DR. FRANK NOPPER
Lord Mayor of the state capital of Stuttgart

DR. FRITZ OESTERLE
Attorney at law

MARTIN PETERS
Managing Partner;
Chairman of the Executive Board Eberspächer Group GmbH & Co. KG

CHRISTIAN ROGG
(until 31 December 2022)
Employee Representative of Landesbank Baden-Württemberg

B. JUTTA SCHNEIDER
Executive Vice President
T&I Chief Transformation Officer SAP SE

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

WIEBKE SOMMER
Employee Representative of Landesbank Baden-Württemberg

DR. FLORIAN STEGMANN
State secretary at the Baden-Württemberg State Ministry, Head of the State Chancellery

THOMAS STROBL
(since 21 February 2022)
Minister of the Interior, Digitalisation and Local Government for the State of Baden-Wurttemberg

DR. JUTTA STUIBLE-TREDER
Attorney at law, German Public Auditor, Tax consultant

BURKHARD WITTMACHER
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Executive Committee of LBBW

Chairman

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairman

DR. DANYAL BAYAZ
Minister of Finance of the State of Baden-Wurttemberg

Members

DR. FRANK NOPPER
Lord Mayor of the state capital of Stuttgart

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Compensation Control Committee of LBBW

Chairman

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairman

DR. DANYAL BAYAZ
Minister of Finance of the State of Baden-Wurttemberg

Members

BERNHARD ILG
(from 1 April 2022)
Lord Mayor (retired)

DR. FRANK NOPPER
Lord Mayor of the state capital of Stuttgart

MARTIN PETERS
(until 31 March 2022)
Managing Partner,
Chairman of the Executive Board
Eberspächer Group GmbH & Co. KG

B. JUTTA SCHNEIDER
Executive Vice President
T&I Chief Transformation Officer SAP SE

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Audit Committee of LBBW

Chairman

BURKHARD WITTMACHER
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

Deputy Chairman

THOMAS STROBL
(Member from 30 March 2022; Deputy Chairman from 16 September 2022)
Minister of the Interior, Digitalisation and Local Government for the State of Baden-Wurttemberg

Members

JENS BAUMGARTEN
(since 27 February 2023)
Employee Representative of Landesbank Baden-Württemberg

BERNHARD ILG
Lord Mayor (retired)

GABRIELE KELLERMANN
Deputy Chairman of the Board of Managing Directors at BBBank eG

SABINE LEHMANN
(until 31 December 2022)
Employee Representative of Landesbank Baden-Württemberg

B. JUTTA SCHNEIDER
Executive Vice President
T&I Chief Transformation Officer SAP SE

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

DR. JUTTA STUIBLE-TREDER

Attorney at law, German Public Auditor, Tax consultant

Guest

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Risk Committee of LBBW

Chairman

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

Deputy Chairman

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Members

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

CHRISTIAN HIRSCH
(since 27 February 2023)
Employee Representative of Landesbank Baden-Württemberg

GABRIELE KELLERMANN
Deputy Chairman of the Board of Managing Directors at BBBank eG

DR. FRITZ OESTERLE
Attorney at law

CHRISTIAN ROGG
(until 31 December 2022)
Employee Representative of Landesbank Baden-Württemberg

B. JUTTA SCHNEIDER
Executive Vice President
T&I Chief Transformation Officer SAP SE

BURKHARD WITTMACHER
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

Corporate governance at LBBW

LBBW takes account of the fundamental aspects of the German Corporate Governance Code. This is a set of essential legal regulations governing the management and monitoring of German listed companies and contains nationally and internationally recognized standards for good and responsible corporate governance – including in the form of recommendations.

As the Code is geared towards listed joint-stock companies, not all points of it are applicable to Landesbank Baden-Württemberg, since LBBW is a non-listed credit institution incorporated under public law (Anstalt des öffentlichen Rechts). For this reason, several provisions of the German Corporate Governance Code can only be transferred analogously to Landesbank Baden-Württemberg. In terms of content, LBBW's corporate governance is oriented very closely to the spirit of the German Corporate Governance Code. For a large number of recommendations of the German Corporate Governance Code there are therefore special regulations in the legislation governing LBBW, in the articles of association and bylaws of the executive bodies and further committees. Furthermore, there are special provisions for corporate governance in the banking supervisory legislation that are not included in the Code, but do apply to LBBW.

At LBBW, management and supervisory rules applicable to corporations are practiced. For instance, the tasks of LBBW's annual general meeting and Supervisory Board are regulated as for a joint-stock company although this is not the legal form of LBBW. The members of the LBBW Board of Managing Directors make their decisions independently of any external instructions. At the same time, it is ensured that independent expertise is drawn on through the supervisory bodies. The Supervisory Board of LBBW has eight independent members, including the Chairman of the Supervisory Board.

Corporate governance, as practiced at LBBW, is presented below. The structure of the report is based on the standards of the German Corporate Governance Code, which is voluntary and not mandatory for LBBW on account of its legal form, as amended on 28 April 2022.

Management and monitoring

Business management responsibilities of the Board of Managing Directors

The Board of Managing Directors manages the business of LBBW under its own responsibility pursuant to the law and in the Company's interest, i.e. by taking the needs of the owners, its employees and other groups (stakeholders) affiliated to the Company into account, with the aim of achieving sustainable added value. In accordance with the legal principles of LBBW, it is responsible for any LBBW matters that do not fall within the remit of another authority based on the legislation governing Landesbank Baden-Württemberg or the articles of association of LBBW. In managing the business, the members of the Board of Managing Directors exercise the due diligence of a prudent and conscientious business manager. The Board of Managing Directors develops the strategic direction of the Company, agrees it with the Supervisory Board and ensures it is implemented. Furthermore, the Board of Managing Directors ensures compliance with the statutory regulations and the Company's internal rules and works toward ensuring that they are observed by LBBW Group companies. The Board of Managing Directors further ensures a reasonable risk management and risk controlling within the Group.

The Board of Managing Directors is the line superior for all employees of LBBW, including its subsidiaries, branches, stock market offices, representative offices and legally dependent institution under public law BW-Bank. The Board of Managing Directors strives for diversity and therefore a reasonable inclusion of women, in particular, when filling management positions within the Bank.

Supervisory Board's monitoring duties

It is the duty of the Supervisory Board to offer regular advice and oversee the Board of Managing Directors' management of LBBW. It is involved in decisions of key importance to the Company. It is responsible for the appointment and dismissal of the members of the Board of Managing Directors and of the Chairman and, where applicable, Deputy Chairmen of the Board and for setting the remuneration of the Board of Managing Directors. The Supervisory Board is able to appoint deputy members of the Board of Managing Directors, who have the same rights and obligations as the members of the Board of Managing Directors. For business of fundamental importance, the articles of association or the

Supervisory Board, the latter also in individual cases, stipulate that the consent of the Supervisory Board is required. Examples include decisions or measures that fundamentally change the Company's net assets, financial position or results of operations. The Board of Managing Directors agrees the strategic direction of the Company with the Supervisory Board and they discuss the status of strategy implementation at regular intervals. It also submits the audited annual financial statements to the Supervisory Board for approval in line with LBBW's articles of association.

The Supervisory Board has a Chairman and a Deputy Chairman. The Chairman and Deputy Chairman of the Supervisory Board are elected from the Supervisory Board's own number on the basis of a proposal made by the annual general meeting.

The Chairman coordinates the work in the Supervisory Board, chairs its meetings and attends to the affairs of the Supervisory Board in dealings with outside parties.

Function of the annual general meeting

As an institution incorporated under public law, LBBW has not securitized any equities. The shareholders are therefore described as owners (Träger) and not as shareholders.

Landesbank Baden-Württemberg's owners are:

- Sparkassenverband Baden-Württemberg (SVBW)
  with a 40.534118% stake in the share capital,
- State of Baden-Württemberg (state)
  with a 24.988379% stake in the share capital,
- State Capital of Stuttgart (city)
  with a 18.931764% stake in the share capital,
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW)
  with a 15.545739% stake in the share capital.

At the annual general meeting, the owners exercise their rights over the affairs of LBBW in the absence of any stipulations to the contrary in the legislation governing Landesbank Baden-Württemberg or the articles of association of LBBW. The owners are represented at the annual general meeting by one or several people. The voting rights of the owners are based on the size of their stake in the share capital, with each euro granting one vote.

The powers of the annual general meeting essentially encompass the typical tasks of an annual general meeting based on joint-stock companies legislation, for example, voting on the appropriation of net profit, or granting discharge to the members of the Supervisory Board and the Board of Managing Directors. The annual general meeting also makes decisions about the content of the articles of association and any changes thereto, and about key structural measures, such as corporate agreements, setting and changes to the share capital, the issue of profit participation rights and granting of silent partner contributions. The Supervisory Board decides whether to change the principles of business policy.

LBBW's share capital can be increased or decreased by a resolution passed at the annual general meeting. LBBW can accept capital generated from profit-participation rights, silent partner contributions as well as subordinated guarantee capital, and other forms of capital as provided for in the German Banking Act (Kreditwesengesetz, KWG) from its owners and third parties.

Each owner with a share in the share capital is entitled to a share in the new share capital based on their shareholding in the event of increases. If one owner fails to exercise their subscription right, this right will accrue to the other owners for a corresponding consideration in a proportion to their share in the share capital, unless they have reached an agreement to the contrary among themselves.

The ordinary general meeting takes place within the first eight months of the year. Further general meetings are called if the good of LBBW so requires and also when the Supervisory Board or an owner makes an application detailing the agenda items. The internal regulations of the annual general meeting provide more details in this respect, particularly as regards the form and deadline for requests that a meeting be held and for the calling of a meeting.

In contrast to a joint-stock company, LBBW provides its owners with the documents required for the annual general meeting, such as the convocation documents for the annual general meeting, directly rather than via its website, in view of the small number of owners.

Members of the Board of Managing Directors

The Board of Managing Directors consists of several members. The members of the Board of Managing Directors, the Chairman and, where applicable, his deputy or deputies are determined and appointed by the Supervisory Board. In filling positions on the Board of Managing Directors, the Supervisory Board strives for diversity.

To ensure maximum flexibility, LBBW has refrained from fixing an allocation of competences for the members of the Board of Managing Directors in the bylaws. A schedule of responsibilities governs the departmental responsibilities of individual board members. The Supervisory Board makes decisions about the bylaws of the Board of Managing Directors and about the approval of the proposed allocation of responsibilities.

Members of the Supervisory Board

General requirements

The composition of the Supervisory Board is such that it integrates a wide range of qualities and skills (diversity) and its members collectively possess the requisite knowledge, skills and technical experience to assume their tasks in due form. Each Supervisory Board member takes care that they have sufficient time to fulfill their role.

Independence

To enable the Supervisory Board to provide independent advice and oversee the Board of Managing Directors independently, the Supervisory Board includes independent members, the number of which is set out in LBBW's rules and regulations. Supervisory Board members are seen as independent if they have no business or personal relationship with the Company, its Board of Managing Directors or the owners that could constitute the basis for a conflict of interests. There are no former members of the Board of Managing Directors on the Supervisory Board.

Supervisory Board elections

The members of the Supervisory Board are elected by the annual general meeting unless they are required to be elected as an employee representative and in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act. Eight of the members of the Supervisory Board elected by the annual general meeting, including the chairman, are independent. Each owner has the right to submit proposals for election.

Supervisory Board's working method

Bylaws

The Supervisory Board has set itself its own bylaws. The Chairman of the Supervisory Board calls a meeting of the Supervisory Board as required, but no less than four times a year, and chairs its meetings. The bylaws for the Supervisory Board set out further details, in particular, the format and deadlines for the calling of meetings.

Collaboration on Supervisory Board and with the Board of Managing Directors

General requirements

The Board of Managing Directors and the Supervisory Board work closely together for the good of the Company. Based on LBBW's and its owners' understanding, good corporate governance requires open discussion between the Board of Managing Directors and the Supervisory Board and internally within the Board of Managing Directors and the Supervisory Board. Full and comprehensive confidentiality is of decisive importance. The members of the Supervisory Board and the Board of Managing Directors are therefore bound to secrecy. This obligation remains even after the end of their activity within the executive bodies of the Landesbank. All members of the executive bodies ensure that employees asked by them to provide support observe the same obligation to secrecy.

The Board of Managing Directors and the Supervisory Board observe the rules of proper corporate governance. Should they culpably breach the due diligence expected of a prudent and conscientious director or Supervisory Board member, they are liable to pay damages to LBBW. There is no breach of obligations for business decisions if the member of the Board of Managing Directors or Supervisory Board may reasonably have assumed that they were acting for the good of the Company on the basis of fair information (business judgment rule). Regarding the D&O insurance taken out for the Board of Managing Directors, a deductible was agreed of 10% of the loss up to 1.5 times the Board of Managing Directors member's fixed annual remuneration. A corresponding deductible was also agreed when taking out D&O insurance for the members of the Supervisory Board.

Supervisory Board committees

Due to the specific circumstances of LBBW and the number of its members, the Supervisory Board has formed four well-qualified committees in the shape of the Executive Committee, the Compensation Control Committee, the Audit Committee and the Risk Committee. The chairs and members of the committees are published in LBBW's annual report. The respective committee chairpersons regularly report on the work of the committees to the Supervisory Board.

The Executive Committee performs the statutory duties of the Nomination Committee; in the absence of anything to the contrary in the Landesbank Baden-Württemberg Act, the proposals for the election of members of the Supervisory Board that are submitted to the annual general meeting are prepared solely by the representatives of the owners.

The Audit Committee deals, in particular, with the effectiveness of the internal control system and internal auditing, as well as issues relating to accounting, risk management and compliance. It also monitors the audit of the annual and consolidated financial statements. The Audit Committee submits a substantiated proposal for a statutory auditor to the Supervisory Board. If a different auditor is recommended than the previous one, a selection of at least two candidates is to be proposed. The Audit Committee monitors the independence of the statutory auditor and handles additional services provided by the auditor, issues the audit assignment to the auditor and determines focal areas of the audit and the auditor's fee. The Chairman of the Audit Committee has specific knowledge and experience of the application of accounting standards and internal control procedures. The Chairman of the Audit Committee is not a former member of LBBW's Board of Managing Directors. The Chairman of the Supervisory Board takes part in the meetings of the Audit Committee as a permanent guest.

Decisions about granting loans to members of the Board of Managing Directors and the Supervisory Board and related parties are made by the Risk Committee in accordance with Section 15 German Banking Act (Kreditwesengesetz, KWG). The fact that the Risk Committee is a Supervisory Board committee ensures that the Supervisory Board is involved in the aforesaid lending decisions.

Supplying information

It is the duty of the Board of Managing Directors to supply the Supervisory Board with information although the Supervisory Board for its part needs to make sure that it is adequately informed. For this purpose, the Supervisory Board sets out the Board of Managing Director's duties of information and reporting in detail. The Board of Managing Directors provides the Supervisory Board with regular, prompt and comprehensive information about all relevant questions relating to planning, business performance, the risk situation, effectiveness of the internal control system, the internal auditing system and compliance. It examines deviations in the business development from the plans and targets drawn up and gives reasons for such deviations.

Reporting by the Board of Managing Directors to the Supervisory Board is generally carried out in written form. Documents required for a decision are generally forwarded to members of the Supervisory Board in good time before the meeting. The Chairman of the Board of Managing Directors informs the Chairman of the Supervisory Board and his Deputy about important events, including between the individual meeting dates.

The Chairman of the Supervisory Board is in regular contact with the Board of Managing Directors, in particular with its Chairman, and discusses with the latter strategy, business development and risk management at LBBW. The Chairman of the Supervisory Board is informed immediately by the Chairman of the Board of Managing Directors about important events that are of key importance in the assessment of the position and development of the Company and its management. The Chairman of the Supervisory Board then notifies the Supervisory Board and calls an extraordinary meeting of the Supervisory Board if required.

Meetings and resolutions

If a member of the Supervisory Board has attended half or fewer than half of the meetings of the Supervisory Board or the committees of which he or she is a member in the course of a financial year, a note to that effect is included in the Supervisory Board's report. Attendance is also deemed to include participation via a conference call or video link.

Collaboration with the statutory auditor

Prior to submitting the proposal to the annual general meeting for the appointment of the auditor, the Supervisory Board or the Audit Committee obtains a declaration from the proposed auditor stating whether any and, if applicable, which, business, financial and personal or other relationships exist between the auditor and its executive bodies and audit managers, on the one hand, and LBBW and the members of its executive bodies, on the other, which may give reason to doubt the auditor’s independence. The declaration also states the extent to which other services were provided for LBBW over the past financial year, in particular in terms of consultancy, and have been contractually agreed for the following financial year.

The Supervisory Board or its Audit Committee commissions the auditor and reaches an agreement with the latter about the fee.

The auditor notifies the Chairman of the Supervisory Board and/or the Chairman of the Audit Committee immediately of any grounds for disqualification or partiality that may emerge during the course of an audit, unless they are rectified immediately.

The Supervisory Board has also stipulated that the auditor will immediately report on all events and findings of importance to the Supervisory Board’s duties that may arise while carrying out the audit. The auditor takes part in the deliberations of the Supervisory Board and the Audit Committee relating to the annual financial statements and the consolidated financial statements and reports on the key results of its audit.

Training and development

The members of the Supervisory Board assume responsibility for taking part in the training and development measures which they require to perform their duties. They receive reasonable support for this from LBBW, e.g. through the designation of specific seminars and the availability of corresponding lectures.

Self-assessment

The Supervisory Board regularly checks the efficiency of its activities and at least once a year evaluates its structure, size, composition and performance as well as the knowledge, skills and experience both of individual members and of the executive body and its committees as a whole.

Conflicts of interest

Members of the Board of Managing Directors are obliged to act in the interests of the Bank. Members of the Board must not pursue personal interests when making their decisions. They are bound by a comprehensive non-compete clause while working for LBBW and must not exploit business opportunities open to the Bank for their own ends. Members of the Board of Managing Directors and employees must not seek or accept undue advantages from third parties in connection with their activities, neither for themselves nor for other persons, or grant undue advantages to third parties.

Every member of the board should disclose any possible conflicts of interest to the Supervisory Board immediately and inform the other board members. All business between LBBW, on the one hand, and the members of the Board of Managing Directors or persons or enterprises closely associated with them, on the other, must satisfy industry standards. Important business requires the consent of the Supervisory Board.

Members of the Board of Managing Directors may only accept secondary activities, in particular appointments to supervisory boards outside the LBBW Group, with the consent of the Executive Committee. The Executive Committee consists of the Chairman of the Supervisory Board, the Deputy Chairman and three members of the Supervisory Board. This ensures that the Supervisory Board is involved in the decision about secondary activities of the Board of Managing Directors.

In the event of a conflict of interests, the member concerned will not take part in the deliberations and voting on the item in question by the Board of Managing Directors. Section 18 paragraphs 1 – 3 and 5 of the Municipal Code for Baden-Württemberg applies accordingly to the members of the Board of Managing Directors in this regard.

Every member of the Supervisory Board is obliged to act in the interests of the Bank. They may not pursue any personal interests in their decisions, nor use any business opportunities open to the Company for their own advantage. Any conflicts of interest, in particular those that may arise because of an advisory or executive function exercised for customers, suppliers, lenders or other business partners must be disclosed to the Supervisory Board. In the event of a conflict of interests, the member concerned does not participate in the deliberations and voting of the Supervisory Board on the issue in question. Section 18 paragraphs 1 to 3 and 5 of the Municipal Code for Baden-Württemberg applies to the members of the Supervisory Board accordingly in this regard.

Any material conflicts of interest of a non-temporary nature existing in the person of a Supervisory Board member will lead to a member’s appointment being terminated. Furthermore, any consulting, other service or employment contracts of a Supervisory Board member with the Company require the Supervisory Board’s approval.

Transparency and external reporting

LBBW deals with its owners equally and without distinction in matters of information.

The owners and third parties are provided with information primarily via the consolidated financial statements. They also receive information during the financial year through the half-yearly financial report. The consolidated financial statements and the abbreviated consolidated financial statements of the half-yearly financial report are compiled in accordance with the relevant international accounting standards.

The consolidated financial statements are compiled by the Board of Managing Directors and audited by the auditor and the Supervisory Board. The Audit Committee, as a Supervisory Board committee, discusses the half-yearly financial reports with the Board of Managing Directors. As a company not listed on the stock market, LBBW publishes its consolidated financial statements and its half-yearly financial reports within the timescale required by the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The annual report is published at the latest four months after the end of each financial year (Section 114 WpHG) and the half-yearly financial report three months following the end of the reporting period at the latest (Section 115 WpHG).

LBBW has been reporting on its corporate governance in a report on corporate governance forming part of the annual report since the 2010 financial year.

Remuneration for Board of Managing Directors and the Supervisory Board

Details on the remuneration of the Board of Managing Directors and the Supervisory Board can be found in the remuneration report.

Remuneration report

Board of Managing Directors

Principles of the remuneration system

Responsibility

The Supervisory Board makes decisions on the remuneration system for the members of the Board of Managing Directors, fixes the remuneration payable to them and regularly reviews its appropriateness. The Compensation Control Committee assumes an important advisory role in this respect and prepares the resolutions of the Supervisory Board.

Principles of the remuneration system

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis and support it in reaching its strategic company targets.[1] The variable performance-based remuneration for the members of the Board of Managing Directors in 2022 was guided by the Group's sustained overall success over a period of three years, accounting for 50%, and on the individual Board members' contribution to profit in the year under review, accounting for 50%. The individual performance contribution is tied to target achievement agreements based on the business strategy and business plan. Final calculation of the variable performance-based remuneration is based on the overall target achievement as determined in a resolution passed by the Supervisory Board in the following year.

Alongside sustainability in the decision on performance, sustainability in the payout of the variable remuneration constitutes a key element for the remuneration for members of the Board of Managing Directors. Significant parts of the variable remuneration are based on sustained business success. For this reason, 60% of the variable remuneration granted for 2022, the year under review, will be deferred over a five-year period and paid out on a pro rata temporis basis (deferral); negative performance contributions can reduce the deferral, lead to its expiry (malus) or result in a clawback. 60% of the deferred proportion of the variable remuneration granted for 2022, the year under review, is subject to a blocking period of one year and guided by sustained performance (i.e. subject to an appreciation right). LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover[2], taking into account the risk situation (risk protection). To this end, the aggregate risk cover performance in each respective payout year is determined in a comparison with the base year (awarding of variable performance-based remuneration). The current risk situation is evaluated in line with the risk assessment in the overall risk report. Of the non-deferred portion (40%), 40% of the variable remuneration calculated is paid out immediately. The other 60% of the non-deferred potion of variable remuneration is frozen for one year and during this period is also aligned to any changes in the sustained performance.

Following the expiry of the deferral period, the malus/clawback is reviewed using the criteria set out in the Board remuneration model at Group level and at individual level prior to payment. In addition, a review is performed prior to payment to establish that the additional conditions (positive overall performance of the Group, no risk to appropriate capital backing, sufficient liquidity on the part of the Bank and compliance with the combined capital buffer requirements) have been satisfied.

The retirement benefits are designed as defined-contribution benefits. The bank grants one component each calendar year on the basis of a share of the eligible salary.

Remuneration 2022

In 2022, remuneration of members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration and a performance-based variable component. In addition to the contractually agreed fixed salary, the fixed remuneration includes payments into the company pension scheme and all other benefits (essentially the use of a company car).

During the 2022 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 5.5 million for their activities as Members of the Board of Managing Directors. The other

1 Business focus, digitalization, sustainability and agility.
2 The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted by certain items.

benefits amounted to EUR 0.1 million. In addition, variable performance-based remuneration totaling EUR 1.3 million was paid out (inflow). This amount includes percentages of deferred variable remuneration from previous years.

In 2022, EUR 1.9 million was transferred to the pension obligations for serving members of the Board of Managing Directors as an element of the fixed remuneration according to IFRS and recognized in the income statement. As at 31 December 2022, pension obligations according to IFRS for serving members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 9.8 million.

Supervisory Board

Principles of remuneration for Supervisory Board members

The annual general meeting on 8 April 2022 determined the remuneration of Supervisory Board members as follows:

- The members of the Supervisory Board receive a fixed remuneration of EUR 30,000 for the respective financial year. The Chairman of the Supervisory Board receives EUR 75,000 and the Deputy Chairman EUR 50,000.
- Supervisory Board members who hold a seat on a committee in accordance with Section 17 (1) of the articles of association (Executive Committee, Compensation Control Committee, Audit Committee and Risk Committee), receive further fixed remuneration of EUR 12,500 per year per committee.
- The Chairman of a committee receives further fixed remuneration of EUR 30,000 per annum, with the Deputy Chairman receiving EUR 20,000.
- The members, the Deputy Chairman and the Chairman of the Executive Committee who are also a member, Deputy Chairman or Chairman of the Compensation Control Committee do not receive remuneration for their work on the Compensation Control Committee.
- Each Supervisory Board member receives an attendance allowance of EUR 200 to attend a meeting of the Supervisory Board or one of its committees.
- The Supervisory Board members are further reimbursed for the expenditure that they incur in connection with performing their duties as members of the Supervisory Board (travel expenses, individual bank-specific further training etc.).

The remuneration resolved by the annual general meeting on 22 July 2011 was paid by 7 April 2022.

The employee representatives on the Supervisory Board employed at LBBW also receive their salary as employees.

The remuneration of Supervisory Board members who are not part of the Supervisory Board for a complete financial year is paid pro rata for their term in office.

Remuneration 2022

For the 2022 financial year, a total of EUR 0.99 million was paid in salaries and EUR 0.05 million in attendance allowances to the members of the Supervisory Board.

Other information

There is also pecuniary loss liability insurance for members of the Board of Managing Directors and Supervisory Board (D&O). The deductible is 10% of the loss up to a maximum of 1.5 times the fixed annual remuneration.

Landesbank Baden-Württemberg

The Supervisory Board The Board of Managing Directors

02

Combined management report

Group overview

This annual report published by Landesbank Baden-Württemberg comprises the combined management report and the consolidated financial statements (IFRS). The management report of LBBW (Bank) and the group management report are combined in accordance with German Accounting Standard (DRS) 20. The report thus comprises both the Group disclosures and the notes on LBBW (Bank) as a single entity on the basis of the German Commercial Code. The LBBW (Bank) annual financial statements according to the German Commercial Code (HGB) and the combined management report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

Section 289b and Section 315b HGB require LBBW to prepare a non-financial (Group) statement in the (Group) management report or a non-financial (Group) report separate to the (Group) management report for LBBW (Bank) and for the LBBW Group. As in the previous year, LBBW again decided to integrate the combined non-financial statement into the combined management report.

As part of its established sustainability reporting, LBBW also provides detailed information on the individual non-financial aspects, further examples of where these have been put into place and key figures in a separate sustainability report. The sustainability report for the 2022 reporting year is published in the second quarter of 2023.

Structure and business model

The Landesbank Baden-Württemberg (LBBW) Group comprises the parent company Landesbank Baden-Württemberg (hereinafter referred to as LBBW (Bank)) and specialized subsidiaries. LBBW (Bank) is an institution incorporated under public law with its registered office in Germany. It has four registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. Its owners are the state of Baden-Württemberg with 40.53%, Sparkassenverband Baden-Württemberg with 40.53% and the state capital Stuttgart with 18.93% of the share capital. The State of Baden-Württemberg holds its share directly and indirectly through Landesbeteiligungen Baden-Württemberg GmbH.

The Group’s business model focuses on customer business in the Corporate Customers, Real Estate/Project Finance, Capital Markets Business and Private Customers/Savings Banks segments. The LBBW Group operates primarily locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and takes advantage of growth opportunities in other selected economic areas. A network of international locations and German Centres is also available to support customers with country-specific expertise and financial solutions as well as with market entry solutions.

The LBBW Group’s private customer business and asset management as well as SME corporate customers business in Baden-Württemberg operate under the name BW Bank. Outside Baden-Württemberg, LBBW operates corporate customer business under the LBBW brand. Group companies for special products (leasing, factoring, asset management, real estate and equity investment finance) supplement the LBBW Group’s portfolio of services.

By acquiring Berlin Hyp and including it in the LBBW Group as a wholly-owned subsidiary, it further expanded its position as a leading commercial real estate financier in 2022. LBBW practices a two-brand strategy in this market segment (services provided under the name LBBW and Berlin Hyp).

LBBW, a mittelstand-minded universal bank, ensures diversification in various business areas. In terms of customer requirements and the challenges posed in the areas of economic performance, market trends as well as society and the environment, the Bank sees itself to be well-positioned.

Corporate Customers

In the Corporate Customers segment the focus is on traditional SMEs, companies in the upper SME segment with capital market orientation and groups with a capital market focus in the regional core markets and other selected economic areas.

The LBBW Group implements its universal bank approach with a selected range of products and services, extending from international business to various forms of financing, payments, hedging transactions and asset management. Corporate Finance offers individual consulting and financing solutions to corporate customers, as well as structured financing products such as syndicated loans, bonds/Schuldschein loans and ABS. The main focus is on expanding sustainability advisory and M&A. Furthermore, Landesbank Baden-Württemberg partners with municipalities in its core markets.

Various subsidiaries such as SüdLeasing GmbH, MMV Bank GmbH, SüdFactoring GmbH and Süd Beteiligungen GmbH, which develop equity solutions for SMEs, supplement the offering.

Real Estate/Project Finance

The Real Estate/Project Finance segment serves professional investors, real estate investment trusts and housing companies as well as open and closed-end real estate funds in commercial real estate. Types of use include residential, office, retail and logistics, principally on the target markets of Germany and, selectively, in the USA, UK, Canada as well as, in individual cases, in France. LBBW's syndication business focuses on structuring and arranging transactions. It also offers refinancing solutions for real estate lease transactions. The takeover of Berlin Hyp in 2022 improves LBBW's market position in commercial real estate financing and positions it as a strong competence center in this profitable, low-risk business area. Berlin Hyp operates as an independent subsidiary of the Group and is part of the Real Estate/Project Finance segment. The brand name is thus retained at its established locations with all employees.

The Project Finance/Transportation business area comprises financing infrastructure and energy projects, as well as ECA-covered transport financing. A particular focus here is on financing projects aimed at generating renewable energies. Financing requires stable and predictable cash flows. Customers are project developers, investors and users. Geographically, project financing is concentrated in Europe (including Germany) and North America.

The wholly-owned subsidiary LBBW Immobilien Management GmbH is the real estate competence center for investment and services in the Development, Asset and Investment Management and Real Estate Services segments for its shareholders and for cities, municipalities, public bodies and institutions and for the free market.

Capital Markets Business

The Capital Markets Business segment is in charge of Savings Banks, institutional customers and banks. The customer-oriented capital market business with banks and institutional customers is bundled in this segment. The product range is aimed at the customer's requirements and comprises capital market investments, (capital market) financing, risk management products and financial services (including the custodian bank function), and research. In addition, customers are supported through LBBW's offers for foreign business and its international network. The product expertise in the Capital Markets Business segment is also provided for customers in other segments, in particular for corporate customers.

LBBW is the central bank for the savings banks in the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate. Together with the savings banks, it forms a service partnership and provides them with a selected range of products and services, both for savings banks' proprietary business and the market partner business. The inclusion of Helaba's interest-rate, currency and commodities management business and custodian business further improves LBBW's position within S-Finanzgruppe. Services such as research or securities processing and administration are offered for further distribution to the customers of the savings banks. The Bank also offers products and services to other savings banks beyond the core markets.

LBBW's asset management business and the alternatives desk (until 2021: BW-Equity GmbH) are pooled within the group subsidiary LBBW Asset Management Investmentgesellschaft mbH. The focus areas are the management of special funds, direct investment mandates and mutual funds. At Board of Managing Directors level, wealth and asset management at BW-Bank and LBBW Asset Management is managed as a joint business area called "LBBW Asset and Wealth Management".

Private Customers/Savings Banks

The Private Customers/Savings Banks segment comprises classic private customer business, asset management, supporting business customers and the meta-and development lending banking sector with Savings Banks and their customers. BW-Bank is the Savings Bank of the state capital, Stuttgart. It offers its full range of services, while its complete scope of financial and other services guarantees citizens the full array of basic banking services.

In addition to the classic retail customer segment, the business model is orientated towards wealth and asset management in Baden-Württemberg, Rhineland-Palatinate and Saxony. As part of the nationwide expansion strategy, wealth management also operates in other attractive economic regions such as Hamburg, Munich and Frankfurt. As well as high net-worth and ultra high net-worth individuals, wealth and asset management also serves foundations and family offices. As already explained in the Capital Markets Business section, wealth and asset management at BW-Bank and LBBW Asset Management has been managed as a joint business area called “LBBW Asset and Wealth Management” since fall 2020. BW Bank has combined its services in financing and investment matters for business customers (health care practitioners, freelancers and tradespeople) into one area. The bank believes that this customer management approach creates close links between private and business financial topics.

The range of products and services extends from classic checking accounts, credit card business and basic, commercial and individual financing to securities management, asset management and pension savings solutions for those with a considerable portfolio of assets and complex asset structures.

LBBW furthermore offers savings banks the opportunity, by way of joint credits, to share credit risk, helping provide development loans to savings bank customers.

Segment allocation and coordination

The LBBW Group’s customer-oriented business model is directly reflected in the segments Corporate Customers, Real Estate/Project Finance, Capital Markets Business and Private Customers/Savings Banks. The Corporate Items segment includes all other business activities not contained in the operating segments, chiefly financial investments and management of the bank’s portfolio of buildings.

Information on the segments and their development can be found in the report on the results of operations, net assets and financial position and in the notes in the segment report (IFRS).

Within this business model, integrated bank management at LBBW takes account of long-term company targets as per the business strategy, which are supplemented by additional relevant indicators and monitored by using the balanced scorecard. The information required for managing the LBBW is provided through comprehensive, target-oriented regular reports. Based on the long-term company targets of long-term profitability, solid capitalization and efficiency, LBBW’s key financial performance indicators are still return on equity (RoE), the cost/income ratio (CIR) and the common equity Tier 1 (CET 1) capital ratio (after full implementation in accordance with CRR/CRD IV).[1]

LBBW established its strategic cornerstones of business focus, digitalization, sustainability and agility in 2017. These were primarily intended to support the segments’ successful ongoing development and growth, as well as establishing a strong sustainability position. In line with the rapidly changing environment and drawing on internal strengths and potential, LBBW’s strategic direction was further streamlined in 2022 and adapted to meet future requirements. Its own initiatives focused on this directly. The new strategy comes into effect on 1 January 2023 as part of the 2023 business strategy. Despite the crises currently shaping the environment and challenging external conditions, LBBW is still aiming for growth and a strong market position. Growth and relevance are thus at the heart of the new strategy: growth to expand its market position, increased customer relevance and remaining eligible for refinancing. At the same time, it wants to bolster its relevance among competitors and stakeholders – as a relevant partner in transforming the economy and society.

1 Definitions are shown in the report on the results of operations, net assets and financial position and in the segment report.

Across the Group, this strategy is supported by five levers:

- **Sustainable Transformation:** The previous “sustainability” cornerstone in the narrower sense of the word has already brought together central initiatives ranging from a sustainable product range to Sustainability Advisory, LBBW’s own CO_2 emissions and sustainability ratings. In the future, it will also support the targeted transformation of the lending portfolio. This encompasses individual consulting on sustainable business models, digital transformation and long-term value chain restructuring (e.g. relocalization) that has become necessary on account of the current geopolitical environment.

- **Innovative Solutions:** The existing customer-centric approach will be stepped up considerably through cross-segment collaboration and product development for customers, further improving its position as a holistic solutions provider. This lever provides even more support for innovation and innovation development of products and processes.

- **Enhanced Resilience:** The exceptionally challenging economic and political environment puts the focus on improving LBBW’s resilience and flexibility. As well as continuing to diversity the business model and further developing risk management, this includes aspects of capital/process efficiency and improvements in operating resilience (IT security, compliance, OpRisk etc.).

- **Inspire Employees:** Dedicates employees are the most important resource for successful banking. The demands on employers if they want to establish and retain a competitive workforce are increasing as a result of demographic change and the resulting shortage of skilled workers and management personnel. It is not only the youngest generation of employees that is driven by a desire for meaningful work. The “Inspire Employees” lever combines employee promotion and further development initiatives and fosters a sense of identification with LBBW.

- **Social Contribution:** LBBW sees itself as a responsible market participant that also understands the importance for society. Through the “Social Contribution” lever, LBBW will play a greater role, both in terms of employee and bank commitment and by actively contributing to social developments, discourse and initiatives.

Business report for the Group

Overall economic development

Economic development in 2022 was hurt by Russia's war against Ukraine that began at the end of February. Higher energy prices and, in some cases, energy availability issues (especially for natural gas) were a major factor here, as were supply chain disruptions. By contrast, the lifting of numerous pandemic restrictions buoyed the economy. German GDP rose by 1.9% year on year in 2022 (adjusted for calendar effects). The eurozone saw GDP growth of 3.5%.

In China, economic output was at times curbed by the government's zero Covid strategy and the measures this entailed. Nonetheless, it achieved GDP growth of 3.0%. GDP in the US is predicted to have risen by 2.1% in 2022, according to initial estimates for the closing quarter.

Private household inflation climbed considerably in 2022. Inflation in Germany (national consumer price index, base year 2020) came to 6.9%, with the eurozone reporting 8.4% in the year as a whole (harmonized consumer price index) – the highest since the euro was introduced. Household energy prices and the cost of fuel and food drove up prices. The US also saw inflation hit 8%, a level not seen in decades.

The ECB tightened its monetary policy in the 2022 reporting year. The bond buying program launched to tackle the economic consequences of the Covid-19 pandemic ended on 1 July. At the end of July, key interest rates in the Euro system were raised by an initial 50 basis points, followed by three further rate hikes of a total of 200 basis points by the end of the year. This put the deposit rate at 2% at the end of 2022.

Yields on 10-year German government bonds increased during the year, going from negative territory at the end of 2021 (– 0.17%) to 2.56% at the close of 2022. Yields on US Treasuries with matching maturities came to 1.50% at the start of the year and + 3.83% at the end of the year. On the stock market, the DAX trended downwards overall, declining from 15,884 at the end of 2021 to 13,923 points at the end of 2022. The S&P 500, the US stock market index, declined from 4,766 to 3,839 points throughout the year. On the currency market, the euro depreciated against the US dollar from USD 1.13 to the euro at the start of the year to below USD 1.07 by the end of the year. In the fall, the euro temporarily fell below parity with the US dollar, i.e. one euro cost less than one US dollar.

House prices in Germany continued their long-term upwards trend in the first half of 2022. The third quarter saw a slight decline. Prices of office properties also picked up in the first half of the year and fell in the third quarter. Office rents, on the other hand, continued to trend upwards. Prices and rents for German retail properties shrunk. Prices on the London office property market rose in 2022. Vacancies trended upwards slightly. Office vacancy rates also increased marginally in the US throughout the year.

Lending business performance

Europe’s banking sector faced an exceptionally challenging business environment in 2022 on account of the war in Ukraine and the energy crisis. Growth prospects for the eurozone and for Germany were revised downwards during the year, while the pace of inflation picked up considerably. Governments responded with various fiscal policy measures, which also indirectly help the lending industry. For example, demand for loans remains robust compared to the previous year, even though ECB data shows that most banks introduced stricter lending guidelines. From the perspective of LBBW Research, the fundamentals are still largely satisfactory here: according to statements by the European Banking Authority (EBA) regarding the banking sector, the share of non-performing loans stabilized at a low level. Although the equity ratio declined on the previous year, there is still a sufficient buffer above the minimum regulatory requirement. In addition, key liquidity indicators are still comfortably above the level required by supervisory authorities. Nevertheless, in the second half of 2022 the ECB decided to make its conditions for longer-term refinancing operations less favorable. Combined with increased interest rates and higher capital market yields, this made it more expensive for banks to procure liquidity.

In this challenging business environment, the major US ratings agencies made only selective changes to outlooks for European banking systems. While most of these are considered “stable,”, the outlook for the German banking system, for example, was downgraded to “negative” by one agency in fall 2022. From a regulatory perspective, the implementation of “Basel IV” regulations is worth noting here. So far, the EU bodies are still discussing the final legislative package. The final regulations are not expected to be published before the second half of 2023. In the longer term, however, the Commission’s forecast expects this to result in an increase in minimum capital requirements.

Business performance at the LBBW Group. Results of operations, net assets and financial position

Best operating net consolidated profit since the financial market crisis despite volatile political and economic environment; plus strategic direction further refined as answer to changing general conditions

Business development

In an exceptionally challenging 2022 financial year, which was dominated by a volatile political and economic environment and the war in Ukraine, LBBW improved its operating net consolidated profit before tax from EUR 817 million to EUR 901 million. Including a non-recurring effect from the acquisition of the commercial property financier Berlin Hyp, net consolidated profit rose to EUR 1,873 million. The acquisition of Berlin Hyp aligns with LBBW's new strategic focus on growth and relevance and contributes to customer-oriented consolidation in the savings banks sector. Taking over Berlin Hyp makes LBBW a competence center for commercial real estate financing within the Sparkassen-Finanzgruppe. This marks a continuation of LBBW's consolidation trajectory it begun in previous years after combining strengths in interest rate, currency and commodities management.

LBBW further refined its existing strategic direction in the 2022 financial year, gearing it towards future requirements and its own ambitions. Under the guiding principles of growth and relevance, LBBW is looking to further expand its market position, become a stronger partner bank to customers and provide broad support during economic and social change. The new strategic direction is channeled through the five strategic levers of “Sustainable Transformation”, “Innovative Solutions”, “Enhanced Resilience”, “Inspire Employees” and “Social Contribution”.

Despite the volatile political and economic environment and the economic downturn, LBBW again reported good business performance in the operating segments in the 2022 financial year.

Extremely volatile markets, together with the funding needs of customers that this entails, had a positive impact on operating activities in **corporate customer business**. High funding requirements, a considerable upturn in cross-selling income, high demand for hedging products and increased activities in corporate finance business generated further growth in business with corporate customers. In Schuldschein loans, LBBW again defended and expanded its long-standing market leadership and was placed in the top three bookrunners/mandated lead arrangers in the important syndicated financing market as measured by the number of transactions. Its outstanding export financing performance was also reflected in the customer surveys conducted by the London-based specialist information service TXF, where LBBW took top spots (top three) in 2018, 2020 and 2021. LBBW was named a “top performing bank in export finance” in 2022.

The successful implementation of the “Sustainable Transformation” strategic lever can be seen in the expansion of Sustainability Advisory and the fact that we once again ranked first in the Finance magazine survey on sustainable financing/ESG. In addition, our sustainable product range was expanded to include green asset-backed commercial paper (ABCP). Group subsidiary SüdFactoring reported another first, developing and signing the first ESG-linked factoring agreement in Germany. LBBW was also named a “Quality Leader” in the Greenwich Large Corporate Banking study.

The main factor affecting business performance in **Real Estate/Project Finance** this year was the acquisition of commercial property financier Berlin Hyp AG as at 1 July 2022. Taking over the real estate financier from Berlin establishes a new competence center for commercial real estate financing in the savings banks sector. Together, the two banks have a portfolio of around EUR 56 billion, primarily in Germany with a focus on a conservative selection of office and residential properties. This helped LBBW drive the transformation of the real estate portfolio, about 30% of which now comprises sustainable financing. One focus of project financing business activities was on further expanding digital infrastructure financing, for example for fiber-optic networks or renewable energy.

LBBW Immobilien Group also successfully concluded project developments in Stuttgart and Munich. In addition, additional key project developments were initiated such as the inner city Schlossgartenquartier project and the Twinx office project in Stuttgart and the Rebstock-Areal residential construction project in Frankfurt. The strategic acquisition of ACTEUM Investment GmbH by LBBW Immobilien Group also represented further expansion in the Investment Management division.

As a result of volatile markets, **Capital Markets Business** experienced high demand for hedging products, primarily to hedge against exchange rate fluctuations. Demand for hedging products also surged in the wake of higher interest rates. The certificates business was once again a pillar of success in Capital Markets Business, with investors focusing chiefly on equity and interest rate products. Scope again issued LBBW a triple A certificate rating for the largest and most extensive product range among primary market issuers. In addition, LBBW certificates for retail customers were transferred to MIFID II in accordance with the new ESG standard this year.

In order to continuing providing optimal support to small and medium-sized enterprises (SMEs) in the future in the form of low-interest loans during liquidity shortages, LBBW issued a synthetic securitization together with the European Investment Bank Group to provide capital relief, which generated additional lending potential of just under EUR 1 billion to SME customers.

Despite difficult market conditions and political uncertainty, LBBW supported numerous issues in the financial year. This included being the lead manager in the issue of a European Commission bond with two tranches and a total volume of EUR 8.5 billion. LBBW was the only German bank to be awarded the contract for both issues. The issues were used for the “NextGenerationEU” sustainability program and to fund support for Ukraine, both driving the sustainable transformation and making a contribution to society. The first EU issue with a total volume of EUR 6 billion was the largest green bond that LBBW has been involved in to date.

In the case of funding via EUR covered bonds, a record book volume was achieved with what LBBW considers very good interest spreads. The green EUR and USD covered bonds, mortgages and public-sector covered bonds were all very well received. LBBW again underscored its excellent standing as a reliable, competitive issuer with a diversified international investor base on the capital market and generated attractive refinancing conditions. In additional, a digital pioneering project was successfully completed for the first-ever entirely digital, same-day issue of a security in Germany, demonstrating LBBW’s role as an innovative market driver in the area of electronic securities and contributing to the new strategic lever “Innovative Solutions”.

LBBW also upgraded its representative office in Shanghai to a branch in the financial year to further shore up the export-focused German economy on international markets.

Retail customer business was dominated largely by the change in interest rates during the year. Deposit business performed particularly well here.

Despite a challenging market environment, asset management enjoyed considerable growth in the number of new deals and steady net cash inflow. This is also reflected in customer satisfaction figures. For example, LBBW Asset Management achieved top rankings in the Telos 2022 satisfaction study, especially in the categories of risk management, performance, developed market bonds and multi asset.

As in previous years, BW-Bank’s professional foundation management, which has won multiple awards, continued to grow and once again received the Fuchs Professional Rating prize for foundation managers in the financial year, the fourth time in a row it has been awarded the prestigious prize. The total number of foundations that are supported continued to increase in 2022, reaching a new high. The WhoFinance rating portal again named BW-Bank one of the top 10 institutions in the German savings banks category.

The **key financial indicators (financial performance indicators)** confirm LBBW's successful business performance in 2022.

The cost/income ratio (CIR)[1] was 67.2% after eliminating the effects of the badwill and income and expenses of Berlin Hyp. On this basis of comparison, the figure performed better than expected in planning thanks primarily to income. At Group level, including Berlin Hyp but without the non-recurring effect from badwill, it came to 65.6%. Taking account of badwill, the **cost/income ratio (CIR)** improved to 50.7% after 64.7% in the previous year in connection with income. This improvement was driven by badwill in connection with the acquisition of Berlin Hyp. Income adjusted for the badwill also rose by EUR 319 million y-o-y, a result chiefly of a sharp increase in net interest income, as well as higher 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 administrative expenses. Both the rise in net interest income and in administrative expenses was the result of including Berlin Hyp in the LBBW Group for the first time.

Return on equity (RoE)[2] after eliminating the effects of the badwill and Berlin Hyp was 6.5%, moderately higher than the original target. Adjusted for the non-recurring effect from the badwill, it comes to 6.2%, chiefly due to an improved income situation. Including the badwill that arose in connection with the Berlin Hyp acquisition, the key figure improved to 13.4% (previous year: 6.0%).

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 14.1%, the figure was only marginally lower than at the end of the previous year (14.6%). As a result of including Berlin Hyp in the LBBW Group for the first time, it was marginally lower than the original targets.

In connection with the acquisition of Berlin Hyp, the European Central Bank maintained the Pillar 2 capital requirement. Throughout the year, a dynamic approach reduced it marginally to 1.83%, 1.03% of which must be backed by CET 1 capital. The German Federal Financial Supervisory Authority (BaFin) left the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (Kreditwesengesetz, KWG) unchanged at 0.75%. The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. LBBW is therefore required to maintain a common equity Tier 1 capital ratio of 8.78%, which relates to risk-weighted assets increased as a result of the Berlin Hyp acquisition. Section 10d of the German Banking Act also requires a countercyclical capital buffer to be held. With effect from 1 February 2023, the countercyclical capital buffer – which previously applied only to a portion of foreign receivables – was expanded to German receivables of 0.75% by way of a general BaFin ruling. Another BaFin general ruling relates to introducing a systematic buffer of 2.0%, also with effect from 1 February 2023, although this is limited to receivables secured by German residential properties. 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 Group financial indicators developed as follows.

Risk weighted assets (RWA) were up on the previous year in the reporting period at EUR 93.5 billion (EUR 84.6 billion). This was driven predominantly by the first-time inclusion of Berlin Hyp with RWA of EUR 11.7 billion. RWA was limited, especially at LBBW Bank, thanks to efficient capital management and so additional new business could be generated.

LBBW's **leverage ratio** was 4.6% as at the end of the reporting period (fully loaded in accordance with CRR II/CRD V), lower than at the end of the previous year (5.0%). This primarily reflected the first-time inclusion of Berlin Hyp. The current regulatory minimum of 3.0% was again significantly exceeded.

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

LBBW once again boosted its operating consolidated profit before tax (excluding badwill) by 10.3% to EUR 901 million last year. Including a non-recurring effect from the acquisition of the commercial property financier Berlin Hyp, net consolidated profit improved by EUR 1,056 million to EUR 1,873 million, an extraordinary increase on the previous year's EUR 817 million.

	01/01/2022 – 31/12/2022	01/01/2021 – 31/12/2021	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	2,305	2,031	273	13.4
Net fee and commission income	628	598	30	5.0
Net gains/losses on remeasurement and disposal	55	35	20	58.3
of which allowances for losses on loans and securities	– 239	– 240	0	– 0.1
Other operating income/expenses	1,061	93	967	>100
of which badwill	972	0	972	100.0
Total operating income/expenses	*4,048*	*2,757*	*1,291*	*46.8*
Administrative expenses	– 1,985	– 1,802	– 184	10.2
Expenses for bank levy and deposit guarantee system	– 188	– 137	– 51	37.0
Net income/expenses from restructuring	– 2	– 1	– 1	>100
Consolidated profit/loss before tax (excluding badwill)	901	817	84	10.3
Consolidated profit/loss before tax	*1,873*	*817*	*1,056*	*>100*
Income taxes	– 363	– 399	36	– 9.1
Net consolidated profit/loss (excluding badwill)	538	418	120	28.8
Net consolidated profit/loss	*1,510*	*418*	*1,092*	*>100*

Figures may be subject to rounding differences. Percentages are based on the exact figures.

Net interest income improved again in the 2022 financial year, picking up by EUR 273 million to EUR 2,305 million. At operating level, this was bolstered primarily by the Real Estate/Project Finance segment with a rise of EUR 230 million. This good performance primarily reflected the first-time inclusion of Berlin Hyp's net interest income in H2 2022. The Private Customers/Savings Banks and Corporate Customers segments also contributed to earnings with growth of EUR 138 million. Worthy of note here were, once again, corporate finance, export financing and the expansion of volumes in what LBBW has identified as growth sectors. The turnaround in money market and capital market interest rates after a long period of zero and negative rates also boosted deposit business. Following the end of the bonus period on 23 June 2022, the bonus interest from participating in targeted longer-term refinancing operations (TLTRO III) declined by EUR 118 million to EUR 68 million (previous year: EUR 186 million).

Net fee and commission income improved by a moderate EUR 30 million to EUR 628 million. Different types of commission performed differently. The lending business, including guarantees, performed particularly well, picking up by EUR 20 million to EUR 135 million. The syndicated loan business and business with guarantees and bonds were particularly noteworthy. Payments business also fared well at EUR 104 million (previous year: EUR 91 million). Rising earnings contributions were made chiefly by foreign payment transactions and credit card business. In addition, net gains from the brokerage business increased to EUR 45 million (previous year: EUR 38 million). By contrast, commission from securities and custody business moved in the opposite direction, declining by EUR – 14 million to EUR 250 million. Income from the securities underwriting business included here decreased by EUR – 6 million, primarily due to SSA[1], with reduced emission volumes by German states compared to the two previous years, and non-recurring effects on economic policy (EU SURE program).

Net gains/losses on remeasurement and disposal enjoyed a marked EUR 20 million upturn to EUR 55 million and was defined by the effects described below.

Net income accounted for using the equity method declined by EUR 67 million to EUR 44 million and was defined chiefly by a negative measurement effect at an associate. The measurement effect was essentially the result of the higher cost of capital, which was not offset by the level of ambition in planning.

Net additions to **allowances for losses on loans and securities** remained virtually unchanged y-o-y in the reporting year at EUR – 239 million (previous year: EUR – 240 million). While allowances for losses on loans and securities were low due to underlying defaults (Level 3 impairment), existing adjustments for allowances for losses on loans and securities increased by a further EUR 206 million (net) (previous year: EUR 155 million). A considerable portion of the

1 SSA – supranational, sub-sovereign and agency bonds

rise was due to the first-time recognition of model adjustments at the subsidiary Berlin Hyp. The adjustments allow LBBW to account for uncertainties in connection with further developments in the war in Ukraine, supply chain bottlenecks, the impact on energy-intensive sectors, high inflation and higher production costs due to the interest rate changes and the digital and sustainable transformation. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and a still low default rate[1]. As at the end of the reporting period 31 December 2022, this was 0.4% (previous year: 0.5%).

Net gains from financial instruments measured at fair value through profit or loss, which improved by EUR 120 million to EUR 365 million (previous year: EUR 244 million), were shaped by high customer demand for hedging and investment products. Capital market activities, which saw a sharp EUR 133 million increase in new FICC[2] business thanks to customers' increased hedging needs in FX and interest books to EUR 437 million, were particularly instrumental in this increase. On the other hand, the contribution from banking book transactions declined slightly y-o-y by EUR 12 million to EUR – 72 million, primarily the result of derivative inefficiencies in connection with the Treasury's interest management and of interest-related measurement effects. Net gains/losses from equity investments and affiliates, which were recognized in the item net gains/losses from financial instruments measured at fair value through profit or loss as an element of banking book activities, decreased by EUR 10 million to EUR 10 million as at 31 December 2022 (previous year: EUR 20 million).

Other operating income/expenses rose by a considerable EUR 967 million and came to EUR 1,061 million (previous year: EUR 93 million). The earnings upturn was chiefly thanks to the acquisition of Berlin Hyp AG. The purchase price allocation in accordance with IFRS 3.34 et seqq. resulted in badwill of EUR 972 million. This was driven chiefly by different measurement methods based on the underlying fair values of assets and liabilities and macroeconomic developments (mainly interest rates) between the time of signing the purchase agreement and the date of acquisition. Earnings from provisions for legal issues also improved by EUR 37 million. Net gains/losses from completed projects developed counter to this, resulting in a EUR 31 million decrease in gains/losses. Gains/losses from investment property declined from EUR 35 million in the previous year to EUR 32 million. This was affected chiefly by lower measurement effects for investment properties.

Administrative expenses increased year on year by EUR – 184 million to EUR – 1,985 million (previous year: EUR – 1,802 million). The first-time inclusion of Berlin Hyp was a major factor in the overall increase here, causing staff costs in the Group to rise by EUR – 77 million to EUR – 1,108 million (previous year: EUR – 1,031 million). As well as initial consolidation effects in connection with the integration of Berlin Hyp, the rise chiefly reflected higher personnel-related provisions at LBBW Bank and the payment of a voluntary inflation premium due to higher energy prices. Other administrative expenses in the Group also increased by a considerable EUR – 118 million to EUR – 764 million (previous year: EUR – 646 million). The rise in costs at LBBW Bank was the result primarily of higher investment in growth initiatives and IT infrastructure. The Berlin Hyp subsidiary also contributed to the increase in other administrative expenses for the first time.

Expenses for the bank levy and deposit guarantee system again rose significantly by EUR – 51 million to EUR – 188 million. Contributions to the bank levy picked up by EUR – 30 million to EUR – 134 million. This was affected by the further increase in the target volume for the bank levy due to the 7% rise in covered deposits in the eurozone and the greater consideration given to uncertainties in connection with economic developments. In addition, expenses for the statutory deposit guarantee system also increased by EUR – 21 million to EUR – 55 million as a result of a new weighting of the contribution allocation within the guarantee system.

At EUR 1,873 million, **consolidated profit before tax** was up considerably on the previous year's figure of EUR 817 million. Adjusted for the non-recurring effect of the badwill due to acquiring Berlin Hyp, net profit increased from EUR 817 million to EUR 901 million.

1 See also Risk report, Risk situation of the LBBW Group, section on portfolio quality
2 FICC – fixed income, currencies and commodities

Income tax expenses were down slightly at EUR – 363 million (previous year: EUR – 399 million). Here, periodic actual taxes increased by EUR 36 million to EUR 303 million, whereas non-periodic tax expenses declined by EUR 59 million to EUR – 73 million. (previous year: EUR – 132 million). The EUR 12 million y-o-y upturn in deferred tax income of EUR 12 million is essentially the result of changes to the impairment assessment of deferred tax assets from loss carryforwards.

All in all, **net consolidated profit** thus increased markedly to EUR 1,510 million (previous year: EUR 418 million). Adjusted for the non-recurring effect of the badwill due to acquiring Berlin Hyp, net profit increased from EUR 418 million to EUR 538 million.

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. Further information can be found in the notes to the consolidated financial statements in the segment report in section C.

Consolidated profit before tax in the 2022 financial year was EUR 1,873 million (previous year: EUR 817 million). Adjusted for badwill, it came to EUR 901 million. The LBBW Group segments' contributions to this were as follows:

	01/01/2022 – 31/12/2022	01/01/2021 – 31/12/2021[1]	Change	
	EUR million	EUR million	EUR million	in %
Corporate Customers	513	406	107	26.5
Real Estate/Project Finance	328	292	35	12.1
Capital Markets Business	183	246	– 64	– 25.9
Private Customers/Savings Banks	104	14	89	>100
Corporate Items/Reconciliation/Consolidation	746	– 141	887	>100
Adjusted for badwill	– 226	– 141	– 84	59.5
Consolidated profit/loss before tax	*1,873*	*817*	*1,056*	*>100*
Adjusted for badwill	*901*	*817*	*84*	*10.3*

1 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.
Differences are due to rounding effects.

Profit/loss before tax in the Corporate Customers segment again experienced a considerable upturn in the 2022 financial year. This stemmed from strong operating business, with cross-selling income enjoying a particular upturn in interest rate, currency and commodities management as well as corporate finance business. At the same time, the net addition to allowances for losses on loans and securities was considerably lower than in the previous year despite recognizing additional adjustments, underscoring the consistently good lending portfolio quality. This caused return on equity (RoE) to rise from 8.1% in the previous year to 9.8%. By contrast, the increased contributions to the bank levy and the deposit guarantee system as well as higher project costs caused a rise in expenses. As a result at 54.0%, the cost/income ratio (CIR) was slightly higher than what LBBW considered the very good previous year figure (previous year: 51.6%).

The Real Estate/Project Finance segment also saw earnings pick up thanks to a strong surge in income. Income went up both in real estate financing and in the project finance business, with the operating contributions of Berlin Hyp also having a positive impact. The good risk profile is demonstrated by still unremarkable underlying allowances for losses on loans and securities, although these were sizably in excess of the previous year as a result of recognizing further adjustments and initial consolidation effects from Berlin Hyp. In this segment, too, the higher bank levy and deposit guarantee system affected expenses, which increased y-o-y. Continued growth and project costs, as well as accounting for Berlin Hyp, also played a role here. This was also shown in the slight increase in the cost/income ratio (CIR) to 39.8% (previous year: 34.2%). Despite higher earnings, return on equity declined to 12.1% (previous year: 16.1%), driven primarily by the increased recognition of adjustments for allowances for losses on loans and securities, which was reflected in net profit/loss for the year.

In the Capital Markets Business segment, income was also increased further y-o-y. This good income performance was thanks chiefly to continued successful customer business, especially with investment and hedging products and certificates, as well as a sustained successful market position. Nonetheless, profit/loss before tax was down on the very strong previous year figure. This was due mainly to an extraordinary increase in allowances for losses on loans and securities as a result of the war between Russia and Ukraine. It was also reflected in a lower return on equity of 6.8% compared to the previous year (10.6%). Expenses also rose as a result of the ongoing growth case in Asset and Wealth Management, project costs and the higher bank levy and deposit guarantee system. Overall, the cost/income ratio (CIR) increased to 73.2% on account of costs (previous year: 67.9%), with the higher income partially offsetting the rise in expenses.

The Private Customers/Savings Banks segment enjoyed a marked earnings upturn thanks to solid income growth across the board, which also translated into a sizable increase in return on equity from 1.4% in the previous year to 9.3%. Income improved y-o-y for almost all products. Besides financing and investment business, including asset management, the deposit business performed particularly well here, shored up primarily by interest rate developments. The segment also saw a notable rise in allowances for losses on loans and securities, although this was almost entirely due to the recognition of adjustments. At the same time, expenses were steady at the previous year's level thanks to successful cost optimization and so the cost/income ratio (CIR) improved considerably year on year to 80.4% (previous year: 97.2%).

Profit/loss before tax in Corporate Items/Reconciliation/Consolidation (EUR 746 million) rose noticeably in the 2022 financial year compared to the previous year (EUR – 141 million). This earnings growth essentially reflected the badwill incurred as a result of the initial consolidation of Berlin Hyp.

Net assets and financial position

Assets	31/12/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Cash and cash equivalents	10,569	36,871	– 26,302	– 71.3
Financial assets measured at amortized cost	228,969	167,323	61,646	36.8
Financial assets measured at fair value through other comprehensive income	36,668	33,288	3,380	10.2
Financial assets designated at fair value	1,779	1,374	405	29.5
Financial assets mandatorily measured at fair value through profit or loss	39,379	36,976	2,403	6.5
Shares in investments accounted for using the equity method	226	274	– 48	– 17.6
Non-current assets and disposal groups held for sale	– 549	708	– 1,257	-
Non-current assets held for sale and disposal groups	1	1	– 0	– 20.1
Investment property	209	158	51	32.3
Investment property	791	805	– 14	– 1.7
Property and equipment	813	731	83	11.3
Income tax assets	1,038	1,132	– 94	– 8.3
Other assets	4,281	2,703	1,577	58.3
Total assets	*324,174*	*282,344*	*41,830*	*14.8*

Equity and liabilities	31/12/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Financial liabilities measured at amortized cost	273,657	235,174	38,483	16.4
Financial liabilities designated at fair value	3,584	4,895	– 1,311	– 26.8
Financial liabilities mandatorily measured at fair value through profit or loss	29,825	23,689	6,135	25.9
Portfolio hedge adjustment attributable to liabilities	– 3,164	11	– 3,175	-
Provisions	1,825	2,080	– 255	– 12.3
Liabilities from disposal groups	0	0	0	
Income tax liabilities	212	370	– 158	– 42.7
Other liabilities	2,794	1,928	866	44.9
Equity	15,442	14,197	1,245	8.8
Total equity and liabilities	*324,174*	*282,344*	*41,830*	*14.8*
Guarantee and surety obligations	9,549	8,214	1,335	16.2
Irrevocable loan commitments	41,416	36,137	5,279	14.6
Business volume	*375,138*	*326,695*	*48,443*	*14.8*

Slight rise in consolidated total assets

Total assets climbed by EUR 41.8 billion to EUR 324.2 billion as at 31 December 2022. By integrating the successful commercial property financier Berlin Hyp AG, LBBW is continuing to focus its strategy on growth. The increase in total assets was thus essentially the result of taking over Berlin Hyp AG’s holdings, which is primarily reflected in the items Loans and advances to customers, Securitized liabilities and Deposits from customers.

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 48.4 billion to EUR 375.1 billion.

Lending

Cash and cash equivalents amounted to EUR 10.6 billion as at 31 December 2022, a considerable EUR 26.3 billion decrease on the figure for the previous year (EUR 36.9 billion). This was attributable almost exclusively to a decline in central bank balances.

The item **financial assets measured at amortized cost** increased by EUR 61.6 billion to EUR 229.0 billion, attributable in an almost equal share to loans and advances to banks and loans and advances to customers.

Loans and advances to banks rose by EUR 34.8 billion, closing at EUR 81.3 billion. This was essentially the result of a EUR 35.8 billion increase in public-sector loans to EUR 69.9 billion which, in turn, was due chiefly to a EUR 34.5 billion deposit under the ECB’s deposit facility. This was offset by a EUR 0.8 billion decrease in overnight and term deposits to EUR 2.7 billion and a EUR 0.2 billion fall in other loans to EUR 0.8 billion.

The portfolio of **loans and advances to customers** picked up by EUR 26.7 billion to EUR 146.8 billion. By acquiring Berlin Hyp, LBBW benefits from its expertise in the area of commercial real estate financing. This prompted the portfolio of mortgage backed loans to increase by a dramatic EUR 28.0 billion to EUR 66.5 billion, EUR 26.1 billion of which was attributable to the inclusion of Berlin Hyp. LBBW also further expanded its corporate finance business. Other loans picked up by EUR 2.5 billion to EUR 27.0 billion and current account assets by EUR 0.8 billion to EUR 2.8 billion. Especially at major customers, overnight and term deposits declined by EUR 4.0 billion to EUR 5.9 billion and securities repurchase transactions by EUR 1.8 billion to 7.3 billion.

Financial assets measured at fair value through other comprehensive income changed by EUR 3.4 billion to EUR 36.7 billion. Bonds and debentures saw an increase of EUR 3.5 billion to EUR 32.6 billion. The portfolio was expanded by EUR 5.1 billion due to the acquisition of Berlin Hyp, although the decrease in securities held to manage liquidity resulted in a reduction of EUR 1.7 billion. All in all, loans and advances declined by EUR 0.3 billion to EUR 3.1 billion. A EUR – 0.7 billion portfolio reduction at LBBW (Bank) was also offset here by the inclusion of Berlin Hyp’s holdings in the amount of EUR 0.5 billion.

Financial assets mandatorily measured at fair value through profit or loss climbed by EUR 2.4 billion to EUR 39.4 billion. Positive fair values from derivatives rose by EUR 2.6 billion to EUR 19.6 billion, with the majority attributable to interest-related derivatives. Receivables from securities repurchase agreements expanded by EUR 0.9 billion to EUR 4.6 billion. In view of current interest rate trends, on the other hand positive fair values from derivative hedging instruments fell by EUR 0.9 billion to EUR 0.5 billion. Other money market transactions declined by EUR 0.7 billion to EUR 1.7 billion.

The **portfolio hedge adjustment attributable to assets** saw a EUR 1.3 billion decrease compared to the previous year’s figure of EUR 0.7 billion. The decline in this adjustment item stemmed chiefly from the sharp rise in interest rates in the current financial year.

Other assets increased by EUR 1.6 billion from EUR 2.7 billion to EUR 4.3 billion, EUR 0.5 billion of which as a result of the initial consolidation of Berlin Hyp’s assets. The rest of the rise was essentially due to the increase in LBBW (Bank)’s margin holdings as collateral to provided in advance in connection with derivative transactions.

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 38.5 billion to EUR 273.7 billion.

Deposits from banks were down EUR 4.2 billion at EUR 84.1 billion. The volume of overnight and term deposits declined by EUR 5.5 billion to EUR 40.0 billion. This resulted primarily from the repayment of deposits from the ECB in connection with participation in the tender program (TLTRO III). It was partially offset by higher overnight and term deposits from savings and commercial banks. The inclusion of Berlin Hyp also boosted the portfolio by EUR 2.5 billion. Transmitted loans increased by EUR 1.8 billion to EUR 35.8 billion as a result of higher deposits from development loan banks. Other liabilities increased by EUR 0.9 billion to EUR 2.7 billion.

At EUR 115.7 billion, the item **deposits from customers** was up EUR 18.7 billion against the figure for 31 December 2021. Issued debentures increased by EUR 3.6 billion to EUR 8.2 billion, primarily due to the acquisition of Berlin Hyp with a EUR 2.9 billion portfolio increase. Higher interest rates made deposits more attractive and resulted in a significant EUR 14.4 billion increase in the volume of overnight and term deposits to EUR 38.8 billion due to new market conditions, EUR 0.9 billion of which was due to the first-time consolidation of Berlin Hyp. Current account liabilities picked up by EUR 1.0 billion to EUR 59.9 billion, with other liabilities increasing by EUR 0.5 billion to EUR 3.1 billion.

Securitized liabilities increased by a significant EUR 23.8 billion to EUR 68.7 billion in the reporting period in connection with the acquisition of Berlin Hyp and the related first-time recognition of holdings of EUR 20.6 billion. Mortgage-backed covered bonds increased by EUR 13.5 billion due to integrating Berlin Hyp. The total item increased by EUR 14.1 billion to EUR 21.3 billion. Other debentures went up by EUR 7.3 billion to EUR 24.8 billion, the majority of which (EUR 7.1 billion) stemmed from Berlin Hyp. The New York branch further stepped up its short-term financing with commercial papers and certificates of deposits and more money market instruments were also issued in London and at the registered office in Stuttgart, resulting in a EUR 1.4 billion rise in money market transactions to EUR 17.5 billion.

Subordinated capital remained at the previous year's level, a change of EUR 0.1 billion to EUR 5.1 billion.

Financial liabilities designated at fair value moved down by EUR 1.3 billion to EUR 3.6 billion. Planned maturities not offset by new business reduced securitized liabilities by EUR 0.9 billion to EUR 1.6 billion. Subordinated bonds declined by EUR 0.3 billion to EUR 0.4 billion.

As in the items under assets, **financial liabilities mandatorily measured at fair value through profit or loss** rose by EUR 6.1 billion to EUR 29.8 billion. While negative fair values from derivatives, especially for interest-related products, rose by EUR 5.9 billion to EUR 19.2 billion, negative fair values from derivative hedging instruments declined by EUR 1.5 billion to EUR 0.8 billion in view of interest rate hikes. Delivery obligations from short sales of securities and liabilities from securities repurchase agreements each expanded by EUR 0.3 billion to EUR 1.0 billion and EUR 0.5 billion respectively.

In line with the corresponding item attributable to assets, the **portfolio hedge adjustment** attributable to liabilities declined by EUR 3.2 billion to EUR – 3.2 billion due to interest rates.

Provisions decreased compared with the previous year by EUR 0.3 billion to EUR 1.8 billion. This decline was essentially the result of the remeasurement of the pension obligations, which in turn was due to the increase in the discount rate.

Equity

LBBW’s **equity** as at 31 December 2022 was EUR 15.4 billion, up EUR 1.2 billion on the previous year (EUR 14.2 billion). Group net profit for the year of EUR 1.5 billion resulted in an increase and was offset by a distribution to shareholders of EUR – 0.2 billion. Measuring pension obligations resulted in a net increase of EUR 0.3 billion. As a result of market fluctuation provoked by crises, cumulative measurement gains/losses on financial assets measured at fair value through other comprehensive income had a negative impact on equity of EUR – 0.4 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. 2022 was shaped by the pandemic, geopolitical risks and high inflation and required a change in interest rate policy at the major central banks. Even in this highly volatile phase, LBBW successfully presented itself to investors and was able to raise the liquid funds required at all times. 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 144.2% as at 31 December 2022. The **net stable funding ratio (NSFR)** requirements applicable since June 2021 were also met at all times and were exceeded at 111.3% as at 31 December 2022.

Risk report

Risk-oriented integrated bank management

Risks are managed under LBBW’s strategy, LBBW legislation and LBBW’s articles of association. Risks and the associated opportunities for income and growth potential are taken within the scope of a defined risk appetite, in a deliberate and controlled manner. Particular focus is given to capital and liquidity management.

Clearly defined organizational structure and procedures, internal control processes, risk management and controlling structures, and process-independent internal auditing ensure that business operations are consistent with the strategy.

The processes, procedures and methods are regularly reviewed to ensure their adequacy and further developed. These reviews also take account of the findings of the statutory auditor, the Group Auditing division and the SREP process (Supervisory Review and Evaluation Process) of the European Central Bank (ECB) and these findings are implemented accordingly.

Material risk types

An annual Group risk inventory is used to identify, manage and monitor all of LBBW’s material risk types. This was refined considerably in 2022 in terms of environmental, social and governance risk drivers as part of the Group risk inventory. The particularly key interdisciplinary topic environmental risk covers climate and environmental risks, which can have transitory or physical effects.

This is used to ascertain the overall risk profile of the LBBW Group, which is presented to the Board of Managing Directors for approval. Risk measurement of the material subsidiaries from a risk point of view is based on the transparency principle; i.e. the types of risk identified as material in the respective companies are integrated in the Group-wide risk measurement of the respective type of risk for material subsidiaries. This also applies to risks from LBBW pension funds to which the bank has outsourced most of its direct defined benefit obligations. LBBW assigns companies whose risks are regarded as immaterial in investment risk.

The following material risk types were identified:

Financial risk
- Counterparty default risks
- Market price risks
- Liquidity risks
- Real estate risks
- Development risks
- Investment risks

Non-financial risk
- Operational risks
- Reputation risks
- Business risks
- Model risks
- Tax compliance risks

LBBW defines “financial risks” as risks that are taken deliberately ex ante and that can be priced to generate income. “Non-financial risks” are defined as risks that result from factors outside the bank’s ordinary business.

LBBW also considers “interdisciplinary topics”. These can also have material adverse effects on several other risk types, but they are already (implicitly) taken into account there and so do not comprise a risk type of their own.

The material interdisciplinary topics are:

- ESG risks (environmental, social, governance)
- Concentration risks
- Pandemic risks

LBBW develops its methods and procedures for managing financial and non-financial risks and ESG risks on an ongoing basis.

Specific risk strategies are created for all risk types that the Group considers material. In addition, a concentration analysis is carried out for these risks to identify central vulnerabilities. In addition to the concentration effects within the respective risk type (“intra-risk concentrations”), this also takes into account effects between different risk types “inter-risk concentrations”).

Risk strategy and risk tolerance

The Board of Managing Directors and the Risk Committee of the Supervisory Board set out the principles of the risk management system for all risk types identified as material in risk strategies. The risk strategies are drawn up by the Board of Managing Directors in line with the business strategy and noted by the Risk Committee.

Since 1 July 2022, Berlin Hyp has also been integrated into LBBW’s central steering group. Involving it in the Group risk strategy ensures holistic Group management. Berlin Hyp operates as an independent subsidiary with independent management at individual bank level.

Risk strategy guidelines are defined in the group risk strategy, which applies to the entire Group and across all risk types, in accordance with the Minimum Requirements for Risk Management (MaRisk) and the relevant European standards.

In this context, the Group risk strategy defines specifications on risk appetite from both qualitative and quantitative points of view that are to be observed in all business activities.

In terms of capital, the quantitative part of risk appetite sets out concrete specifications in the form of thresholds for LBBW’s material economic and regulatory steering parameters – specifications are set out for times of normal business operations as well as under stress conditions. There are processes in place to ensure that these requirements are adhered to all times, including escalation processes based on a traffic light system and regular stress tests. As part of the quantitative risk appetite, the strategic limit system operationalizes the requirements and objectives defined in the business strategy for all material risk types included in the Group risk inventory. Berlin Hyp was integrated into the limit system in the financial year.

The liquidity risk tolerance caps the liquidity risk in the narrower meaning (i.e. it limits the risk of not meeting payment obligations). Further information can be found in the section on liquidity risks.

The risk guidelines form the qualitative element of risk appetite. They constitute the key strategic principles and rules of conduct that are used for weighing up risks and opportunities within the LBBW Group. They contribute to a uniform risk culture and form the framework for the precise organization of processes and methods of risk management. This qualitative element of risk appetite is completed with further guidelines – such as in the form of a Code of Conduct and Ethics which applies to all employees throughout the entire Group.

The sustainability policy of the LBBW Group must be observed. It is the LBBW Group’s intention to act in the best and long-term interest of its customers and stakeholders. The existing risk guidelines were supplemented to include internal sustainability targets and account for the resulting risks. They provide a framework for all sustainability activities at the LBBW Group and details are provided in the form of requirements and exclusions. The Group-wide Risk Appetite Statement was considerably stepped up in terms of ESG risks as a result.

In addition, the specific risk strategies approved for each material risk type document the current and target risk profile of LBBW, specify customer-, product- and market-specific guidelines and thereby set out regulations on how to handle the identified risks in a deliberate and controlled manner in order to take advantage of the opportunities they present from a risk/return perspective. Additional information on the specific risk strategies is provided in the sections on the respective risk type.

Risk capital and liquidity management

The objective of this process is to ensure adequate capital and liquidity, both during normal business operations and under stress conditions, and thus to guarantee the permanent resilience of the LBBW Group.

Capital adequacy that is suitable in the long term

Annual medium-term planning comprises the economic and regulatory considerations, brings these together and acts as a link between the strategic framework and integrated bank management throughout the year. The planning period covers five years and is based on expected economic development, with particular consideration given to the current geopolitical/economic situation and to business activity planned in this environment.

The planning thus lays the groundwork for monitoring the targets set at all management levels. Within the management areas and dimensions, deviations from targets are subsequently analyzed, forecasts and target/actual deviations reported and, where necessary, measures to achieve the targets are agreed, implemented and monitored throughout the year.

In addition, compliance with the internal targets and thus with minimum regulatory requirements is also ensured in the case of adverse economic developments. Both dynamic, adverse developments in the time horizon of medium-term planning and a shock occurrence of stress events are considered here.

Economic considerations complement regulatory considerations

To ensure adequate capitalization from an economic point of view, in addition to the regulatory capital view a Group-wide compilation of risks across all material risk types and subsidiaries (economic capital requirement), and the comparison of these with the capital calculated from an economic perspective (aggregate risk cover), is used.

Risks within the framework of the LBBW Group’s risk-bearing capacity are described before possible measures to limit risks (so-called gross presentation).

At LBBW, aggregate risk cover (corresponds to risk coverage potential as per MaRisk) denotes the equity restricted according to economic criteria which is available to cover unexpected losses. In addition to equity (as per IFRS including valuation reserves), the realized income statement gains/losses in accordance with IFRS are considered components of aggregate risk cover. Conservative deductible items are also included due to regulatory requirements.

Economic capital is calculated as a uniform risk measure at the highest level. This is deemed to constitute the amount of capital necessary to cover the risk exposure resulting from LBBW’s business activities. In contrast to the equity stipulated by regulatory bodies, it is quantified as value at risk (VaR) at a confidence level of 99.9% and a one-year holding period for counterparty, market price, real estate, development, investment and operational risks. For other risks (including reputation, business and model risks), it is quantified using simplified procedures.

The upper risk limit for economic capital (economic capital limit) as part of the quantitative risk tolerance represents the Group-wide overarching limit for all relevant quantified risk types. This limit reflects the maximum willingness of the LBBW Group to accept risk. In keeping with the conservative principle underlying risk tolerance, it is below the aggregate risk cover and thus provides scope for risks arising from unforeseeable stress situations. On the basis of the upper economic capital limit, economic capital limits are defined for the various risk types directly quantified using an own risk model and for the other risks quantified using a simplified model approach. Berlin Hyp has its own risk-type-related economic capital limits based on the upper economic capital limit.

By contrast, the liquidity risks (within the meaning of the risk of not meeting payment obligations) are managed and limited in accordance with the quantitative and procedural rules defined in the liquidity risk tolerance for regulatory and economic considerations. Further information can be found in the section on liquidity risks. The model risks are managed entirely via the model risk management process and the corresponding tools described in the relevant section.

Further details on the regulatory view can be found in the notes under capital management.

Stress tests and scenario analyses

In addition to risk measurement tools and statistical indicators based on historical data, various stress scenarios play an important part in risk assessment. They analyze in advance the impact of potential heavier economic downturns in future and market crises in order to establish whether LBBW is able to withstand extreme situations.

The scenarios are designed using various criteria: LBBW takes into account specific scenarios considering current inflation trends and the energy and raw materials shortage, as well as hypothetical scenarios with exceptional but plausible events of varying severity and exposure scenarios under which the existence of the Bank is threatened within the context of the recovery plan. The stress scenarios are defined either for a several-year, dynamic time frame as part of medium-term planning or simulated as a sudden shock scenario occurrence. Stress tests are based on the risk inventory, which specifically analyses LBBW’s vulnerabilities using a holistic approach and thus serves as a basis for a comprehensive scenario analysis.

As well as expected developments, medium-term planning also accounts for adverse developments in the form of scenarios. The design of the scenarios and their parameters are based on assumptions about macroeconomic conditions and the scenarios cover a five-year period. They also take account of the interdependency between the development of the real economy and the financial economy. This aims to assess medium-term planning under adverse market conditions and to demonstrate a clear relationship between risk tolerance, business strategy and the capital and liquidity plan.

The scenarios are arranged in such a way that they take into account the impact on the economic and regulatory capital and liquidity situation. The definition of the scenarios focuses in particular on LBBW’s risk concentrations. These complex macroeconomic scenarios addressing multiple risk types are also complemented by simple sensitivity analyses.

ESG scenarios constitute their own scenario class in LBBW’s conceptual framework for stress tests and scenario analyses. ESG scenario analyses are prepared for several medium-term and long-term periods on the basis of scenarios stipulated by regulatory authorities or own scenarios and serve primarily as an early warning, a way of identifying the need to take action in the long term and as a basis for strategic discussion.

Risk management processes, organization and reporting

Risk management and monitoring

LBBW’s risk management and monitoring is based on the guidelines of the risk strategy and the defined limits and approval powers.

At LBBW, transactions can only be entered into within clearly defined limits or approval powers and in accordance with the principles of the risk strategy. Within the defined framework, risk management decisions are made by the departments with portfolio responsibilities in the first line of defense, maintaining the separation of functions; these decisions are monitored by central Risk Control in the second line of defense. The risk controlling and risk management system set up for this purpose covers all material risks and the details specific to the risk types.

Potential concentration of risk receives particular attention. At LBBW, appropriate processes are used to identify and to deliberately manage risk concentration. Risks to the Group’s going concern status must be excluded. Corresponding monitoring processes (e.g. report on risk concentrations, stress tests) and limits (e.g. sector and country limits) are available for the purpose of monitoring this strategic requirement.

An overview of the structure and individual elements of the risk management system of LBBW is given in the following chart. Additional information on this is provided in the sections on the respective risk type.

Risk management structure

Annual General Meeting
Supervisory Board
Committees

Group's Board of Managing Directors
Business strategy, Group risk strategy

Risk Committee, Asset Liability Committee, Regulatory / Accounting Committee

Authority based on decision-making hierarchy for loans and trading, articles of association and internal regulations of the executive bodies and the Group's Board of Managing Directors

Financial risk		**Non-financial risk**
Credit risk strategy	**Market price risk, Liquidity risk, Investment risk, Real estate risk and Development risk strategy**	**Risk strategy Non-financial risk**

Counterparty default risks / Country risks
- Front office departments
- Back office departments
  - Credit and risk management
  - Central loan processing
- Country Limit Committee
- Joint decision-making authority on lending (front office / back office)
- Group Risk Control
- Credit Committee

Market price risks
Liquidity risks
- Treasury
- Financial Institutions & Markets
- Group Risk Control

Investment risks
Group investments

Real estate risks
- LBBW Immobilien Group
- LBBW Corporate Real Estate Management GmbH

Development risks
- LBBW Immobilien Management GmbH

Operational risk
- Group Risk Control in cooperation with all of the Group's divisions

Other risks
- Business risks
- Reputation risks
- Model risks
- Tax Compliance risks

Cross-cutting issues (incl. ESG risks)

Committees and reporting

The members of the Group's Board of Managing Directors with responsibility for managing risks are supported in their decision-making by corporate bodies and a comprehensive risk and subject-specific reporting system. The overall risk report and the report to the Asset Liability Committee (ALCo) thus form the reporting system relevant to risk within the context of the requirements of MaRisk.

The monitoring body, the Risk Committee, comprises the board members with responsibility for real estate and project finance, capital markets business and asset management/international business, risk management and compliance as finance and operations, as well as divisional managers from Risk Control, Group Compliance, Finance Controlling, Treasury and Back Office and key Front Office areas. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in risk monitoring, risk methodology and risk strategy for the Group as a whole. The monthly overall risk report and other reports prepared on specific issues as required form the basis for this. Covering all risk types, the overall risk report describes the risk situation in the operational units, facilitating a structured discussion between front office and monitoring units in the Risk Committee. Berlin Hyp was transparently included in reporting in the financial year.

The managing body, ALCo, also has an advisory role and works on preparing decisions for the Group's Board of Managing Directors. The focus of the ALCo is on strategic resource management for the Group as a whole. It supports the Board of Managing Directors, among other things in structuring the balance sheet, managing capital and liquidity as well as in funding and managing market price risks. The committee comprises the board members with responsibility for capital markets business and asset management/international business, risk management and compliance as finance and operations, as well as the divisional managers from Risk Control, Financial Controlling and Treasury.

The Regulatory/Accounting Committee evaluates at an early stage the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes and takes the measures required. The committee comprises, among other areas, the board members with responsibility for capital markets business and asset management/international business, risk management and compliance as finance and operations, the head of information technology and divisional managers from the Legal division,, Risk Control, Group Compliance, Finance, Finance Controlling, Group Auditing, Treasury and Back Office.

Processes of adjustment

New types of trading and credit product at LBBW are subject to a New Product Process that ensures the product is included in LBBW’s various systems, such as accounting or Risk Control. Any potential legal consequences are also outlined.

The main focus is on products from the capital markets business division. If it is not possible to fully integrate the products into the model immediately, a step-by-step approach is taken in which the products are initially traded only under very strict supervision.

In the case of material changes in the set-up and procedural organization and in the IT systems, LBBW analyzes the potential effects on control procedures and control intensity within the framework of a predefined standard process.

Process-independent monitoring

The Group Auditing division is a process-independent division that, as the third line of defense, monitors the operations and business work flows, risk management and controlling and the internal control system (ICS) with the aim of safeguarding LBBW’s assets and boosting its operating performance. The Group Auditing division exercises its duties autonomously. The Board of Managing Directors is informed of the results of audits in written audit reports, which are discussed with the audited operating units. The Group Auditing division also monitors the measures taken in response to the audit findings.

The auditing activities of the Group Auditing division are generally based on an audit schedule, approved annually by the Board of Managing Directors, on the basis of a long-term risk-oriented plan, which records all the activities and processes of the LBBW Group, allowing for risk weighting in a reasonable period, but always within three years.

Regulatory developments

European Central Bank (ECB) supervisory work

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

The ECB’s supervisory work as part of the SREP (Supervisory Review and Evaluation Process) is still considerable. The particular focus of supervisory work has shifted from the additional disclosure and reporting requirements during the pandemic to the impact on banks of the war between Russia and Ukraine and the resulting energy crisis. The EBA/ECB climate stress test also played a key role in supervisory activities and aimed to identify vulnerabilities and challenges as well as the approaches taken by banks in the context of climate and environmental risks. The results of this were included in the 2022 SREP on a qualitative basis. The climate stress test is accompanied by additional supervisory work in the context of sustainability. In addition, the ECB also set medium-term priorities based on the key vulnerabilities it identified and assigned these strategic objectives and potential regulatory measures. The aim of the banking supervision authority is that “banks emerge from the pandemic healthy”, “structural weaknesses are addressed via effective digitalization strategies and enhanced governance” and “emerging risks (such as climate-related and environmental risks) are tackled”.

Basel IV and development of CRR/CRD in Europe

In December 2017, the Basel Committee on Banking Supervision (BCBS) passed the last package of reforms (for now) to complete the Basel III framework as a reaction to the financial crisis (“Basel IV”). Initial elements from Basel IV (including counterparty risks from derivatives (SA-CCR), new large exposure rules, reporting requirements for market risks in accordance with the FRTB) have already been transposed into European law as part of the CRR II/CRD V and most have applied since 2021.

The further revision of European capital adequacy provisions (CRR III/CRD VI) to implement outstanding Basel IV issues was significantly delayed, not least because of the Covid-19 pandemic. A first draft by the European Commission was finally published in October 2021. This includes recommendations on implementation in Europe, including the revision of CRSA/IRBA in connection with the introduction of an output floor, a revision of the methodology for calculating the CVA charge, operational risks and the leverage ratio. The draft currently states that the new regulations will come into effect from 2025. The output floor is to be phased in by 2030 in accordance with the Basel specifications. In addition, some additional and longer transition periods are envisaged for selected regulations at European level compared to Basel IV. The final CRR III is not expected to be published before the second half of 2023.

The anticipated RWA effects at LBBW are regularly quantified and taken into account in capital planning. In addition, the effects of regulatory developments are discussed on an ongoing basis, for example by association bodies, the Regulatory/Accounting Committee and, where relevant, at business dialogs, in order to identify potential strategic courses of action for the bank.

Outlook

The EBA/ECB stress test will form a key part of supervisory activities in 2023, with the results of this test to be included in the 2023 SREP on a qualitative and quantitative basis. The aim of the EU-wide stress test is to assess banks’ stability in view of adverse economic developments in order to identify potential risks and any banking supervisory action required and improve market discipline. A standard methodology and macroeconomic scenarios are stipulated by supervisory authorities that banks must use to calculate/forecast the performance of their entire portfolio over a three year period. The results of the stress test will be published on the EBA website at the end of July 2023.

The ECB also established medium-term priorities that are reflected in its supervisory work. These include climate and environmental risks, cyber risks, credit risks, interest rate and refinancing risks and developments in the context of digitalization. The future design of the regulatory framework will depend to a large extent on further macroeconomic and geopolitical developments and the impact these have on the banking sector.

LBBW Group – Risk situation

LBBW Group – Risk-bearing capacity

	31/12/2022		31/12/2021	
EUR million	**Absolute[1]**	**Utilization**	**Absolute[1]**	**Utilization**
Aggregate risk cover	13,335	44%	12,210	50%
Economic capital limit[2]	10,700	54%	10,000	60%
Correlated total economic capital	5,830		6,038	
of which:	0		0	
Counterparty risk	3,604		3,725	
Market price risk	1,665		1,835	
Investment risk	30		31	
Operational risk	690		676	
Development risk	98		101	
Real estate risk	135		131	
Other risks[3]	279		196	
Interrisk correlations	– 672		– 656	

1 Confidence level 99.9%/1 year.
2 The individual risk types are capped by economic capital limits.
3 Other risks (particularly reputation, business and model risks).

Aggregate risk cover increased by EUR 1.1 billion compared to year-end 2021 to EUR 13.3 billion. Aggregate risk cover was increased despite the negative impact of market developments, primarily as a result of operating earnings performance and the integration of Berlin Hyp.

The economic capital requirement has declined by a total of EUR 0.2 billion since the end of 2021 despite the integration of Berlin Hyp. Lower counterparty risk is chiefly attributable to positive ratings effects in connection with implementing the EBA Guidelines on rating procedures. One factor in the decline in market price risk was the reduction in securities. In particular, the integration of Berlin Hyp's “residual risks” increased Other risks. Interest rate hikes also reduced risks for the present value of individual risk types.

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained at the reporting dates during the 2022 financial year as a whole. The stress resistance required in the sense of permanent viability was also guaranteed at all times. The economic capital limit was maintained at the reporting dates at Group level.

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.

Other potential effects of the Russia/Ukraine conflict, supply chain bottlenecks, inflation and interest rate hikes on LBBW's economic and regulatory key performance indicators are regularly analyzed and investigated in stress scenarios. However, the pace of developments means that only very limited exact forecasts can be made.

Risk types[1]

Counterparty risk

Definition

The umbrella term counterparty risk describes the loss potential resulting from business partners no longer being in a position to fulfill their contractually agreed payment obligations. A counterparty risk may occur both from direct contractual relationships (e.g. granting loans, buying a security) and indirectly, e.g. from hedging obligations (especially issuing guarantees, selling hedging via a credit derivative).

The main characteristics of this risk are defined and briefly explained below.

Credit risk

Here the term credit risk, often used synonymously with counterparty risk, describes the counterparty risk from the lending business, i.e. from granting loans and hedging lending by third parties (e.g. via guarantees).

Issuer risk

The term issuer risk covers the counterparty risk resulting from securities. It covers both the direct securities portfolio and securities referenced via derivatives (especially via credit derivatives).

Counterparty credit risk

Counterparty credit risk describes the counterparty risk from financial transactions (especially derivatives transactions), resulting from the fact that the contracting party (counterparty) is no longer in a position to meet their obligations. In this situation, on the one hand, the position that becomes open upon closing may entail costs (so-called replacement risk), while on the other there is a loss potential that advance payments have been made to the counterparty without the counterparty being able to provide the corresponding counter-performance (so-called advance payment, performance and/or settlement risk).

Country risk

The term country risk designates the counterparty risk that arises because, due to critical political or economic developments in a country (or entire region), the transfer of foreign exchange is not possible or only possible to a limited extent (transfer risk).

Collateral risk

Collateral risk is not direct counterparty risk, but describes the potential that collateral received to reduce the counterparty risk loses value, especially if this happens systematically (e.g. due to turmoil on real estate markets).

For information on the interdisciplinary topic ESG risks (environmental, social, governance), please see the LBBW Group – Risk situation section.

Integration of Berlin Hyp in the counterparty risk

Berlin Hyp has been integrated into all material aspects of counterparty risk management at LBBW since 1 July 2022. The Berlin Hyp risk is integrated into the calculation of economic capital at Group level, although counterparty risk is currently still calculated on the basis of a separate risk model. Berlin Hyp's risk values are added to LBBW values. Berlin Hyp was also included in reporting.

The following information relates to the main systems, processes and methods applied at LBBW before the integration of Berlin Hyp as at 1 July 2022. Where Berlin Hyp is taken into account in Group management on the basis of a process or method that differs significantly to that of LBBW, this is indicated accordingly.

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.

Counterparty risk management

Management for limiting the counterparty risk is implemented as an integrated process at LBBW, and can be broken down into the three main components of risk measurement, risk monitoring and reporting as well as risk management.

Risk measurement

In order to measure risk, LBBW uses an extensive range of instruments involving quantitative measuring procedures. These are subject to regular and, where necessary, ad-hoc quality control and undergo development as needed.

Risk classification procedures

LBBW uses specific rating and risk classification procedures for all relevant business activities. These procedures quantify the probability of default (PD) of the individual investments. For this purpose, the counterparty risk is calculated both including and excluding the transfer risk. These procedures are maintained and updated by LBBW on its own initiative or in cooperation with Rating Service Unit GmbH & Co. KG (an associated company of the Landesbanken) or Sparkassen Rating und Risikosysteme GmbH.

Most of the portfolio is measured using internal rating procedures that have been approved for the Internal Ratings Based Approach (IRBA) by the banking regulator. The rating grades are not only used for internal management purposes but also to measure the regulatory capital requirements.

ESG risks are taken into account in the rating procedure if they are shown to be relevant to the probability of default.

Evaluating collateral

Collateral is evaluated on the basis of its market value, which is reviewed regularly and on an ad hoc basis and adjusted in the event of any change in the relevant factors. Loss given default (LGD) is estimated on the basis of the valuation of the individual items of collateral. In this respect, differentiated estimates are calculated for liquidation rates (average proceeds expected from the liquidation of collateral) and for recovery rates (proportion of the proceeds from the unsecured portion of a receivable). The estimates are based on empirical values and pool data recorded by the Bank itself and in cooperation with savings banks and other Landesbanken.

Exposure at default

Whereas exposure is tied to a specific date (exposure at default, EaD) for reporting purposes, and potential future exposure is calculated to determine the CVaR and the utilization of internal limits, e.g. with derivatives. This is calculated for the most part on the basis of fair values and the corresponding add-ons. The add-on calculation takes account of the remaining maturity, product type and market factors (interest, currency etc.). Netting and collateral agreements are used for reducing risk. The capital charges for issuer risks held in the trading book take account of the settlement payments and actual fair value losses as a result of default (jump-to-default method). The (modified) nominals are used for issuer and reference debtor risks from securities and holdings in the banking book.

Expected losses, value adjustments and credit value adjustment

The expected loss (EL) – as an indicator that depends on customer creditworthiness, an estimation of the loss at default and the expected exposure at default – provides the basis for the level of the standard risk costs. In preliminary costing at the individual transaction level, these are included in the calculation of risk-adequate loan terms. In addition, the concept of expected loss is key to calculating allowances for losses on loans and securities as per IFRS 9 (see Note 22 ("allowances for losses on loans and securities").

The market price of the counterparty risk of OTC derivatives accounted for at fair value is measured using the so-called credit value adjustment (CVA). This is included in the income statement of LBBW as a valuation adjustment. The credit ratings of the counterparty and of LBBW are taken into consideration.

Credit value-at-risk

Credit value-at-risk (CVaR) represents the unexpected loss of a portfolio above its expected loss. A credit portfolio model that takes the defaults as well as rating migration into account is used to calculate this value. It is calculated using a Monte Carlo simulation approach and takes into consideration correlations between borrowers as well as borrower, sector and country concentrations.

CVaR is used as the parameter for economic capital used for counterparty risks in the risk-bearing capacity analysis and in LBBW's management. Like economic capital, it is defined using a confidence level of 99.9% and a time horizon of one year.

Risk concentrations

Risk concentration is measured using the CVaR, among other methods, and is limited using the LBBW Group's free aggregate risk cover. Risk Control proposes concentration risk thresholds and the concentration limit for individual borrowers as well as at sector level; these are set by the Board of Managing Directors. The thresholds and limits are reviewed regularly and adjusted if necessary, depending on the development of the loan portfolio and the risk-bearing capacity. Berlin Hyp receives its own economic capital limit credit risk at Group level. Concentration risk thresholds are not currently applied for Berlin Hyp.

Stress tests

LBBW uses stress tests to evaluate the impact of adverse economic and political developments on key performance indicators in the lending portfolio (e.g. CVaR, RWA and allowances for losses on loans and securities). The potential effects of the simulated developments are converted into negative changes to the key lending risk parameters (PD, LGD and correlations) of the transactions in the portfolio in question. Berlin Hyp is included in Group stress testing by way of a modified approach (for example, assumptions are made that project the Berlin Hyp portfolio onto the Group's stress scenarios. These are based on LBBW's CRE portfolio).

Risk monitoring and reporting

Individual transaction level

Risk management at the level of individual exposures is the duty of the back office divisions as part of the first line of defense. These are organized independently from the front office divisions, in line with the regulatory requirements. Clear responsibilities and appropriate experience and expertise are ensured in the back office divisions by a customer or sector-specific organizational structure. Credit decisions are made in a system of graded competencies, which are regulated in the Group's decision-making system.

As part of risk monitoring, the risk managers responsible continuously check changes in information of relevance for credit ratings as well as compliance on the basis of systems with the limits granted. This includes monitoring any irregularities in account behavior, evaluating company news and observing macroeconomic and sector trends. A market data-based system is also used for listed companies.

A system is in place for the early detection of risks, comprising procedural regulations and system generated signals, whose goal it is to detect any deterioration in credit ratings at an early stage.

The early detection of any deterioration in credit ratings allows appropriate countermeasures, e.g. additional collateral or pre-emptive restructuring, to be taken in consultation with the customer. Depending on the level of risk, high-risk, problem assets are classified as cases requiring monitoring, intensified support, restructuring or liquidation and are dealt with by the back office divisions responsible or by special loan management. LBBW generally aims to minimize losses through successful restructuring activities, in line with the Bank's own interests and those of its customers. Exposures have not yet been classified as cases requiring monitoring at Berlin Hyp.

Portfolio level

Counterparty risk is monitored as part of the second line of defense at the portfolio level in the Group Risk Controlling division, which, from an organizational point of view, is separate from the front and back office divisions. The utilization of the economic capital limit and the exposure and CVaR limits set for sector risks is documented each month in the overall risk report. High limit utilizations are shown at an early stage using a traffic light system. Compliance with country limits is monitored on a daily basis using the Bank's global limit system. At present, Berlin Hyp is incorporated into the process for monitoring country limits on a monthly basis and, where required, on an ad hoc basis. At bank level, country limit utilization by Berlin Hyp is also monitored on a daily basis.

An ad hoc reporting process is implemented for limit overdraft and extraordinary events for specific reporting to the decision-makers in charge.

The most important periodic reports are as follows:

- The overall risk report presented monthly in the Risk Committee, which includes details about the risk situation at the portfolio level, compliance with the material limits and size classes, risk concentration and segments. Portfolio analyses additionally report on the risk situation of individual sectors, for example. Each quarter, these also contain detailed information such as on key exposures and rating migration. Berlin Hyp was integrated into reporting.
- The half-yearly in-depth sector report with detailed information on the sector situation, portfolio development and important customers in each sector.
- The half-yearly in-depth CRE portfolio analysis, featuring detailed information on portfolio structure and development, is broken down by segment, customer group, location and type of use. Berlin Hyp's portfolio is part of the report.
- ESG risks of financed emissions, which have a major impact on counterparty risk, and physical risks for collateral objects are addressed in separate reports.

Risk management

Counterparty risks are managed, in particular, through the requirements of the credit risk strategy, through the economic capital allocation to sub-portfolios with the aid of the CVaR, and by avoiding and reducing concentration risks at the level of sectors, countries and individual counterparties. Berlin Hyp was largely integrated in these processes.

Individual transaction level

As a rule, the upper limits on the individual transaction level taking the concentration limit into account are set individually by the respective authorized person responsible for the front office or back office divisions. This upper limit is taken into account for all risk-relevant transactions by a customer or group of connected clients. A material part of managing individual transactions involves monitoring compliance with the quantitative and qualitative requirements defined in the credit risk strategy. This determines the underlying terms and conditions for LBBW’s lending business on the basis of the business strategy and in the light of the Group risk strategy. Particular attention is paid to avoiding concentration risks.

From an economic point of view, the question of whether a transaction will produce an adequate profit on a risk-adjusted basis is a key consideration before entering into business; for this reason, preliminary costing of all individual transactions is compulsory. In addition to the historical interest rate and the bank levy, the components in the preliminary costing comprise cover for expected loss (risk margin), interest on equity to be held in case of unexpected losses (capital margin) and cover for liquidity and processing costs. The results form the basis of business management at customer level.

Sub-portfolio level

The risk management measures differ depending on the respective sub-portfolio level:

Country limits are determined by the Board of Managing Directors, based on the proposals of the Country Limit Committee. In the case of a limit overdraft a ban on business is imposed. If the country credit rating deteriorates, limits are reduced and/or suspended.

Sector limits are determined by the Board of Managing Directors on the basis of risk-bearing capacity. They are set on a sector-specific basis below absolute concentration limits. The limit system is based on a risk-oriented sector key designed specifically for this purpose, which combines sector segments that have high economic dependencies along the value chains. The limitation triggers controlling measures such as hedging transactions to reduce risk or a ban on new business etc. if certain thresholds are exceeded. The sector limit does not currently apply to Berlin Hyp.

At the business area or sub-business area level, risks are limited through measures to ensure adherence to the portfolio guidelines of the credit risk strategy with regard to upper limits, rating structures and the portfolio quality, among others.

Total portfolio level

In the management of the Group’s credit portfolio, the limit in particular for the economic capital for counterparty risks based on the CVaR is allocated to the sectors. As well as risk parameters (in particular avoiding concentration risks), appropriate consideration is also given to LBBW’s strategic targets for developing the lending portfolio. Suitable measures are taken in the event of high limit utilization. In addition, the results of the stress tests provide indications of potentially critical or even dangerous risk situations that require suitable countermeasures/risk management measures to be taken.

Risk situation of the LBBW Group

Preliminary note

The quantitative information on the risk situation is based on the management approach. LBBW’s risk situation is therefore reported on the basis of the figures used for the purpose of conducting internal risk management and reporting to the Board of Managing Directors and the corporate bodies. The management approach differs partially from balance sheet reporting. This can be put down primarily to the presentation from risk aspects and deviations from the companies included in the basis of consolidation for accounting purposes (in internal risk management, the SüdLeasing Group, LBBW México Sofom and, for the first time in the 2022 financial year, Berlin Hyp with a gross exposure of EUR 38 billion/net exposure of EUR 12 billion are included as consolidated subsidiaries). Prior year figures exclude Berlin Hyp.

Central banks have included all holdings in internal reporting since the 2022 financial year. External reporting was compared against internal disclosures. The relevant prior year figures in the annual report were restated to improve clarity and transparency. In rating 1(AAAA), the Financials sector and Germany region thus report a EUR 23 billion higher gross exposure and net exposure as at 31 December 2021.

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 32 ("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	31/12/2022	31/12/2021[1]
Gross exposure	534,207	411,774
Netting/collateral	172,707	105,767
Credit derivatives (protection buy)	7,956	5,922
Classic credit collateral	73,203	45,298
Net exposure	*280,340*	*254,787*

Figures may be subject to rounding differences.
1 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

Gross exposure amounted to EUR 534 billion as at 31 December 2022, up EUR 122 billion on the end of 2021. Firstly, higher fair values for interest rate derivatives resulted in higher collateral for netting and collateral agreements and, secondly, the addition of Berlin Hyp's portfolio also had an effect. The increase in classic credit collateral is also the result primarily of Berlin Hyp. Net exposure rose by about EUR 26 billion or 10% to EUR 280 billion, driven mainly by the main Financials sector and by companies and real estate.

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)

Net exposure	EUR million 31/12/2022	in % 31/12/2022	EUR million 31/12/2021[3]	in % 31/12/2021[3]
1(AAAA)	63,687	22.7	57,901	22.7
1(AAA) – 1(A–)	125,377	44.7	108,935	42.8
2 – 5	66,751	23.8	67,194	26.4
6 – 8	16,069	5.7	12,480	4.9
9 – 10	3,007	1.1	3,164	1.2
11 – 15	1,937	0.7	2,184	0.9
16–18 (default)[1]	1,105	0.4	1,045	0.4
Other[2]	2,407	0.9	1,883	0.7
Total	*280,340*	*100.0*	*254,787*	*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 securities.
2 Non-rated transactions, in particular rating waivers.
3 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

The share of investment grade (ratings 1(AAAA) to 5, 91.3% (previous year: 91.9%)) and non-investment grade (ratings 6 to 15, 7.5% (previous year: 7.0%)) was largely stable. The minor changes were mainly the result of integrating the Berlin Hyp portfolio. The top rating class 1 (AAAA) mainly includes the German public sector, as well as central banks. The net exposure on default accounts for 0.4% of the entire portfolio.

The economic environment and how this will develop moving forwards remain uncertain in view of the war in Ukraine, supply chain bottlenecks, high inflation, interest rate changes and the digital and sustainable transformation.

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 31/12/2022	CvaR 31/12/2022	Net exposure on default 31/12/2022	Net exposure 31/12/2021[2]	CvaR 31/12/2021[2]	Net exposure on default 31/12/2021[2]
Financials	*138,598*	*743*	*53*	*123,785*	*938*	*21*
Corporates	*97,764*	*1,585*	*889*	*89,886*	*1,831*	*946*
Automotive	10,658	304	441	10,598	344	470
Construction	9,376	181	55	8,926	180	82
Chemicals and commodities	7,993	145	13	6,852	131	20
of which chemicals	3,825	63	0	3,354	73	1
of which commodities	4,168	82	13	3,497	58	20
Retail and consumer goods	14,213	188	131	14,164	266	140
of which consumer goods[1]	10,106	103	13	10,046	129	20
of which durables	4,107	85	118	4,118	137	120
Industry	11,156	171	131	10,306	176	126
Pharmaceuticals and healthcare[1]	5,101	70	34	5,012	77	9
TM and electronics/IT[1]	11,522	174	14	7,912	131	15
Transport and logistics	6,911	114	7	6,436	213	6
Utilities and energy[1]	12,747	178	49	12,265	255	61
of which utilities and disposal companies	8,352	106	44	7,928	165	56
of which renewable energies	4,395	71	5	4,337	91	5
Other	8,086	60	14	7,417	59	17
Real estate	*19,591*	*822*	*147*	*15,004*	*366*	*62*
Commercial real estate (CRE)	12,856	667	145	10,171	265	60
Housing	6,735	156	2	4,833	102	2
Public sector	*17,909*	*124*	*0*	*19,648*	*100*	*0*
Private individuals	*6,478*	*117*	*16*	*6,463*	*134*	*16*
Total	*280,340*	*3,392*	*1,105*	*254,787*	*3,369*	*1,045*

Figures may be subject to rounding differences.
1 Growth sectors. New growth sector added in 2022, consumer goods.
2 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

Financials represent the largest of the five main sectors with net exposure of about EUR 139 billion as at 31 December 2022. The increase of EUR 15 billion as against the end of 2021 is due primarily to the increased exposure to central banks and private banks.

In the corporates portfolio, it was primarily the growth sectors telecommunication, media (TM) and electronics/IT, as well as the chemicals and commodities sector, that contributed around EUR 8 billion to net exposure, bringing the total to EUR 98 billion in the 2022 financial year. LBBW's growth sectors accounted for 40% of the corporates portfolio, up slightly on 39% in the previous year.

The net exposure in real estate rose by around EUR 5 billion year on year to around EUR 20 billion, driven largely by the addition of the Berlin Hyp portfolio.

Public-sector net exposure decreased by EUR 2 billion as against the end of 2021 at EUR 18 billion. This decrease relates primarily to German non-central public-sector entities.

With a net exposure of around 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 31 December 2022, the portfolio also had three large exposures (individual exposures with a net exposure of over EUR 2 billion). These are credit ratings rated at least 1(A-).

Regions

Geographic breakdown

Net exposure in %	Share 31/12/2022	Share 31/12/2021[2]
Germany	68.5	67.7
Western Europe (excluding Germany)	17.8	17.9
North America	7.9	9.0
Asia/Pacific	3.6	3.7
Other[1]	2.2	1.8
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).
2 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

The share of domestic business in the net exposure as at 31 December 2022 was 68.5%. The basic distribution by region was largely constant, although there were slight regional shifts due to the increased change in how central bank deposits are presented. 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

Definition

LBBW defines market price risks as potential losses resulting from unfavorable changes in market prices or factors influencing prices.

The following characteristics of market price risks arise as a result of the nature of LBBW's business activities.

Equity risk

The equity risk results from changes in share or index prices as well as from share or index volatilities.

Interest rate risk

The interest rate risk is based on changes in market interest rates, interest spreads, credit spreads or interest rate volatilities. This also includes interest rate risks in the banking book (IRRBB) and the risk from pensions (pension fund and pension obligations).

FX/commodity risk

The FX risk relates to the development of exchange rates. The commodity risk relates to changes in the price of precious metals and commodities.

Integration of Berlin Hyp in the market price risk

Berlin Hyp has been integrated into all material aspects of market price risk management at the LBBW Group since 1 July 2022. Berlin Hyp operates as an independent subsidiary. The Berlin Hyp risk is integrated into the calculation of economic capital and the IRRBB stress test calculations. Berlin Hyp calculates its market price risk using its own risk model and has its own value-at-risk limits. For the Group point of view in economic capital market price risk, an institute value for Berlin Hyp, adjusted for the Group model, is added to the economic capital of the remaining LBBW Group portfolio to give a Group amount. Berlin Hyp is also included in daily reporting.

The following information relates to the main systems, processes and methods applied at LBBW before the integration of Berlin Hyp as at 1 July 2022. Where Berlin Hyp is taken into account in Group management on the basis of a process or method that differs significantly to that of LBBW, this is indicated accordingly.

Risk measurement

Risk model

At the LBBW Group, market price risk is represented by value-at-risk forecasts. The value-at-risk (VaR) can be determined using a stochastic-mathematical model. This model derives out of a distribution of market factors, a valuation based on it and if necessary corresponding simplifications a portfolio value distribution. The VaR is determined from this as the maximum potential loss at a given confidence level.

Market price risk for the LBBW Group excluding Berlin Hyp, is measured using a model developed in-house based on a classic Monte Carlo simulation. Here market-induced movements in the value, even of complex transactions, are also taken into account mostly with full revaluation. Market data time series for the last 250 trading days are weighted equally in the estimation of the covariance matrix.

Berlin Hyp calculates its market price risk using its own risk model and has its own VaR limits that are set by LBBW at bank level. Berlin Hyp's market price risk is calculated based on the historical simulation approach using an unweighted ten-year period.

Regulatory bodies have accepted the use of the LBBW Group's risk model excluding Berlin Hyp for general interest rate and general equity risks in the trading book as an internal model to determine the regulatory capital requirements for market risks of the trading book[1]. Berlin Hyp is a non-trading book institution.

At the LBBW Group, excluding Berlin Hyp, credit spread risks of securities and Schuldscheine are measured on the basis of rating and sector-dependent credit spread curves and CDS spreads to reflect issuer-specific risks. In addition, seperate discount curves for government bonds and bonds issued by German federal states are used. Berlin Hyp measures the credit spread risk using an intensity model. The category intensities are calibrated based on rating and industry-dependent par returns. The discount curve is the same for all bonds.

The LBBW Group's model, excluding Berlin Hyp, is also used to calculated economic capital 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. The economic capital calculated by Berlin Hyp using its own, comparable model is added to the value for the LBBW Group excluding Berlin Hyp.

The following specific VaR characteristics are used at the LBBW Group:

- Internal management and backtesting analyses: VaR confidence of 99% and one-day holding period
- Supervisory/regulatory purposes: VaR and stressed VaR with confidence level of 99% and ten-day holding period.
- Strategic management/economic capital/risk-bearing capacity: VaR and stressed VaR with confidence level of 99.9% and 250-day holding period.

The market price risks calculated in the models are quantified consistently for both the trading portfolio and for the banking book positions.

Stress testing

The calculations of VaR and sensitivities at the LBBW Group excluding Berlin Hyp, are completed with separate stress scenarios for the trading and the banking book on a weekly basis. Stress testing is used to examine how the value of the portfolio changes under extreme market conditions. LBBW uses both self-defined synthetic as well as historical market movements with a focus on altering specific movement of market price data i.e. price trends or spread changes. The scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR. The results are reported to the respective decision-makers weekly on a portfolio basis and with regard to their impact on the Group as a whole each quarter (including Berlin Hyp). Berlin Hyp reports the results of stress tests periodically as part of monthly and quarterly reporting. The stress simulations are also integrated in the multiple risk types stress scenarios and are therefore relevant for risk-bearing capacity.

The LBBW Group excluding Berlin Hyp, calculates stressed VaR each week. Instead of the last 250 trading days, a period of observation is assumed that covers a significant stress period. The calculations are included in the own fund requirements for the trading book in accordance with the internal model as well as the determination of the economic capital requirement for market price risks. The stress period is reviewed at least annually. Berlin Hyp also calculates stressed VaR that is reported each month. The stress period is reviewed annually.

Risk concentration is monitored on a monthly basis using sensitivity analyses and VaR observations.

New products and further development of the risk model

The risk model was expanded to show new products in 2022, primarily inflation-linked swaps and bonds and CO_2 products.

Validation of the risk model

The market risk model used by the LBBW Group excluding Berlin Hyp, is leading in the Group and is subject to an extensive validation program, in which the potential model risks are identified in the stochastics of the market factors (including distribution model, risk factor model), in the implemented valuation procedures (measurement model) and in the relevant market data (market data model), and are measured in terms of their materiality using tailor-made validation analyses. The validation analyses are conducted within the Risk Control division by the Independent Validation Unit, which is organizationally independent from the model development. Daily backtesting plays a particularly important role within the validation program. As part of this, a statistical backward comparison of risk forecasts compared to hypothetical changes in the value of the portfolio (clean backtesting) and actual changes in the value of the portfolio (dirty backtesting) is performed. If the validation indicates material model risks, these are made transparent to model developers and those who receive reports so that necessary model optimization measures can be promptly initiated.

1 Trading book excluding funds that are not mapped transparently

Risk monitoring and reporting

The utilization of limits and compliance with the detailed risk strategies defined in the portfolio descriptions and in Berlin Hyp's risk manual are monitored in the respective risk control units as part of the second line of defense and reported to the members of the Board of Managing Directors responsible. Reporting comprises specifically:

- Daily report with overview of the P&L and risk development.
- Overall risk report for the LBBW Group that is prepared monthly and contains detailed information about P&L and risk development, risk concentration (LBBW Group only, excluding Berlin Hyp), economic capital and monitoring of the economic capital limit.
- Risk report for Berlin Hyp covering all risk types on a quarterly basis

Risk management

The fundamental management aim of the front office divisions is to generate IFRS result. This aim is defined in detail by way of a comprehensive set of financial ratios, which are set by the Board of Managing Directors in the medium-term planning. They are broken down by business areas and form the basis for the reporting.

The market price risk strategy documents the strategic framework in the LBBW Group and is derived from the business strategy and the Group risk strategy. The Group risk strategy contains overarching requirements for taking market price risks, which are set out in the risk-taking principles. The requirements for active management of the material portfolios of the LBBW Group excluding Berlin Hyp, are documented in the portfolio descriptions, following from the market price risk strategy.

The quantitative market price risk management is capped by the limit for economic capital for market price risks which is set up by the Board of Managing Directors within the framework of risk-bearing-capacity. At the LBBW Group excluding Berlin Hyp, the loss-warning trigger acts as an indicator for losses of market value in the economic P&L and the associated potential reduction of the risk bearing capacity. The loss-warning triggers at divisional and/or segment level are fixed by the Board of Managing Directors at least once a year taking into account the risk tolerance. Distribution among the portfolios below this level is effected by the authorized person responsible. Economic P&L is also monitored at Berlin Hyp using a limit system.

For the strategic management and the monthly crediting on the economic capital limit in the strategic limit system the relevant risk amount is calculated. If it is not possible to completely quantify the material risks, appropriate adjustments or reserves are formed.

At the LBBW Group excluding Berlin Hyp, differentiated VaR portfolio limits and sensitivity limits are connected with the economic capital limit. These limits plus the loss warning triggers and the sub-strategies together compose the risk taking guidelines for the units that bear market risk. These are monitored by Risk Control and escalated if necessary. The persons responsible are defined via the escalation policy. Berlin Hyp applies its own risk model to manage market price risk using sensitivities and value at risk. The Board of Managing Directors at Berlin Hyp receives a daily report and a defined escalation process is initiated if limits or warning thresholds are exceeded. P&L and VaR are also included in the LBBW Group's daily risk report.

Risk situation of the LBBW Group

Development of market price risks

Exposure to market price risks in 2022 was consistently in accordance with the risk-bearing capacity of the LBBW Group. The loss warning trigger was not breached for LBBW Group, the banking book or the trading book in 2022.

The LBBW Group's market price risks are generally characterized by interest rate and credit spread risks. Here, the overall risk is dominated by the positions in the banking book of the Treasury at the LBBW Group excluding Berlin Hyp. These are primarily interest rate risks from equity, credit spread risks from securities for liquidity management purposes and interest and credit spread risks of pensions (pension fund and pension obligations). Equity risks, along with currency and commodity risks, are less significant for LBBW. Berlin Hyp has no equity and FX risks.

The following table illustrates the changes in the LBBW Group's market price risks.

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	31/12/2022[1]	31/12/2021
LBBW Group	*172*	*272*	*82*	*272*	*95*
Interest rate risk	175	264	83	263	87
Credit spread risk	108	151	51	141	53
Equity risks	23	36	6	26	15
Currency risks[2]	7	13	2	13	3

1 The last reporting date in the 2021 financial year was 30 December 2021.
2 Including commodity risks.

The VaR of the LBBW Group increased sharply in 2022. The rise chiefly reflects higher volatility in the market parameters included in the risk calculation. Markets in 2022 were driven largely by interest rate developments, which in turn were influenced to a significant extent by the actions of the ECB and the US Federal Reserve on account of high inflation and interest rate turnaround. VaR also increased in the second half of the year following the integration of Berlin Hyp. At the end of 2022, Berlin Hyp accounted for less than 10% of the LBBW Group's total VaR.

For the trading book the VaR developed as follows in 2022:

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	31/12/2022[1]	31/12/2021
LBBW (Bank) trading book	*18*	*28*	*8*	*28*	*8*
Interest rate risk	11	22	3	21	4
Credit spread risk	12	21	6	10	6
Equity risks	7	10	2	8	3
Currency risks[2]	7	13	2	13	3

1 The last reporting date in the 2021 financial year was 30 December 2021.
2 Including commodity risks.

The LBBW trading book includes the positions of the Financial Markets business area and of Treasury, which are used for short-term interest rate and liquidity management. The risk in the trading book rose significantly as at 31 December 2022 in comparison to the previous year. Here, too, the main reason is the rise in volatility in the market parameters included in the risk calculation. Berlin Hyp does not have a trading book.

Backtesting result

Up to and including the last reporting date of 30 December 2022, the internal risk model shows 11 outliers for the Clean P/L for the preceding 250 trading days in the CRR portfolio, the portfolio relating to capital adequacy. The outliers were primarily the result of significant market fluctuation in interest and credit spread curves. They were generally triggered by reports on the Ukraine conflict, news and data regarding inflation, emerging concerns about a recession and news in connection with central banks.

On the basis of the Dirty P/L, two outliers were recorded for the CRR-relevant portfolio in the preceding 250 trading days as a result of significant market fluctuation caused by the factors explained above.

As a non-trading book institution, Berlin Hyp does not have a portfolio that is relevant for capital adequacy using an internal risk model.

Stress test

LBBW, including Berlin Hyp, regularly conducts diverse stress/scenario tests, including to support medium-term planning and in the context of ICAAP/ILAAP. At present, the adverse scenarios considered in this context focus on current inflation trends and the geopolitical situation, especially in terms of worsening energy and raw material shortages.

The effects of an interest rate shock on the banking book in accordance with EBA GL 2018/02 are calculated on a monthly basis within the scope of conducting the stress test. The regulatory requirements stipulate that the result may not exceed a 20% share of liable equity. This limit was never breached at the monitoring dates in 2022.

Liquidity risks

Definition

LBBW’s liquidity risk monitoring and management activities draw a distinction between short-term liquidity risk in the narrower sense, which represents the risk of insolvency due to an acute funding shortfall, and the funding (spread) risk, which describes the adverse effects on income resulting from a possible deterioration of funding spreads.

Risk measurement

Liquidity risk tolerance is primarily defined by reference to a survival period concept, i.e. time frames are specified by senior management over which LBBW is expected to remain at least solvent, even in the event of severely limited opportunities to borrow on the market, subject to different combinations of assumptions (development paths).

A liquidity buffer requirement for excess liquidity and free collateral to be held applies for the main time horizons in the Group perspective. There are also limits for the maximum funding requirements based on maturities from the business portfolio across various time frames and currencies, and utilization reviews that match the funding requirements with the potential funding capacity.

Internally developed models are used to determine call risks from demand and savings deposits, loan commitments and the collateralization of derivatives for the economic steering group. These models, as well as the methods and requirements, were extensively revised in 2022, especially on account of the integration of Berlin Hyp. These are used to determine the effect of uncertain cash flows on liquidity in normal market phases due to common fluctuations, and are in part the basis for identifying call risks in stress scenarios. A new process was also introduced to assess product materiality and the model for surveying unsecured market potential was fundamentally revised.

Call risks from demand and savings deposits are calculated using historic changes in portfolios and their volatility.

For loan commitments, future utilization is estimated based on their product features, existing and planned utilization and past draw-downs for the respective sub-portfolio.

The model for the securitization of derivatives is based on the value-at-risk approach and calculates potential additional contribution obligations for LBBW using the relevant market risk factors for the derivatives portfolio.

For the stress scenarios pursuant to MaRisk BTR 3, the results from the call risk models are expanded to include further call risks specific to the scenario. The results of the call risks calculated for internal management are integrated into the review of risk tolerance requirements. This examines whether solvency is ensured for at least three months at all times, even under stress. The call risks determined are also included in the calculation of liquidity risk for the MaRisk stress scenarios addressing multiple risk types.

LBBW analyzes the development of intraday liquidity in the key currencies every day and performs daily stress tests.

A liquidity flow analysis is prepared for longer-term views of liquidity of > 1 year, which limits LBBW’s maturity transformation.

The LCR and NSFR stipulations apply in the regulatory steering view and are partially supplemented by internal guidelines and an LCR stress scenario. A daily LCR forecast is also prepared to support the steering.

The stress scenarios and the model assumptions are regularly checked to determine whether they are still adequate under the ongoing market conditions. If they need to be adjusted due to current developments, this is reported to senior management via the Risk Committee and, if approved, results in timely adjustments.

In order to identify new call risks or an increase in known call risks at an early stage, models, assumptions and materiality classifications are reviewed, in part within the scope of the risk inventory process, and changes to the liquidity position resulting from business activities or market changes are analyzed.

All key subsidiaries as defined in the risk inventory (Risk Management Group) and conduits are transferred via the liquidity risk strategy into a single framework for strategic specifications of the activities involving liquidity risks. The liquidity risks for subsidiaries and affiliates are assessed using a regularly revised risk inventory and transferred to the Risk Management Group’s regulatory framework, which essentially matches the regulatory framework in place at LBBW (Bank), according to their materiality.

Following the takeover of Berlin Hyp, these were directly integrated into the Group’s risk identification and monitoring processes. Work will continue in 2023 on aligning material risk assessment and risk limitation methods.

Risk monitoring and reporting

The regular monitoring of liquidity risks in terms of economic and regulatory aspects is the responsibility of the LBBW Risk Committee. It prepares decisions for the Group’s Board of Managing Directors. As part of the second line of defense, Liquidity Risk Controlling is responsible for daily monitoring at the operational level. All material aspects of liquidity risk are reported in detail in the Risk Committee via the monthly overall risk report, such as liquidity requirements, liquidity buffer and compliance with the specifications on liquidity risk tolerance including the results of the stress tests carried out and the intraday liquidity. Detailed reports are prepared daily as part of the continuous monitoring, which show the different partial aspects of liquidity and liquidity risk – such as disaggregation of the liquidity gaps by currency – and are distributed to recipients in Group Risk Controlling and Treasury.

Risk management

The Asset Liability Committee (ALCo), which meets on a monthly basis, is the central body for managing liquidity and funding. The ALCo also draws up the funding strategy and planning on behalf of the Group’s Board of Managing Directors, presents it to the Board for approval and monitors implementation of decisions.

As part of the first line of defense, Treasury implements all the decisions to be made by ALCo with the aim of active income and risk optimization while simultaneously ensuring solvency at all times and compliance with the regulatory requirements and the requirements with respect to liquidity risk tolerance. Regulatory liquidity requirements are firmly embedded in operational management and are actively managed using forecasts and monitored on an ongoing basis. The strategic parameters in terms of liquidity risk tolerance are designed in such a way that the Group’s solvency in EUR and foreign currency is secured for a sufficiently long period even in extreme market situations and in the event of a marked deterioration of LBBW’s credit rating as perceived by market players. This also ensures that in the event of temporary adverse developments an adequate time window is available for adapting the business strategy and considering alternative business policies.

In cooperation with Risk Controlling, the Treasury further develops the methods used to determine internal funds transfer pricing (FTP). The ALCo is responsible for FTP policy, internal netting interest rates (opportunity interest rates), for monitoring the steering effects of the opportunity interest rates and pricing models on the business units and on the liquidity and funding situation of the Group. Group Risk Controlling oversees and reviews the risk adequacy of changes to methodology before these are approved by the Board of Managing Directors on the recommendation of the ALCo.

Treasury is responsible for operational (risk) management.

LBBW’s funding strategy is implemented by way of the capital market funding plan. As part of this, LBBW aims for diversification and a broad, international investor base with the goal of achieving optimal refinancing costs. Savings banks, institutional investors and retail business again constituted the main sources of medium and long-term funding. On the capital market, LBBW obtained funding in 2022 through covered bonds, senior preferred, senior non-preferred bonds in various currencies, both via private placements and as syndicated high-volume transactions and in some cases as ESG green bonds.

To avoid concentrations, LBBW manages the composition of eligible securities in terms of rating and product group. Thresholds are defined and monitored.

Treasury is responsible for securing the intraday liquidity. It actively manages the daily payments via the Bundesbank account and calculates liquidity requirements up to the end of the day, while continuously taking into account euro payment inflows and outflows that become known during the course of the day, as well as performing the central bank function for savings banks.

An emergency plan is in place for securing liquidity in acute crisis situations. The provisions made include the formation of a crisis response team bringing in members of the Board of Managing Directors. The emergency plan is reviewed annually and resolved anew by the Board of Managing Directors.

Risk situation of the LBBW Group

2022 was another year of high excess liquidity on the market, which is also reflected in LBBW's extensive liquidity. The customer deposit business proved stable even in an environment of changing interest rates 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.

As at the reporting date of 30 December 2022, the funding needs and the counterbalancing capacity were as follows:

Overview of funding requirements and counterbalancing capacity

	3 months		12 months	
EUR billion	**30/12/2022**	**31/12/2021**	**30/12/2022**	**31/12/2021**
Funding requirement from the business portfolio (deterministic cash flow)	– 9.8	– 9.6	– 4.4	– 15.9
Funding requirement from material call risks (stochastic cash flow)	25.8	16.9	48.1	34.2
Funding potential from free liquidity reserves	19.2	11.7	30.6	12.0
Funding potential on the market	77.1	59.0	95.5	69.6
Surplus	80.3	63.4	82.5	63.3

The funding requirement from the business portfolio in the 3 and 12-month forecast is negative if liquidity inflows exceed the outflows and thus result in excess liquidity. The liquidity portfolio was shaped chiefly by excess liquidity from the business portfolio throughout the year. While this declined in connection with a partial repayment of the ECB's longer-term tender in November, it was accompanied by a simultaneous increase in the portfolio of free collateral. In particular, net inflows in EUR (excess liquidity) are opposed by net outflows of the foreign currencies USD and GBP (funding requirement).

The funding potential is adequate to compensate for any short-term liquidity outflows and continues to ensure significant overcollateralization on a three month and 12-month 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.

Results of the economic stress scenarios

	Funding requirement (3 months)		Funding potential (3 months)	
EUR billion	**30/12/2022**	**31/12/2021**	**30/12/2022**	**31/12/2021**
Rating downgrade scenario	25.9	22.2	44.4	33.5
Financial market crisis scenario	25.7	12.3	56.5	49.6
Combined scenario of market crisis with downgrade	25.6	12.9	55.0	43.7

The targeted stress resistance was met for every observation throughout 2022. The results of 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), showed that the remaining funding potential via the market, plus the free liquidity buffer, always 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.

The prescribed minimum value of 100% for the European indicator for short-term liquidity "Liquidity Coverage Ratio (LCR)" was observed on each day in 2022. At 144.2%, it was exceeded as at year-end (31 December 2021: 141.1%). The net stable funding ratio (NSFR) requirements were also met at all times and exceeded at year-end at 111.3% (31 December 2021: 108.5%).

Risk management system for Pfandbrief (covered bond) operations

A differentiated limit system was put in place to monitor risks from covered bond (Pfandbrief) operations (section 27 of the German Covered Bond Act (Pfandbriefgesetz – PfandBG)). Regular stress tests are conducted with regard to NPV (net present value) overcollateralization. In the event that the fixed limits are reached, a process for then cutting the risk is implemented. The Board of Managing Directors and the Risk Committee are informed on a quarterly basis of compliance with the provisions of the PfandBG and the utilization of legal and internal limits. The statutory requirements were met at all times in 2022. The risk management system is reviewed at least annually.

Real estate risks

Real estate risks are defined as potential negative changes in the value of own real estate holdings or seed capital for real estate funds managed by LBBW Immobilien due to deterioration in the general situation on the real estate markets or deterioration in the particular attributes of an individual property (possibilities of use, vacancies, reduced income, damage to buildings etc.). This does not include development risks from residential and commercial project development business, which form a separate risk category.

Real estate risks can arise in properties owned by the Group (office buildings) as well as in the commercial buildings used by third parties. The real estate portfolio is managed above all by the LBBW Immobilien Group and LBBW Corporate Real Estate Management GmbH.

Risk owners who bear business and process responsibility constitute the first line of defense, i.e. for real estate risks this is ultimately the management of the LBBW Immobilien Group and LBBW Corporate Real Estate Management GmbH. The Controlling division of the LBBW Immobilien Group and LBBW Risk Control form the second line of defense.

Conversely, in the event of a positive change in market conditions opportunities arise for positive changes in value and the generation of further income (higher rents, extensions of leases, possibility of leasing difficult space etc.).

The central principles for weighing up opportunities and risks when assessing investment and divestment decisions, material changes in property planning, concluding rental agreements and to avoid the risk of negative changes in the value of existing real estate holdings are defined in the risk strategy of the LBBW Group and of LBBW Immobilien.

LBBW uses a real estate value-at-risk (IVaR) model to measure real estate risk. Risk Control calculates IVaR indicators for real estate risks quarterly and incorporates these into the Group's analysis of risk-bearing capacity. The input data in this model are the volatilities and correlations derived from market data histories assigned to the portfolio values.

The operating subsidiaries of LBBW Immobilien Group with operations in the asset management segment are also controlled using special real-estate-specific indicators such as rent increases, vacancy rates and amounts in arrears. The real estate portfolio is monitored and analyzed for risks in the course of the quarterly portfolio valuation using the fair value approach. The goal is to identify at an early stage and analyze any adverse factors occurring as part of or relating to LBBW's activities. Proactive risk management ensures a balanced ratio of opportunities and risks within the portfolio.

The commercial portfolio is diversified by type of use, especially for office and retail property, as well as by size category. It is subject to ongoing reviews and, where necessary, the real estate portfolio is optimized by acquiring or selling individual properties or (sub) portfolios. Investment properties are broken down by risk class into Core, Core+ and Value Add real estate using defined criteria (location quality, lease terms, appreciation potential) and planned holding period. Most investment properties are still located in Stuttgart. Acquisitions in Munich, Frankfurt am Main and Hamburg in recent years provided a certain degree of macro location diversification. Overall, risks specific to macro locations are therefore considered to be manageable. Future trends that influence the real estate sector, increasingly so as a result of the coronavirus pandemic, include the sustainability of real estate investments (ESG), demography, the labor shortage, new types of offices, structural changes in retail, demand for residential real estate investments and increasingly in alternative, non-cyclical asset classes such as healthcare and care facilities or in computing centers. The focus is shifting to increasing raw material shortages, combined with rising construction costs and ongoing capacity utilization (overload) at construction companies and supply chain issues.

LBBW Immobilien's business model allows it to respond appropriately to the challenging market environment at present. To do this, it covers the entire value chain, from construction site development to project development and portfolio maintenance. In particular, ongoing projects are regularly thoroughly reviewed to see if there is potential for improvement.

In LBBW's asset management segment, investment and divestment decisions are usually made on a case-by-case basis following an in-depth performance audit, given the manageable number of properties. In this process, a comprehensive set of real-estate-relevant criteria, such as the cost/income situation, the Group's strategy for use/growth, the ability of the location to develop, portfolio diversification or representative purposes for the Group are taken into account. The credit rating of potential tenants is examined carefully when new properties are let and attempts are always made to ensure that the lease is as long as possible. Depending on the underlying real estate strategy (i.e. project development), however, it makes sense and is possible in particular cases to conclude short-term rental agreements.

LBBW Corporate Real Estate Management GmbH is responsible for LBBW's owner-occupied real estate. Most of the properties are used for office or bank purposes. The target portfolio is continually adapted to the uses required by the LBBW Group as well as aiming to optimize space utilization at all of the LBBW central offices. This is largely being achieved by concentrating on properties owned by LBBW, by avoiding rented space as much as possible and by optimizing occupancy. As a result, this is not expected to have a significant influence on the holdings LBBW uses itself or the real estate risk.

In addition, the business area equity real estate fund is included in real estate risk. Seed capital for the respective fund products is used to help establish new LBBW Immobilien fund products. LBBW Immobilien Investment Management GmbH operates as an active real estate investment manager on the market. Fund investments are concentrated on office, commercial and retail properties (including retail parks) in selected locations in Germany. Investments in logistics and residential property are also possible. The focus is on Core+ real estate. The real estate VaR ensures inclusion in LBBW's strategic limit system.

Development risks

Development risks are defined as the bundle of risks that typically arise when implementing commercial and residential project development investments. The risks in this field mainly arise from planning and approval, the projected construction costs and deadline, and especially from leasing and selling. Additional risks, such as the credit risk on the part of partners or the implementation of decisions regarding the partners, information flow or the quality of the partner also apply if project developments are implemented in partner projects. The occurrence of these risks may also result in the expected return not being generated, the invested capital not being returned in full – or not at all in extreme cases – or the need for further equity injections, provided it is not non-recourse financing.

Conversely, in the event of a positive change in market conditions opportunities arise for higher exit proceeds, driven by higher rental income as well as higher multiples. At the same time, however, a positive market trend makes it more difficult to purchase suitable development properties at favorable prices.

The central principles for weighing up opportunities and risks before commencement of a project and in all project phases with regard to factors relating to individual projects and the effects on the project portfolio are defined in the Group risk strategy of the LBBW Group and of LBBW Immobilien.

Risk owners who bear business and process responsibility constitute the first line of defense, i.e. for development risks this is ultimately the management of the LBBW Immobilien Group. The Controlling division of the LBBW Immobilien Group forms the second line of defense.

The regional focus is on the core markets of Southern Germany (Baden-Württemberg and Bavaria), Rhineland-Palatinate, the Rhine Main region, the Rhine-Ruhr area, Berlin and Hamburg. LBBW Immobilien Group acts as an investor and service provider in commercial and residential real estate on these markets.

Future trends that influence the real estate sector, increasingly so as a result of the coronavirus pandemic, include the sustainability (ESG) of real estate investments, demographics, the labor shortage, new types of offices, structural changes in retail, demand for residential real estate investments and increasingly in alternative, non-cyclical asset classes such as healthcare and care facilities or in computing centers. In the current economic environment, the focus is increasingly shifting to rising raw material shortages, combined with higher construction costs and ongoing capacity utilization (overload) at construction companies, supply chain issues, interest rates and inflation.

LBBW Immobilien’s business model allows it to respond appropriately to the challenging market environment at present. To do this, it covers the entire value chain, from construction site development to project development and portfolio maintenance. In particular, ongoing projects are regularly thoroughly reviewed to see if there is potential for improvement.

LBBW Immobilien Group uses a risk model that was validated with the assistance of an auditing company to measure development risks. The model is based on a risk driver tree that identifies risks and shows the ranges in which these can fluctuate even before a construction project begins. From this, mark-ups and mark-downs on all future costs and revenues are determined and applied to the so-called real case calculation. A normal and extreme risk is calculated on the basis of different fluctuation ranges of risk factors. Development risk is calculated quarterly by the Controlling division of the LBBW Immobilien Group. The central Risk Control division includes this in the LBBW Group’s analysis of risk-bearing capacity.

Investment risks

LBBW invests within the Group in other companies or assigns functions to subsidiaries if this appears to be appropriate in the light of strategic and economic considerations.

By investment risks in the narrower sense LBBW understands in particular the risk of a potential loss of value both as a result of default events and due to an insufficient return on investments in subsidiaries and equity investments.

In order to limit the investment risk, subsidiaries and equity investments are only taken on if adequate risk management and appropriate integration in the processes of LBBW are ensured.

Depending on LBBW's possibilities for exerting influence, management of the subsidiaries and equity investments is effected by means of defined measures and processes (including quarterly jour fixes with selected subsidiaries, plausibility checks of the multi-year plans, various reports to the Board of Managing directors and corporate bodies of LBBW and the corporate bodies of the subsidiaries).

The early identification of business and risk development in the subsidiaries and equity investments is particularly important to the management of equity investments. These serve the purpose, especially for the strategically important subsidiaries, of holding regular coordination meetings at the corresponding specialist levels of LBBW. The management and monitoring at the level of these subsidiaries are generally performed by institutionalized supervisory boards or comparable bodies. At Group level, management and control is effected by investment management and by involving the staff, operating and marketing divisions in the decision-making process, taking corporate governance into account. The management of Berlin Hyp, acquired in July 2022, is an exception to this process. Given the strategic relevance, nature and size of Berlin Hyp, specialist divisions are more directly involved and those responsible for management and monitoring are spread over several staff, operating and front office units.

From the point of view of risk, a distinction is made between four categories of companies in the LBBW portfolio of equity investments (direct LBBW subsidiaries and equity investments and those held via holding companies):

- Particularly relevant subsidiaries, i.e. material companies from a risk perspective, that can have more of an impact on LBBW than the companies in the Risk Management Group.
- Material subsidiaries from a risk perspective, i.e. companies whose risk potential is classified as material from a Group point of view. These companies form the Risk Management Group[1].
- Subsidiaries to be monitored from a risk perspective, i.e. companies of minor importance to LBBW's risk situation but that could pay a higher risk premium in the future due to their performance.
- Non-material subsidiaries and equity investments from a risk perspective, i.e. companies whose risk potential is classified as immaterial from a Group point of view.

Particularly relevant subsidiaries from a risk perspective and material subsidiaries are, as a rule, treated in line with the transparency principle. Accordingly, all material risks at Group level for each subsidiary of the Risk Management Group are quantified (where required using estimation procedures).

1 Special purpose vehicles can be included in the Risk Management Group provided they are considered material from a risk perspective.

The investment risk (investment VaR) for subsidiaries to be monitored as well as non-material direct subsidiaries and equity investments from a risk perspective is generally calculated each quarter on the basis of quantifying risk under a ratings-based credit value-at-risk approach (integrated simulation with LBBW's lending portfolio). This approach is prepared by Risk Control and serves as the basis for recognition in the risk-bearing capacity. In individual cases and specific to the risk type, a differentiated method can be used instead of this general approach, provided this does not result in any reduction in risk.

The business and risk trends in the portfolios of these LBBW subsidiaries and equity investments are generally reflected in the value of the investment as used to calculate the investment risk.

LBBW pursues a selective equity investment policy. When acquisitions of companies are planned, a comprehensive risk analysis (legal, financial etc.) is normally conducted in the form of a due diligence exercise with the involvement of specialist divisions of LBBW. Of particular importance here, among other things, is ensuring that inappropriate concentration of risk does not arise in the investment portfolio.

LBBW uses transaction agreements to contractually hedge risks as far as possible. In addition, the buying process includes the valuation of the company, taking into account capital-market-oriented risk premiums.

Enterprise values for the subsidiaries and equity investments of LBBW are calculated annually in accordance with the guidelines issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V. – IDW) as part of preparatory work for the annual financial statements. For the half-yearly report, an impairment test of the book values is performed, using the projections for the subsidiaries and equity investments to hand if necessary. A plausibility check of the valuations is performed on selected subsidiaries and equity investments as at 31 March and 30 September.

Besides the risk of a potential decline in value as the result of defaults, there is also a risk that LBBW will receive an insufficient return or no return at all on its investments. However, this risk corresponds to the above-mentioned general book value or fair value risk due to the focus on capitalized income value in the valuation of equity investments. The main drivers here are the large strategic subsidiaries and equity investments. LBBW's equity investment portfolio has a strong financial focus. Accordingly, a disruption in this market segment may lead to significant losses from equity investments.

Risks may also arise from the utilization of the personal liability assumed as shareholder (e.g. guarantor's liability, letter of comfort) for subsidiaries and investments; this also includes revoked letters of comfort or warranty declarations extended to subsidiaries and investments already disposed of and risks from assuming current losses incurred by subsidiaries due to control and profit and loss transfer agreements. Investment risk also covers step-in risks, i.e. the risk that financial support would have to be provided to subsidiaries and equity investments that are not consolidated for regulatory purposes or that are consolidated only proportionately and have no contractual obligations, e.g. to avoid reputational risks.

Management and monitoring systems ensure that LBBW is regularly informed about the situation at the subsidiaries and equity investments. In addition, the subsidiaries pursue a conservative risk policy synchronized with LBBW to the extent that LBBW can influence such policies.

Non-financial risk

Definition

While financial risks (FR) are priced ex ante and taken deliberately to generate income, non-financial risks (NFR) are individual, unforeseeable transactions that cannot be quantified or can be quantified only with considerable uncertainty.

For non-financial risks, the focus is on risk avoidance and reduction by way of safeguards, greater awareness among employees and suitable controls.

According to the Group risk inventory, the relevant non-financial risks comprise the following types of risk. The tax compliance risks risk type was included in the risk strategy on non-financial risks for the first time.

Non-financial risks

Operational risks • Compliance • Information and communication technology (ICT) risk • Operational risks in the narrower sense • Outsourcing • Human resources • Legal	**Investment risks** **Reputation risks**	**Model risks** **Tax compliance risks**[1]

1 Included in NFR strategy from 1 January 2023.

Risk management and reporting

LBBW's risk management applies the three lines of defense model. The purpose of the organizational model is to clearly divide the responsibilities of the corporate functions involved in risk management.

Classification of non-financial risks in the three lines of defense model

First line of defense	Second line of defense	Third line of defense
Generally for all divisional managers in Germany and abroad, exception model risk (here chiefly model owner's divisional manager)	Depending on the risk type, Risk Control, Finance Controlling, Human Resources, Legal, Group Compliance, Strategy & Equity Investments, Finance, Group Purchasing and Security divisions	Group Auditing monitors the first and second lines

Operational risks

Definition

LBBW describes operational risks (OpRisk) as the risk of losses arising due to the unsuitability or failure of internal processes and systems, people, or due to external events. Legal risks can lead to losses in each of the aforementioned risk categories. This is because in each category the LBBW Group may be subject to legal claims, lawsuits or legal proceedings due to failure to observe statutory regulations and underlying conditions. Business risks, reputation risks, model risks and tax compliance risks are, as stated in the table above, not included in operational risks.

Credit risks in connection with operational risks are likewise viewed in line with regulatory requirements. The effects of this are included in the information on counterparty risk.

Operational risk management framework

Risk measurement

The standard approach is used to calculate regulatory capital requirements in the regulatory steering view at the LBBW Group. In connection with LBBW Group's risk-bearing capacity (RBC), an operational value-at-risk (OpVaR) model is applied for the economic steering group.

LBBW's internally developed model is based on the loss distribution approach. Separate segment-specific modeling is carried out for the distribution of frequency and size of loss. Internal and external losses together with scenario analyses are included for the OpVaR calculation.

Berlin Hyp's economic risk premium is taken into account additive on a quarterly basis in the Group during a transition period. It is calculated based on an internal OpRisk model (Advanced Measurement Approach (AMA) model).

The OpVaR model used for internal controlling is integrated into the Group's strategic limit system. There are economic stress scenarios that vary the risk parameters of the OpVaR model (frequency or amount of loss in expected future loss events). This covers the main business lines and event types. The stress test results for operational risks are also incorporated in the overarching shock scenarios.

Risk monitoring, reporting and risk management

The LBBW Group has a comprehensive system for the management and controlling of operational risks. A dual overall approach is in place, under which an independent, centralized organizational unit within the Risk Control division is tasked with further developing and implementing the methods and tools used by OpRisk controlling. In the LBBW Group, the execution of the processes implemented for the management of operational risks is mainly the responsibility of the local divisions and subsidiaries.

The central parameters for handling operational risks are anchored in the Group risk strategy, the operational risk section of the non-financial risk strategy and the policy for operational risks as well as in the framework and instructions. This describes the risk profile of the LBBW Group as well as the risk management and controlling process with regard to operational risks.

A three lines of defense model describes the roles and responsibilities of those involved in operational risks processes.

Local divisions and subsidiaries are the first line of defense. Providing support to management, the individual divisions' and subsidiaries' operational risk managers play a key role in implementing operational risk controlling tools. They ensure the quality, completeness and timely processing of the operational risk information within the prescribed parameters. At the same time, operational risk managers serve as contacts and multipliers for employees in the allocated organizational unit on the topic of operational risks. Central OpRisk Controlling represents the second line of defense in conjunction with downstream controlling processes and is in close contact with the local OpRisk managers. At the same time, the Group Compliance, Group Purchasing and Security, Legal and Human Resources divisions carry out further monitoring activities. Group Auditing carries out the process-independent reviews and evaluation (third line of defense).

Operational risk management and controlling focuses on identifying operational risks at an early stage, presenting them in a transparent manner and managing them proactively.

Various methods and tools stipulated by central OpRisk Controlling are used to identify and assess the risk situation. In addition to the internal and external loss database, a risk inventory is conducted annually with self-assessments and scenario analyses. The self-assessments record the individual risks of each division and the subsidiaries of the LBBW Group. The most important risks are aggregated and analyzed in the scenario analysis using standard scenarios. In addition, risk indicators are recorded on a regular basis to identify possible unwanted developments at an early stage.

The risk data collected are used to create specific analyses (including risk concentrations), from which extensive control-relevant information can be derived. This forms the basis for drawing up and developing measures to reduce these risks. These play a key role in actively managing operational risks.

Four action strategy options are available for handling operational risks: avoid, transfer, reduce or accept risks. The risks are managed proactively by the divisions and subsidiaries. The divisions and subsidiaries take the decision on the selection and prioritization of the corresponding measures, which are implemented on a decentralized basis. The objective is to minimize or avoid risks, taking cost/benefit aspects into consideration. The internal control system, an appropriate risk culture, the sensitivity to risks of all staff members and transparency when handling risks also play an important role in limiting operational risks. Continuous improvement of business process, among other things, offers another possibility of reducing potential operational risks or outsourcing individual processes to specialized companies. Emergency concepts and business continuation plans drawn up within the scope of Business Continuity Management are used to limit losses in the event of an emergency. If it is not possible to completely avoid possible losses, the Legal division takes out insurance policies – as far as this is possible and reasonable.

The centralized OpRisk Controlling unit provides decision-makers with relevant information as part of regular risk reporting. Ad hoc reports are also made depending on the amount of loss. The Risk Committee also supports the Board of Managing Directors in exercising its supervisory function. The operational risks as well as the risk-bearing capacity monitoring for all risk types are therefore incorporated and integrated in the overall risk management.

Risk situation of the LBBW Group

The self-assessment performed by the divisions and quantitative risk assessments show that existing operational risks in 2022 were always in accordance with the risk-bearing capacity of the LBBW Group. Looking forward, LBBW does not expect any operational risks to its going-concern status. Despite extensive precautionary measures, operational risks can never be entirely avoided.

Legal risks, IT risks, compliance risks, outsourcing risks and personnel risks are set out below as they are key sub-risk types of operational risk. Responsibilities are generally regulated using the three lines of defense model.

Legal risks

The definition of operational risks also includes legal risks. Legal risks comprise economic risks due to full or partial failure to comply with the framework of rules established by legal regulations and court rulings. These arise, for example, due to inadequate knowledge of the concrete legal position, insufficient application of the law or failure to react in a timely manner to changes in underlying legal conditions. This also applies if there is no fault or if the situation was unavoidable, for example as a consequence of changes in legislation, jurisdiction and administrative practice, especially at national and European level.

The Legal division carries out a legal advisory role for the Group. In addition, its responsibilities include early identification of legal risks in business units and central divisions in cooperation with them, and efforts to limit these in a suitable manner. The Legal division has developed or examined and approved for use by the divisions of LBBW a variety of contract forms and sample contracts in order to minimize legal risks and simplify the business activities. In relation to this, LBBW is supported by the cooperation of the German Savings Banks Finance Group (DSGV), the German Sparkassenverlag (DSV) and the forms developed in the committees there and made available by the Sparkassenverlag publishing house. Approved, standardized contract materials are used for derivative transactions wherever possible. If legal questions arise in new areas of business or during the development of new banking products, the Legal division supervises and actively shapes these processes.

Furthermore, the Legal division monitors all relevant planned legislation, developments in court rulings, and new standards stipulated by the supervisory authorities in the Group's key areas of activity in close cooperation with the Association of German Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands – VÖB), the German Savings Banks Finance Group (Deutscher Sparkassen- und Giroverband), the German Sparkassenverlag and the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – VdP) in particular.

To the extent that this results in LBBW having to take action with regard to legal matters or adapt its policies, the Legal division is instrumental in disseminating information quickly and implementing measures within the Group.

The banking landscape continues to face legal risks the further development of consumer protection. The Bank is closely monitoring legal trends relevant to banking law.

Further legal risks exist 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.

The continuous processes of legal analysis and risk processes initiated by LBBW's Board of Managing Directors in response to this also take account of the aforementioned developments.

As far as is known today, adequate provision has been made to cover legal risks while at the same time the future development of legislation and legal disputes will continue to be of crucial importance for LBBW. Here the provisions formed relate, also against the backdrop of the unclear legislative situation, principally to covering legal risks from certain derivatives transactions as well as risks relating to consumer and tax law.

IT risks

Today the principal business processes of the Bank are to a large extent supported by IT or depend on IT solutions. The bank is focusing on digitalizing processes. LBBW will step up its use of cloud services in the future to increase innovation, delivery speed and cost efficiency in IT. Technical requirements for remote working were also expanded at a bank-wide level. These changes also increase the threat to IT applications, in part due to external attacks. On balance, this results in higher IT risks.

Managing IT risks is anchored within the company as a permanent, integrated process and is guided by the risk management and controlling process controlling cycle. As the first line of defense/risk-managing units, the divisions (including IT units and material subsidiaries from a risk point of view) are responsible for the effects of information and security risks on processes and data. Information Security is responsible for the second line of defense. It issues specifications on the basis of regulatory and statutory requirements and standards.

To get as complete a picture as possible of the Bank's IT risk situation, including cyber risks, and to manage this, the causes are identified, risk analyses are prepared, self-assessments and scenario analyses are carried out and threats and weak points are analyzed and evaluated from different data sources (e.g. teams of experts, S-Cert computer emergency team, the IT baseline protection from the German Federal Office for Information Security). Measures are taken and monitored in order to reduce risks to an acceptable level.

IT production operations and a part of applications development have been outsourced to a professional service provider specializing in financial institutions.

LBBW has set up a 24/7 response system, implemented an IT crisis response team and agreed security incident management processes with service providers in order to ensure that its business operations are maintained and that it can function if IT applications fail. Regular crisis drills are also conducted.

Compliance risks

Compliance risks, which are included in operational risks, describe the risks of legal or regulatory sanctions, material financial losses and reputational damage that may arise from a failure to observe laws, standards and rules of conduct in LBBW's course of business. In accordance with the Group Compliance mandate approved by the LBBW Group's Board of Managing Directors, Group Compliance's responsibility covers the following five sub-risk types, which are considered material. These extend to money laundering prevention and combating the financing of terrorism, financial sanctions and embargoes, fraud prevention (other punishable acts), capital market compliance and data protection.

Group Compliance, as the second line of defense for compliance risks, monitors the appropriateness and effectiveness of the first line of defense's procedures and checks that action is taken swiftly where such a need is identified. As part of the regulatory compliance function (in accordance with MaRisk module AT 4.4.2), Group Compliance also helps counter risks that may arise as a result of a failure to observe material legal regulations and standards. Regarding the Foreign Account Tax Compliance Act (FATCA), Group Compliance carries out the responsibilities of the FATCA Responsible Officer. Group Compliance is also responsible for the central compliance management function, central outsourcing management and, across the bank, governance to assess the appropriateness and effectiveness of the internal control system (ICS). The Division is also responsible for reputation risks as the second line of defense.

Outsourcing risks

Outsourcing risks encompass risks in connection with or resulting from collaboration with third-party providers. They cover risks such as non-performance of a contract, the risk of providers breaching the law or acting unethically, data protection violations, the loss of intellectual property and the inability to maintain operations, including in the event of a natural disaster or infrastructure failure. They also include potential risks that could arise after reintegrating an outsourced process as a result of a loss of expertise and risks that could arise from any dependencies.

As the first line of defense, the divisions bear primary responsibility for identifying and managing risks, as well as for ensuring compliance with the legal and regulatory provisions that apply to their business operations, and establish process-based monitoring mechanisms for this purpose. Group Compliance, as the second line of defense, monitors the appropriateness and effectiveness of the first line of defense's procedures and checks that any shortcomings it identifies are swiftly rectified.

Personnel risks

The aim of comprehensive personnel risk management is to identify negative trends (risk monitoring) and assess suitable measures for preventing/mitigating risks (risk management).

Human Resources differentiates here between different types of personnel risks as the basis for its risk monitoring and management. Bottleneck, loss of staff, demographic, adjustment and motivation risks must be identified at an early stage and the resulting costs (e.g. recruitment, termination and turnover costs) and the potential loss of specialist knowledge or key personnel minimized. These risks are measured in periodic evaluations and analyses, as well as in company-wide comparisons of key personnel indicators such as turnover rates, absences and data regarding staff development measures.

LBBW already has a number of measures in place to address potential additional personnel risks. These range from legal protection for LBBW to ensuring that its employees are suitably qualified for their role. As part of this, a target-group-focused specialist training program is run each year. It also has a separate area that provides educational and monitoring functions regarding compliance and money laundering regulations. All employees are also subject to the LBBW Code of Conduct. These measures are also intended to address potential conduct risks among employees.

Tax compliance risks

LBBW defines tax compliance as Group-wide compliance with all applicable tax laws, as well as with voluntary commitments and the LBBW Code of Conduct, by members of the Board of Managing Directors, executives and employees. Its general compliance objectives and tax strategy are based on the tax compliance management system (Tax CMS). According to this, the objective is to ensure that LBBW Group companies, its executive bodies and employees act in accordance with regulations. Compliance encompasses all organizational precautions that ensure compliance with statutory – and thus fiscal law – provisions and internal guidelines in the key divisions and processes.

Based on the general company targets drawn up by the Board of Managing Directors and the company strategy and taking account of particularly important regulations for LBBW, LBBW’s tax compliance organization has developed targets that the bank’s Tax CMS is to help achieve. The scope of the Tax CMS covers income taxes (corporate income and trade tax) as well as value-added tax, capital gains tax and other taxes (e.g. insurance tax, consumption tax on electricity and energy).

Tax compliance risks were included in the central NFR report for the first time as at the reporting date 30 September 2022. They have already been included in the 2023 risk strategy on non-financial risks. This risk type will be included in the standard risk inventory process in 2023.

Reputation risks and business risks

Reputation risk is the risk of a loss or foregone profit due to (anticipated) damage to/deterioration of the bank’s reputation in the eyes of owners, customers, employees, business partners or the wider public. Reputation risk is not a component of operational risk. However, reputation risks may be caused by an incident of loss resulting from operational risk or other risk types becoming public knowledge. Reputation risks that have been incurred can impact on the business and liquidity risks.

LBBW draws a distinction between transaction-based reputation risk management (measures relating to individual business transactions) and non-transaction-based reputation risk management (media/issue management in particular). The media, relevant news agencies and selected social media channels are continuously monitored and the Board of Managing Directors and key decision-makers are informed. A comprehensive media response analysis covers reporting on the bank and its main competitors to assess the bank’s reputation in the media and the effectiveness of its communication strategy. LBBW thus uses the “three lines of defense model” for the two risk management types.

In all business decisions the effect of the transaction on LBBW’s reputation is to be considered. In particular, LBBW’s sustainability guidelines must be followed. These are communicated at the bank and published as part of sustainability reporting. Transactions that could jeopardize the Bank’s reputation on a sustained basis must also be avoided. The Group-wide sustainability policy must be upheld, as LBBW acts in the best and long-term interests of its customers and stakeholders. Individual front office units have decentralized first line responsibility for transaction-based reputation risk. The ultimate decision as to whether a transaction is carried out from a reputation risk perspective is made by the employees and their managers responsible for the transaction. As well as sustainability-related review criteria in the loan application process, to identify and assess (transaction-related) reputation risks LBBW has a product certification process for derivatives and a reputation risk review for new products in the form of the “New Product Process” (NPP).

In addition to the transaction-related/subjective assessment, all employees are subject to public perception regardless of their role or activity. Responsibility for the non-transaction-related management of reputation risks lies with Group Communication, Marketing, the Board of Managing Directors’ Office, the Sustainability and ESG department and all divisional managers and managing directors of Group subsidiaries. Group Compliance is responsible for transaction-related and non-transaction-related risks as the second line of defense and performs a control and monitoring function. Internal auditing is the third line of defense, as part of which it monitors the first and second lines and assesses the appropriateness and effectiveness of risk management.

Business risk is the risk of unexpected falls in earnings and negative plan variances not caused by other defined risk types. Business risk may be caused by factors including changes in customer behavior or changes to the economic environment, such as the level of competition, technological advances and regulatory changes. Changes to general conditions as a result of legislative changes with regard to the contracted portfolio (legal risks) are not to be allocated to business risks. Business risks are not included under operational risks. Business risks may have the following effects/risk factors: change in fee and commission income, change in the interest conditions contribution, higher costs, impact of poor strategic decisions, project risks.

The historical plan/actual variances of selected items in the income statement form the basis for quantifying the business and reputation risks.

Model risks

LBBW defines model risk as the risk of potential loss or damage resulting from decisions based on the results of models that show weaknesses or uncertainties in the model theory/design, the model parameterization/calibration, model implementation, initial model data or the model application. As regards the intended use of the models, LBBW differentiates between the following types of model: models to quantify risks (ICAAP and ILAAP) (“risk and capital models”), models to value asset and liability items (“valuation models”), models to derive parameters relevant to lending such as ratings (probability of default: PD), loss given default (LGD) and credit conversion factor (CCF) (“lending parameter models”) and models that do not fall into these model categories (“other models”).

By virtue of their significance and special characteristics at LBBW, model risks are largely managed in the scope of an independent model risk management process (MRM process), which is currently also being implemented at Berlin Hyp.

In this MRM process, methods and procedures are used that ensure model risks are adequately identified, assessed, monitored, communicated and managed for individual models and across models. This is based on the annual model inventory, which takes stock of all models used across the LBBW Group and classifies the models identified with regard to their MRM relevance (assessment of model risk potential). Depending on the model class and other model-specific factors (e.g. line of defense in which the model was developed), the models are validated in the additional validation process (e.g. validation intensity). In the next stage of the model-specific validation process, model risks are identified and evaluated in terms of their materiality.

Risk Control informs the Group’s Board of Managing Directors of the key results of the model inventory and the model validation, who then decide on measures to eliminate and reduce model risks. If a serious model risk cannot be eliminated within a reasonable period of time by adjusting the model, it is offset in the risk-bearing capacity, depending on model type, as a deduction from the aggregate risk cover, as a premium in economic capital in the type of risk affected (for risk underwriting model risk), via the economic capital of the operational risk or by booking a fair value adjustment.

Interdisciplinary topic: ESG risks

Sustainability risks and ESG risks are associated with specific risk drivers that could have a negative impact on LBBW. LBBW considers ESG risks a material interdisciplinary topic overall, as they have a material impact on the counterparty default/credit risk and, to a lesser extent, on reputation risk. Both types of risk are assigned specific sub-risk strategies. LBBW is also continuing to develop how it handles ESG risks, chiefly as part of a bank-wide “sustainability project”. Berlin Hyp is being gradually integrated here.

The LBBW Group’s Board of Managing Directors is responsible for the organization and development of risk management for ESG risks and compliance with its fundamental principles at LBBW. The Board of Managing Directors Sustainability Committee is an important decision-making body and provides key impulses. In addition to these strategies, the guidelines are operationalized in detail and this is documented in the bank’s written policies. LBBW also uses sustainability-related indicators to set and monitor targets, which are being merged and monitored using a balanced scorecard.

Key aspects of risk identification and assessment include the methods developed in-house to measure CO_2 emissions financed by the LBBW Group and physical risks for real estate and corporates. This allows LBBW to identify and monitor material risk drivers, simulate the future effects of climate change and climate policies and monitor future changes at sector level.

LBBW’s long-term ESG objectives include achieving the goals of the Paris Agreement and reaching net zero in 2050. Specific goals were set for 2030 for selected sectors with high greenhouse gas emissions (sector-specific transformation pathway), which clarify LBBW’s aspirations in discussions with customers and ensure that its long-term targets are met. In addition, LBBW manages and limits risks during its lending process by using check lists to assess ESG risks.

The Board of Managing Directors is informed about transitional and physical risks in regular risk reports. The most important developments in transitional and physical risks are presented and discussed here at sector, segment and customer level and for the material subsidiaries, as well as at portfolio level, with particular focus on the sector paths. In addition, the financed emissions calculated are published in the sustainability report.

Risks from changes to biodiversity, as well as risks related to social and governance issues on credit risks, are currently considered less relevant from a risk perspective in the risk inventory. LBBW also considers the impact of ESG risks on market risks, liquidity risks, operational risks and real estate, development, investment and model risks less relevant.

Other material interdisciplinary topics

In addition to ESG risks, LBBW has also identified concentration risks and pandemic risks as interdisciplinary topics that have the potential to have a substantial negative impact on the Group.

Accordingly, LBBW explicitly includes concentration risks in the entire risk management and controlling process; for example, concentrations are identified as part of the risk inventory, existing concentrations are regularly reported and taken into account when quantifying the capital requirement. They are also considered when defining potential stress scenarios. Concentrations are also limited by corresponding thresholds and limits.

The nature and extent of the impact of the pandemic risk depend largely on the severity, the regional spread, how precisely it unfolds and, in particular, the actions taken by political representatives and institutions. LBBW thus responds situationally to the changing environment as part of its established risk management process, and also has business continuity management (BCM) measures in place to ensure that all essential risk management and controlling processes are maintained at all times.

Measures taken by LBBW in connection with the coronavirus pandemic initially remained in place at the start of 2022 and were gradually withdrawn as restrictions were eased. Crisis organization was transferred to a follow-up organization that will continue to monitor and, where applicable, manage developments in the pandemic on the basis of legal requirements.

ICS with regard to the accounting process

Internal control system

At Landesbank Baden-Württemberg, the requirements for the internal control system (ICS) are determined centrally by the Compliance Division. In line with these, the bank as a whole uses the three lines of defense model. The ICS is updated and reviewed using the ICS regulatory cycle defined for LBBW. This comprises five areas: ICS Quick Check, the documentation of key controls in the risk control matrix (RCM) (identification and assessment), ICS management testing, the ICS self-assessment (review) and ICS reporting.

In terms of the accounting process, the internal control system was based on the accepted “Committee of Sponsoring Organizations of the Treadway Commission” (COSO) framework and also includes risk management measures. The main goal of the ICS with regard to the accounting process is to ensure that transactions comply with standards in the Group accounting and consolidation process at bank and at Group level, as well as ensuring that risks identified and evaluated in advance as part of the standard process are handled appropriately.

The controls are geared toward ensuring that the annual and consolidated financial statements as well as the combined management report are prepared in accordance with the applicable provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the International Financial Reporting Standards (IFRS), as adopted by the EU, as well as proper and timely compliance with internal and external financial reporting requirements. A process portal (sfo) and guidelines regulate the scope of the controls and responsibilities integrated into working processes.

The Group Manual and the Accounting and Reporting Manual include the measurement and accounting rules for preparing the consolidated financial statements and the individual financial statements of LBBW (Bank). These are regularly adjusted to take account of internal and external developments and are published on LBBW (Bank)’s intranet and also sent to the Group companies directly. Legal changes that affect the accounting process and treatment of new products and product variants as part of the new product process of the Bank and the Group companies are identified centrally in the Principles, Regulatory & NPP unit. The divisions and subsidiaries affected are informed and involved as necessary. Training sessions are also conducted with the employees responsible for the accounting process.

Both the annual financial statements for the Bank and the consolidated financial statements are prepared centrally by the Finance division at LBBW (Bank) with the involvement of the specialist divisions.

Timetables and workflows are in place for the annual and consolidated financial statements (monthly, quarterly, half-yearly and annual financial statements), which are monitored and managed centrally. Responsibilities in all areas of the accounting process are clearly assigned. The relevant activities in terms of risk are distributed across several organizational units within the organization of business processes. The principle of dual control is applied to processes relevant to accounting. The corresponding assignments of authorities and provisions on the separation of functions must also be observed.

The companies included in the consolidated financial statements have IT-based processes in place for preparing their financial statements (in accordance with local laws). This results in the delivery of the coordinated and, for the most part, audited annual financial statements for the purposes of preparing the consolidated financial statements. The senior management of the respective Group company is responsible for the completeness and accuracy of the results transmitted to the Consolidated Financial Statements unit.

Higher-level control and coordination of the interdivisional process of preparing the LBBW combined management report are carried out centrally by the Group Communication division under the overall responsibility of the Finance division. The preparation process is integrated in the timetables and workflows for the half-yearly and annual financial statements. The sections of the combined management report are produced separately by the specialist divisions and approved by the divisional managers.

The Consolidated Financial Statements unit prepares the figures for the consolidated financial statements using standardized consolidation software on the basis of the information provided by the companies included in the consolidated financial statements. The consistency of the data provided by the Group companies is inspected by checking rules implemented and by validation. The content of the data is validated using a matrix organization responsible for various Group companies and various balance sheet items within the Consolidated Financial Statements unit. The notes to the consolidated financial statements are also prepared using standardized software. The Consolidated Financial Statements unit secures the completeness and accuracy of the relevant notes on the basis of check lists.

The Finance division regularly monitors the accounting-related ICS as part of the bank-wide ICS monitoring process to evaluate its effectiveness and adequacy. This ensures that potential improvements are identified and processes are adjusted accordingly where required.

Internal Group Auditing and the Audit Committee of the Supervisory Board serve as senior monitoring bodies. The Audit Committee, as a committee of the Supervisory Board, deals with the analysis and preparation of the findings of the audit of the annual accounts and informs the Supervisory Board of these activities.

Forecast and opportunity report

Anticipated economic performance

LBBW expects economic momentum to cool off and inflation to decline in 2023. The economy looks set to slow in light of recent high inflation, which has hurt consumer spending, and interest rate hikes by the ECB and other central banks, resulting in a recession in Germany. LBBW anticipates a 0.5% decline in GDP in Germany, with the eurozone likely to see GDP growth of 0.2% although this does not rule out eurozone GDP shrinking in the interim. The two largest non-European economies look set to generate positive GDP growth in 2023. Economic output in the US is expected to pick up by 0.5%, with Chinese GDP growth projected at 3.5%.

Inflation will likely decline y-o-y in 2023. Energy prices at the start of 2023 were already far lower than the highs reported in 2022, which will likely be the driving factor behind falling inflation. Nevertheless, inflation looks set to remain far above the ECB's target of 2% in 2023, too. LBBW anticipates inflation of 6% in Germany and in the eurozone.

Monetary policy will continue to push up interest rates in 2023, albeit in decreasing increments over the year. The ECB is expected to set the maximum key interest rate at 3.50% for the deposit facility and 3.75% for the main refinancing rate, the same as the projections for the end of 2023. In the US, we think the prime rate peaking at 5%, with interest rates in the country likely to be reduced to 4.50% again by the end of the year as economic momentum falters and inflation subsides.

The Covid-19 pandemic should fade into the background and no longer impact economic activities. China may represent an exception to this. The Chinese government's pivot from its zero-Covid policy, with strict restrictions on public life and business where cases were detected, has given way to a laissez-faire approach. A new wave of cases could once again result in supply chain disruptions.

The war in Ukraine remains the major incalculable risk for 2023. There are still no signs of peace or a ceasefire. If the war continues or even escalates further, this would not only inflict further suffering on the people of Ukraine, it could also have unpredictable consequences for neighboring countries and thus for the supply of raw materials and services etc.

On financial markets, yields on 10-year Bunds will likely be around 2.00% at the end of 2023, lower than they were at the time this report was written. The euro will likely be worth USD 1.10 at the end of the year. We expect the DAX to close the year at 16,000 and the S&P 500 at 4,250.

Industry and competitive situation

The repercussions of the war in Ukraine and the energy crisis will likely continue to be felt in 2023, although forecasts are still highly uncertain. Looking to the months ahead, LBBW Research thus believes that downside risks will dominate Europe's banking sector. Firstly, lending growth will likely wane on account of high inflation and higher interest rates. At the same time, weak economic performance will impact asset quality. Secondly, our forecast predicts that the European Central Bank will continue to tighten monetary policy. The net effect on the banking sector's income and profitability will be determined by these two factors – interest rates and asset quality. In terms of the refinancing mix, a survey by the European Banking Authority (EBA) found that banks are attempting to significantly decrease their deposits from the central bank. Competition for customer deposits could thus become fiercer.

In light of this, the top priority of the ECB's banking supervision system SSM is to strengthen banks' resilience to macro-financial and geopolitical shocks. Moving beyond this current situation, the increasing significance of climate and environmental aspects in the long term is also important. This is an area where supervisory authorities have become increasingly active. The EBA will also release the results of its stress test in mid-2023.

Despite the downside risks, LBBW Research still believes that capital adequacy at European banks is sound. In addition, German banks must have a countercyclical capital buffer of 0.75% by no later than February 2023. According to BaFin, the aim of this is to make the sector more resilience to system risk.

Company forecast

General conditions

The following statements on LBBW's company forecast, including the development of financial performance indicators and other indicators in the 2023 financial year, are based on the planning produced and approved by the Supervisory Board at the end of 2022.

As we expected, the 2023 forecast period will be shaped by ongoing geopolitical uncertainty, high inflation and, at least in part, continued supply chain bottlenecks. To counter the high rates of inflation expected, the European Central Bank will likely continue to raise interest rates. The potential economic downturn, which could even extend to a recession, is also likely to be reflected in increased re-ratings and, in turn, a greater need for allowances for losses on loans and securities. Reluctance to invest among corporate customers and real estate investors also cannot be ruled out, which would result in reduced income.

Outlook for LBBW

Despite the still challenging environment and further provisions made, LBBW enjoyed very good business performance in the 2022 financial year, bolstered by strong operating income in all customer segments including Berlin Hyp and a high positive non-recurring effect as part of the initial consolidation of Berlin Hyp (known as badwill). For ease of comparison, the badwill is not taken into account in the following. LBBW expects to generate a clearly positive consolidated profit before tax in the high triple-digit million range in the 2023 forecast period, which will likely be down slightly on the previous year's level in view of economic and geopolitical uncertainties. After very positive income performance in 2022 from LBBW's perspective, this high level looks set to be maintained in the forecast period. In addition, allowances for losses on loans and securities are expected to be down slightly y-o-y after considerable adjustments were recognized in 2022 and in the previous years. In terms of expenses, although inflation is expected to be high it should be possible to limit cost increases through countermeasures, resulting in an only moderate rise in expenses compared to the previous year. As a result, the cost/income ratio (CIR) would increase only slightly y-o-y despite a further considerable increase in the bank levy/deposit guarantee system, with return on equity (RoE) decreasing in line with earnings performance and improved capitalization.

LBBW expects both the common equity Tier 1 (CET 1) capital ratio ("fully loaded") and risk weighted assets to be more or less on par with the previous year's level. It should be possible to offset expectations of a recession, which could push up risk weighted assets through re-rating effects, through countermeasures. Accordingly, the common equity Tier 1 (CET 1) capital ratio should be well in excess of the CRR II/CRD V minimum requirements and the SREP[1] requirement of 8.78% in the 2023 forecast period. The common equity Tier 1 capital ratio should also be far above ECB requirements even considering additional current requirements[2], such as the countercyclical capital buffer and the systemic risk buffer for real estate.

LBBW is forecasting the following developments for the operating segments in the 2023 financial year:

Following the marked upturn in income in 2022, LBBW expects to generate far lower income in the Corporate Customers segment in the forecast period. The main reason for this decline is the rise in allowances for losses on loans and securities, which are expected to be well in excess of the previous year's level, as a result of economic developments. The segment also continued to benefit from the TLTRO III bonus in 2022. As a result, return on equity (RoE) will likely be noticeably lower and the cost/income ratio (CIR) is expected to temporarily increase slightly.

Segment earnings in the Real Estate/Project Finance segment will likely be slightly up on the previous year. One reason for this earnings upturn is Berlin Hyp, which in the previous year was included only with a short financial year in H2. In addition, the need for allowances for losses on loans and securities should be substantially lower given that high adjustments were recognized in the previous year and initial consolidation effects were included, although we expect it to be higher than the average for previous years. LBBW thinks that the cost/income ratio (CIR) will remain at a very good level, albeit measurably higher than in the previous year. In line with earnings performance, a moderate y-o-y increase in return on equity (RoE) is anticipated.

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

LBBW expects segment earnings in the Capital Markets Business segment to be slightly higher than in the previous year in the 2023 financial year. Essentially, this will likely be thanks to expanding customer business with financial markets customers, such as with capital preservation products in asset management. Return on equity (RoE) should see a noticeable increase as a result. Despite a marginal rise in expenses due to new business initiatives and the effects of inflation, the cost/income ratio (CIR) should be at the previous year’s level.

In the Private Customers/Savings Banks segment, LBBW expects segment earnings before tax in the 2023 financial year to be substantially lower than the previous year’s level, which LBBW considered very good, given that the segment benefited significantly from interest rate developments in the deposit business in 2022. Return on equity (RoE) would have to decrease sharply in line with this earnings performance, whereas the cost/income ratio (CIR) should see a moderate increase due to the slight decline in income.

Opportunities and risks

Over the course of the 2023 financial year, the statements made could be positively or negatively affected by the opportunities and risks described below:

The war in Ukraine and the resulting energy price hikes could have more of an impact on economic development in Germany and the eurozone than expected. Margins and earnings could also come under more pressure than expected in the forecast period on account of price pressure caused by inflation and the weak economy. For LBBW, this is likely to translate into higher-than-planned allowances for losses on loans and securities or a rise in its own expenses. In terms of the Covid-19 pandemic, there is still a risk of supply chain disruption due to new waves of cases in China. Other potential risks include unanticipated stricter regulatory requirements and even stiffer competition in the banking sector, especially for customer deposits. In addition, membership of the bank-related guarantee fund of the Landesbanks and the “European bank levy” could require LBBW to make special payments in the event of compensation and support measures, which could put unforeseen strain on LBBW’s results of operations, net assets and financial position. Finally, the potential risk of a downturn in the real estate sector should also be noted.

On the other hand, the general conditions described could also open up opportunities for LBBW in the forecast period if these factors develop better than assumed in planning. In particular, an improved economic starting position would have positive effects on the bank’s results of operations, net assets and financial position. In this context, the economic situation is likely to improve primarily if the expected economic implications of the war in Ukraine are more limited, the intensity of the war decreases or if negotiations are initiated between the two sides. This would result in fewer re-ratings, lower allowances for losses on loans and securities and additional income generation from further business opportunities. If inflation were to develop better than expected, this could also have a positive impact on the bank’s expenses. By contrast, however, the bank could also benefit from higher-than-expected interest rate raises by the European Central Bank in deposit business and investment.

Digitalization and sustainability, as well as the need to adapt to changing market and customer requirements as a result, represent a risk on the one hand side. On the other side they also offer opportunities for further development for LBBW due to its strategic direction, for example, to support long-term value chain restructuring and the development of innovative solutions for our customers

Explanatory notes on the HGB annual financial statements of LBBW (Bank)

Results of operations, net assets and financial position

Business development in 2022

The management of the LBBW Group is generally guided by the IFRS key figures. As a significant part of the Group, LBBW (Bank) is managed in accordance with these figures.

On the basis of its business model as a mittelstand-minded universal bank, LBBW (Bank) believed it was again well positioned in the 2022 financial year, which was dominated by a volatile political and economic environment. At EUR 1,007 million, allowances for losses on loans and securities, which act as an indicator of operating strength, exceeded the 2021 figure of EUR 914 million.

Results of operations

	01/01 – 31/12/2022	01/01 – 31/12/2021	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,972	1,937	35	1.8
Net fee and commission income	490	466	24	5.1
Total operating income/expenses from the trading portfolio	402	325	77	23.8
Administrative expenses[1]	– 1,855	– 1,769	– 87	4.9
Other operating income/expenses	– 2	– 46	44	– 95.4
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	*1,007*	*914*	*94*	*10.2*
Allowances for losses on loans and advances/remeasurement gain or loss	– 744	– 250	– 494	>100
Reversal/addition to fund for general banking risks	355	0	355	100.0
Operating income/expenses (result from ordinary business activities)	*618*	*664*	*– 46*	*– 6.9*
Extraordinary result	– 25	– 26	1	– 4.4
Partial profit transfer	– 35	– 35	0	– 0.6
Net profit/loss for the year before tax	*558*	*602*	*– 44*	*– 7.3*
Income taxes	– 318	– 377	59	– 15.7
Net profit/loss for the year after tax	*240*	*225*	*15*	*6.6*

Rounding differences may occur in this and subsequent tables for computational reasons.
1 In addition to staff costs and operating expenses, this item also includes amortization and write-downs of intangible assets and depreciation and write-downs of property and equipment.

Net interest income rose by EUR 35 million to EUR 1,972 million. At operating level, all segments contributed to this thanks to y-o-y improvements. Worthy of note here were, once again, commercial real estate financing, corporate finance, export financing and the expansion of volumes in what LBBW (Bank) has identified as growth sectors. The turnaround in money market and capital market interest rates after a long period of zero and negative rates also boosted deposit business. Early loan repayments and, in turn, early termination fees also decreased markedly in connection with this. Following the end of the bonus period on 23 June 2022, the bonus interest from participating in targeted longer-term refinancing operations (TLTRO III) also declined by EUR 118 million to EUR 68 million (previous year: EUR 186 million).

Net fee and commission income improved by EUR 24 million to EUR 490 million. Different types of commission performed differently. The lending business, including guarantees, performed particularly well, picking up by EUR 17 million to EUR 104 million. The syndicated loan business and business with guarantees and bonds were particularly noteworthy. Payments business also fared well at EUR 105 million (previous year: EUR 92 million). Rising earnings contributions were made chiefly by foreign payment transactions and credit card business.

In addition, net gains from asset management increased to EUR 80 million (previous year: EUR 75 million). By contrast, commission from securities and custody business moved in the opposite direction, declining by EUR – 14 million to EUR 136 million. Income from the securities underwriting business included here decreased by EUR – 6 million, primarily due to SSA[1], with reduced emission volumes by German states compared to the two previous years, which were dominated by the pandemic, and non-recurring effects on economic policy (EU SURE program).

At EUR 402 million, **total operating income/expenses from the trading portfolio** was also considerably far above the previous year's level, improving by EUR 77 million. Capital market activities, which saw a sharp EUR 132 million increase in new FICC[2] business thanks to customers' increased hedging needs in FX and interest books to EUR 455 million, were particularly instrumental in this increase. By contrast, the measurement of financial instruments in the trading portfolio at fair value less value at risk reduced this by EUR 28 million to EUR – 20 million. As in the previous year, no further addition to the extraordinary item for general bank risks in accordance with Section 340e (4) no. 4 HGB was required in the last reporting year.

Administrative expenses increased year on year by EUR – 87 million to EUR – 1,855 million (previous year: EUR – 1,769 million). **Staff costs** declined by EUR 20 million to EUR – 870 million (previous year: EUR – 890 million), primarily due to lower personnel-related expenses for pensions and other benefits. This was offset by higher personnel-related provisions, including in connection with a voluntary inflation premium due to the sharp increase in energy prices. **Other administrative expenses** increased by a noticeable EUR – 123 million to EUR – 920 million (previous year: EUR – 797 million). The rise in costs was the result primarily of higher investment in growth initiatives and IT infrastructure. Contributions to the bank levy also picked up by EUR – 30 million to EUR – 134 million. This was affected by the further increase in the target volume for the bank levy due to the 7% rise in covered deposits in the eurozone and the greater consideration given to uncertainties in connection with economic developments. In addition, expenses for the statutory deposit guarantee system also increased by EUR – 21 million to EUR – 54 million as a result chiefly of a new weighting of the contribution allocation within the guarantee system. **Amortization and write-downs of property and equipment and intangible assets** fell to EUR – 65 million (previous year: EUR – 82 million). This was attributable chiefly to lower write-downs on intangible assets, essentially from software capitalization.

Other operating income/expenses rose by EUR 44 million and came to EUR – 2 million (previous year: EUR – 46 million). The main cause of this was the EUR 43 million improvement in earnings from provisions for legal issues. Disposals in the investment real estate portfolio of EUR 18 million (previous year: EUR 4 million) also shored up earnings. On the other hand, net gains/losses from other provisions fell by EUR 15 million to EUR – 9 million.

Allowances for losses on loans and advances and remeasurement gain or loss deteriorated year on year by EUR – 494 million to EUR – 744 million (previous year: EUR – 250 million). A differentiated performance was recorded for the individual subitems:

- The **remeasurement gain or loss on securities** declined by EUR 130 million to EUR – 102 million (previous year: EUR 28 million), shaped once again by treasury activities to optimize the risk structure in the respective portfolios and write-downs on securities in the liquidity reserve due to higher capital market interest rates.
- The **remeasurement gain or loss from equity investments and affiliates** fell by a considerable EUR 68 million year on year to EUR – 67 million (previous year: EUR 2 million), primarily on account of lower company valuations in view of the far higher cost of capital in the second half of the year.
- **Gains/losses from the transfer of losses** remained stable at EUR – 9 million (previous year: EUR – 9 million).
- **Allowances for losses on loans and advances** declined by EUR 297 million at the end of 2022 to EUR – 567 million (previous year: EUR – 270 million). While allowances for losses on loans and securities at the end of 2022 were relatively low due to underlying defaults and far better than in the previous year, uncertainties were taken into account in connection with further developments in the war in Ukraine, supply chain bottlenecks, the impact on energy-intensive sectors, high inflation and higher production costs due to the interest rate changes and the digital and sustainable transformation. General value adjustments of EUR – 445 million were also recognized for the first time in accordance with the new regulation for banks pursuant to IDW RS BFA 7. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and a still low default rate[3]. As at the end of the reporting period 31 December 2022, this was 0.4% (previous year: 0.5%).

1 SSA – supranational, sub-sovereign and agency bonds
2 FICC – fixed income, currencies and commodities
3 See also Risk report, Risk situation of the LBBW Group, section on portfolio quality

In the 2022 financial year, reserves to the **to the fund for general banking risks** in accordance with Section 340g HGB of EUR 355 million (previous year: EUR 0 million) were reversed. The main purpose of these reversals was to largely offset the change to the determination of allowances for losses on loans and securities under HGB in accordance with IDW RS BFA 7.

The extraordinary result remained virtually constant y-o-y at EUR – 25 million (previous year: EUR – 26 million). The conversion of the allocation of pension provisions pursuant to the Accounting Law Modernization Act (BilMoG) meant that the extraordinary expense of EUR – 26 million was held constant from the previous year.

Taking into account a partial profit transfer of EUR – 35 million (previous year: EUR – 35 million), **net profit/loss before tax** for the 2022 financial year amounted to EUR 558 million overall (previous year: EUR 602 million).

Income taxes reported a moderate EUR 59 million decrease to EUR – 318 million (previous year: EUR – 377 million). Current taxes rose marginally by EUR – 3 million to EUR – 246 million. In addition, non-periodic tax expenses declined by EUR 62 million to EUR – 72 million. (previous year: EUR – 134 million).

All in all, **net profit for the year** thus increased slightly to EUR 240 million (previous year: EUR 225 million).

Net assets and financial position

Assets	31/12/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Cash and cash equivalents	10,530	36,856	– 26,326	– 71.4
Loans and advances to banks	83,495	44,695	38,800	86.8
Loans and advances to customers	120,802	120,383	419	0.3
Debentures and other fixed-income securities	32,797	31,553	1,244	3.9
Equities and other non-fixed-income securities	147	183	– 36	– 19.5
Trading portfolio	26,149	29,014	– 2,865	– 9.9
Equity investments	187	191	– 4	– 2.2
Shares in affiliates	2,879	1,614	1,266	78.4
Trust assets	904	982	– 78	– 8.0
Intangible assets	107	125	– 18	– 14.4
Property and equipment	746	759	– 13	– 1.8
Other assets	10,020	2,033	7,987	>100
Deferred items	2,996	2,897	98	3.4
Total assets	*291,772*	*271,285*	*20,486*	*7.6*

Equity and liabilities	31/12/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Deposits from banks	76,862	85,742	– 8,881	– 10.4
Deposits from customers	111,537	97,220	14,317	14.7
Securitized liabilities	49,096	46,208	2,887	6.2
Trading portfolio	19,346	15,147	4,198	27.7
Trust liabilities	904	982	– 78	– 8.0
Other liabilities	9,083	1,202	7,881	>100
Deferred items	3,504	2,710	793	29.3
Provisions	1,288	1,407	– 118	– 8.4
Subordinated liabilities	4,447	4,616	– 169	– 3.7
Capital generated from profit participation rights	47	47	0	0.0
Regulatory AT 1 capital instruments	771	771	0	0.0
Fund for general banking risks	571	926	– 355	– 38.4
Equity	14,317	14,307	10	0.1
Total equity and liabilities	*291,772*	*271,285*	*20,486*	*7.6*
Contingent liabilities	13,364	11,986	1,377	11.5
Other obligations	40,831	38,260	2,571	6.7
Business volume[1]	*345,967*	*321,532*	*24,435*	*7.6*

1 In addition to total assets, the business volume includes off-balance-sheet contingent liabilities and other obligations.

Total assets

Total assets at LBBW (Bank) as at the end of 2022 rose by EUR 20.5 billion (7.6%) to EUR 291.8 billion compared with the previous year. LBBW (Bank)'s business volume thus grew by EUR 24.4 billion (7.6%) to EUR 345.9 billion.

Lending

Cash and cash equivalents amounted to EUR 10.5 billion at the year under review, down EUR 26.3 billion on the figure for the previous year (EUR 36.9 billion). This change was attributable almost exclusively to a decline in central bank balances.

Loans and advances to banks as at 31 December 2022 climbed by EUR 38.8 billion to EUR 83.5 billion, the most significant increase under assets. This was essentially the result of a EUR 35.8 billion increase in public-sector loans to EUR 69.5 billion which, in turn, was due chiefly to a EUR 34.5 billion deposit under the ECB's deposit. On the other hand securities repurchase agreements increased by EUR 1.7 billion to EUR 8.5 billion. This was offset by a EUR 0.8 billion decrease in overnight and term deposits to EUR 2.7 billion.

Loans and advances to customers increased by EUR 0.4 billion and came to EUR 120.8 billion as at the current reporting date. Corporate finance business enjoyed further growth. Other loans picked up by EUR 2.4 billion to EUR 27.5 billion and mortgage loans by EUR 1.8 billion to EUR 40.6 billion. This was countered by a EUR 4.3 billion decline in overnight and term deposits and a EUR 1.3 billion decline in public-sector loans.

Compared with the previous year, **debentures and other fixed-income securities** rose by EUR 1.2 billion to EUR 32.8 billion. Holdings were increased further both at the registered office in Stuttgart and at the branches in New York and Singapore. Money market instruments remained at the previous year's level, rising by EUR 0.1 billion to EUR 0.7 billion.

Trading assets declined by EUR 2.9 billion to EUR 26.1 billion. This decrease was mainly due to lower positive fair values from derivative financial instruments, which declined by EUR – 2.4 billion to EUR 6.2 billion as a result mainly of a decline in fair values for interest products. Loans and advances to banks also fell by EUR 0.8 billion to EUR 6.5 billion. By contrast, debentures and other fixed-income securities rose by EUR 0.9 billion to EUR 8.2 billion.

As at the reporting date, **shares in affiliates** increased by EUR 1.3 billion y-o-y to EUR 2.9 billion, primarily in response to the acquisition of Berlin Hyp AG.

Other assets rose by EUR 8.0 billion to EUR 10.0 billion in the current year. The rise was essentially due to the increase in margin holdings as collateral to provided in advance in connection with derivative transactions.

Funding

Deposits from banks decreased by EUR 8.9 billion compared to the end of 2021 to EUR 76.9 billion. The volume of overnight and term deposits declined by EUR 7.9 billion to EUR 37.6 billion, essentially due to the repayment of deposits from the ECB in connection with participation in the tender program (TLTRO III). This was partially offset by higher transmitted loans, which rose by EUR 1.8 billion to EUR 35.8 billion.

By contrast, **deposits from customers** went up by EUR 14.3 billion y-o-y to EUR 111.5 billion. Higher interest rates made deposits more attractive, resulting in a significant EUR 13.3 billion increase in overnight and term deposits to EUR 37.9 billion. The volume of current account liabilities increased by EUR 0.8 billion to EUR 60.3 billion, whereas securities repurchase transactions declined by EUR 1.3 billion to EUR 1.1 billion.

Securitized liabilities increased to EUR 49.1 billion, EUR 2.9 billion higher than the figure for the previous year of EUR 46.2 billion. The New York branch further stepped up its short-term financing with commercial papers and certificates of deposits, resulting in a EUR 1.0 billion rise in securitized money market transactions to EUR 9.0 billion. Securities were also increasingly issued at the registered office in Stuttgart and at the London branch, which increased public-sector covered bonds by EUR 1.0 billion to EUR 5.1 billion, mortgage-backed covered bonds by EUR 0.6 billion to EUR 7.8 billion and other debentures by EUR 0.5 billion to EUR 27.1 billion.

Trading liabilities also contributed to an increase in equity and liabilities, rising by EUR 4.2 billion to EUR 19.3 billion. Prompted by the current interest rate environment, negative fair values from derivative financial instruments in particular increased by EUR 6.1 billion to EUR 11.2 billion. This was countered by a EUR 1.9 billion decline in deposits to EUR 0.8 billion.

Other liabilities saw an increase of EUR 7.9 billion to EUR 9.1 billion. In line with the increase in other assets, the rise was essentially due to the increase in margin holdings as collateral received in advance in connection with derivative transactions.

Deferred income rose slightly by EUR 0.8 billion from EUR 2.7 billion to EUR 3.5 billion.

Equity

At EUR 14.3 billion, LBBW's equity remained unchanged on the previous year's level (EUR 14.3 billion).

Financial position

The funding strategy at LBBW (Bank) is proposed by the Asset Liability Committee (ALCo) and determined by management. Here, LBBW (Bank) focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. 2022 was shaped by the pandemic, geopolitical risks and high inflation and required a change in interest rate policy at the major central banks. Even in this highly volatile phase, LBBW (Bank) successfully presented itself to investors and was able to raise the liquid funds required at all times. LBBW (Bank)'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 LCR was met during the entire reporting period at the times of calculation and came to 145.7% as at 31 June 2022.

Combined non-financial statement

Preliminary note

Section 289b and Section 315b HGB require LBBW to prepare a non-financial (Group) statement in the (Group) management report or a non-financial (Group) report separate to the (Group) management report for LBBW (Bank) and for the LBBW Group. As in the previous year, LBBW again decided to integrate the non-financial statement into the combined management report.

The following content covers the combined non-financial statement (hereinafter referred to as the “non-financial statement”) for the 2022 financial year in accordance with Sections 340i (5) in conjunction with 315b and 315c in conjunction with Sections 340a (1a) in conjunction with 289b to 289e of the German Commercial Code (HGB) for LBBW (Bank) and the LBBW Group. The subsidiary Berlin Hyp AG also publishes its own non-financial statement (at https://www.berlinhyp.de/en/media/newsroom/financial-reports).

The integration of Berlin Hyp in terms of sustainability is not yet complete. The relevant sections indicate whether the statements apply to the LBBW Group or exclusively to LBBW (Bank)/Berlin Hyp.

As a minimum, HGB requires disclosures on environmental, employee and social issues, respect for human rights and anti-corruption and bribery measures. LBBW meets this requirement by way of its non-financial statement.

Changes in the 2022 financial year

LBBW successfully completed the announced takeover of the commercial real estate financier Berlin Hyp in January 2022. The economic and legal transfer to LBBW took effect on 1 July 2022.

The LBBW Group’s business model

Information on the LBBW Group’s business model can be found in the “Group overview” section.

Concepts and due diligence processes

Sustainability policy, targets and principles and guidelines for their implementation

The sustainability policy forms the basis for integrating economic, environmental, and social issues into all business activities as a whole. It provides a framework for meeting the sustainability targets and thus for all sustainability activities at the LBBW Group. (The wording of the sustainability policy can be found in LBBW’s 2021 Sustainability Report on page 13 f.). Berlin Hyp has not yet been fully integrated in terms of the sustainability policy. Closer integration is planned from 2023 onwards.

LBBW’s sustainability policy is designed in accordance with the six Principles for Responsible Banking (PRB) of the UNEP FI (United Nations Environmental Program – Finance Initiative). Back in 2019, LBBW was the first German universal bank to sign the Principles for Responsible Banking, a voluntary initiative for responsible banking.

The PRB provide a standard framework for integrating sustainability into all business operations. This allows banks to systematically align their activities with social objectives, such as the Paris Agreement and the United Nations’ Sustainable Development Goals (SDGs).

The sustainability policy applies to the LBBW Group (currently still excluding Berlin Hyp). LBBW has set overarching objectives to put its sustainability policy into place:

1. Step by step, we have implemented sustainability as an integral component of our business policy. For this reason, we strive for an active focus on projects, products, and services with a positive impact on sustainability.
2. We offer sustainable investments for all customer groups and in all investment classes. The goal is to increase the share of sustainable investments in all business areas – including in our own investment portfolio. We take account of sustainability risks and earnings potential for customers and LBBW when advising and deciding on loans. We treat our customers fairly, collaboratively, and respectfully, ensure data protection and transparency, and provide high-quality advice.
3. We promote the health and performance of our employees with specific measures for this purpose. At LBBW, we ensure a good work-life balance, and promote diversity and equal opportunity. We intend to maintain and further raise the high education and training level.
4. We will further optimize the use of resources within our organization. Our efforts to reduce the CO_2 emissions generated by our business focus on energy usage and business-related travel. We apply sustainability criteria in the selection of products and service providers when procuring materials and awarding contracts.
5. In addition to providing our banking services, we want to actively contribute to adding value to society. LBBW is therefore active as a donor and sponsor. In the regions in which we do business, we support education initiatives and various other social projects.
6. We inform our stakeholders about our commitment to sustainability and engage in a constructive dialog with them.

The principles and guidelines provide concrete guidance on implementing these targets in day-to-day business. They comprise specific exclusion criteria for certain business ventures; overarching principles governing compliance, human rights, climate protection, and biodiversity; and business-area specific guidelines, referred to as the guidelines for sustainable investment, lending, human resources management, and business operations (see LBBW 2021 Sustainability Report, pages 17 to 20).

Project sustainability

The large number of new regulatory requirements imposed by banking regulators highlights the increased relevance of sustainability. Moreover, demands by customers, who are primarily seeking innovative and sustainable solutions, mean that it is essential to address the matter from a risk and regulatory perspective and consider sustainability holistically.

In order to address further developments in sustainability proactively and on a cross-divisional basis, as well as to meet regulatory requirements on time, LBBW launched the sustainability "project" in 2021. LBBW wants to expand its leading role in environment, social and governance issues ("ESG") and bolster its position as one of the leading universal banks in sustainability through interdisciplinary collaboration.

As well as implementing regulatory requirements, the project includes identifying customer needs and further refining the ESG product range. The IT target vision required was also developed at the same time. Focus is also on integrating ESG risks into lending, risk management and back office processes. Formulating sector targets and establishing transformation pathways are other focal areas in terms of future portfolio management.

LBBW has already set eight sector-specific climate goals for the respective sub-portfolio to be met by 2030 and it published three of these in 2022 (energy producers, automotive manufacturers and automotive suppliers); (for further information see the "Sustainable transformation. Our path to net zero" brochure at www.lbbw.de).

In addition, the project is supported by internal and external communication and the expansion of training courses for employees. Successes were also achieved here in 2022 and a total of 19 new learning pathways on sustainability were made available.

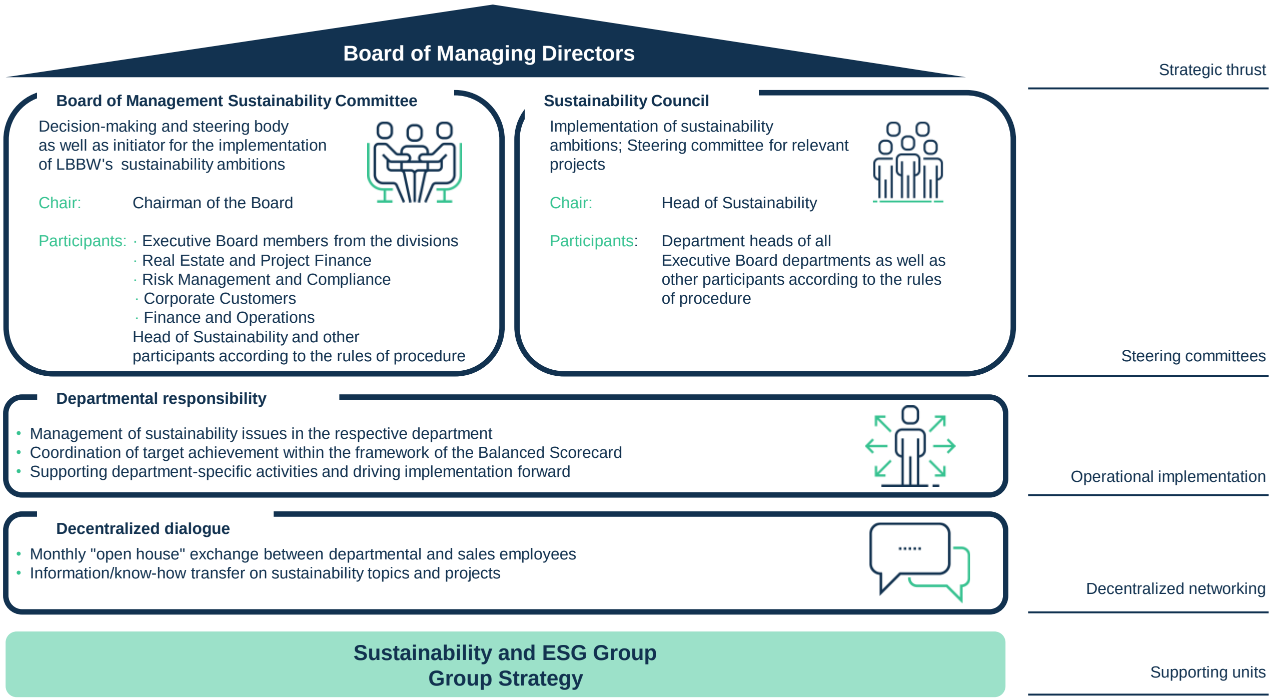
Another sub-project relating to the bank-wide implementation of the EU Taxonomy was also included in 2022. Preparations for introducing the Corporate Sustainability Reporting Directive (CSRD) also began as part of the sustainability project.

The project has clear governance and progress made in the project is regularly reported to the Board of Managing Directors.

Major project targets have already been made with the disclosure on 31 December 2022 (Article 8 Taxonomy Regulation and Article 449a CRR II).

Governance sustainability

By being firmly embedded in the existing Group structure, this supports systematic sustainability management at LBBW. Responsibility lies with the Group’s Board of Managing Directors. The Board of Managing Directors Sustainability Committee is an important decision-making body and provides key impulses. In addition to these strategies, the guidelines are operationalized in detail and this is documented in the bank’s written policies. LBBW also uses sustainability-related key figures to set and monitor targets, which are being merged and monitored using a balanced scorecard.



Decision-making and steering body:

The Board of Managing Directors Sustainability Committee is the central decision-making and steering body and also provides momentum for the strategic cornerstone sustainability. It meets each quarter (or more frequently where required) and comprises the Chairman of the Board of Managing Directors, other members of the Board of Managing Directors and the head of Sustainability. All members are entitled to vote.

The main tasks of the Board of Managing Directors committee include overall management and strategic development of the sustainability cornerstone. It is also responsible for resolving on recommendations made by the Sustainability Committee.

Coordinating and advisory body:

The LBBW Sustainability Committee is responsible for creating transparency and networks across business units to further reinforce the importance of sustainability and, where possible, to expand it. The Sustainability Committee has a coordinating and an advisory role and works on preparing decisions for the Board of Managing Directors Sustainability Committee. It also responsibly directs relevant flagship projects in connection with sustainability. The Sustainability Committee generally meets once per quarter.

Operational implementation:

A business unit head is appointed for each business unit and is responsible for implementing the measures decided. The business unit head’s core tasks include managing sustainability issues in their business unit, coordinating target attainment using the balanced scorecard and supporting and promoting activities specific to that business unit.

Supporting units:

The Sustainability & ESG group jointly coordinates with Group Strategy on the Group's direction when it comes to sustainability and helps the business units with content. The Sustainability & ESG group is also the competence center for technical questions on all aspects of sustainability.

ESG network subsidiaries

A network of subsidiaries was formed in 2022 to create a standardized framework for addressing ESG issues. The network is intended as a platform to discuss ESG topics and coordinate the sustainability strategy of LBBW and material subsidiaries. The quarterly discussion rounds are also an opportunity to swap information on planned measures and discuss current issues and questions. In addition, regular discussions should help avoid the same work being done twice and leverage synergies. The discussion rounds also aim to ensure a standard process is applied to relevant sustainability issues.

In May 2021, Berlin Hyp also approved an ESG target vision as part of its own ESG umbrella project and established an ESG implementation roadmap containing various measures to be put into place between the second half of 2021 and 2024. These also include measures to meet increasing regulatory requirements. The new ESG target vision is available on Berlin Hyp's website at https://www.berlinhyp.de/en/sustainability/sustainability-strategy.

Balanced scorecard

LBBW established its strategic cornerstones of business focus, digitalization, sustainability and agility in 2017. A balanced scorecard (BSC) has been used to manage the four cornerstones at the LBBW Group since 2019. This involves collecting internal key figures related to remuneration for all the strategic objectives. These are then reported to the Board of Managing Directors and compared with the defined target figures. Within the cornerstone of sustainability, key figures include the sustainable financing volume and sustainable net cash inflow in investment business. It also focuses on key figures on sustainable human resources policy and the public sustainability image. Under the "Net Zero Banking Alliance Germany" commitment, the preparation and publication of sector paths is also included in the BSC. The strategic direction was further refined in 2022 and came into effect with the business strategy as at 1 January 2023. The related internal management concept is currently being drawn up.

Risk management (focus on ESG risks)

In its long-term strategic direction and further development, LBBW's goal is to proactively support the profound economic and social shift towards sustainability. More details were provided here as part of establishing the five strategic levers and special attention was given to this goal. These levers came into effect as at 1 January 2023 together with the business strategy. In particular, the "Sustainable Transformation" and "Social Contribution" levers highlight LBBW's ESG ambitions. The business strategy analyzes the impact of sustainability efforts on the strategic direction of individual business areas in detail.

LBBW's long-term ESG objectives include achieving the goals of the Paris Agreement and reaching net zero in 2050. Specific goals were set for 2030 for selected sectors with high greenhouse gas emissions (sector-specific transformation pathway), which clarify LBBW's aspirations in discussions with customers.

The strategic levers are monitored at segment level by incentive systems (balanced scorecard), which include sustainability targets.

To meet the internal sustainability targets and account for the resulting risks, the Group risk strategy (which aligns with the business strategy) sets out overarching guidelines to provide a framework for all sustainability activities at the LBBW Group and give more details in the form of requirements and exclusions. Considerable changes were made to the Group-wide Risk Appetite Statement in terms of ESG. All the required regulations are included in the ESG risk section of the non-financial risk strategy.

The following Risk Appetite Statement refers to the LBBW Group. Subsidiaries such as Berlin Hyp may have other statements that are based, for example, on the subsidiary's specific business model.

Excerpt from the Risk Appetite Statement

"Sustainable business model

1. The LBBW Group acts in the best long-term interest of its customers and stakeholders and intends to make a substantial contribution to society.
2. Commitments are to be put in perspective taking into account the LBBW Group's risk-bearing capacity. Concentration risks must be identified using suitable procedures and managed accordingly. Risks to the Group's going concern status must be excluded.
3. The total portfolio is to be managed actively, taking account of concentration risks, to improve resilience during times of crisis. In particular, concentration risks are to be managed in the lending portfolio at sector, size category and country level.
4. Transactions that are liable to jeopardize the Bank's reputation for a sustained basis should be avoided. The sustainability policy of the LBBW Group must be observed.
5. LBBW deals only with products and markets where it understands and controls the risks.
6. Sustainable transformation is our strategic lever and we also ensure that sustainability criteria are met for customer financing. We want to support our customers in transitioning to more sustainable business models.
7. As part of a voluntary climate commitment (Net Zero Banking Alliance Germany), together with others in the German financial sector LBBW agreed to facilitate the transformation of the economy to achieve carbon neutrality by no later than 2050 and support this through its investment and lending portfolio.

In particular, LBBW will:

- Establish carbon-neutral banking operations (Scope 1 and 2) by no later than 2050 and make its portfolio (Scope 3) carbon neutral,
- Set and publish definitive sector-specific and scenario-based climate targets for 2030 for the sectors of the portfolio responsible for the most greenhouse gas emissions to ensure that targets are achieved,
- Measure and publish the impact its lending and investment portfolios have on the climate on an ongoing basis and manage them in line with national and international climate targets,
- Successively increase its sustainable business volume,
  Set clear principles for the lending business, guidelines and exclusions."

LBBW has established the following exclusions for environmental, social and governance criteria:

LBBW does not consider companies that produce cluster munitions, delivery systems for cluster munitions and/or anti-personnel mines. LBBW is also withdrawing from business with the coal industry and no longer lends to companies that build new coal-fired power plants or coal mines. In addition, clear thresholds have been set for energy suppliers regarding the share of energy or revenue generated by coal.

Risk inventory

The ESG risks that arise in connection with LBBW's business model LBBW are systematically evaluated in the Group risk inventory. ESG risks are cross-cutting risks that can impact various risk types. The risk inventory assesses the relevance of ESG risk drivers for the material risk types. In 2022, a far more refined and complete risk inventory in terms of ESG risk drivers was carried out as part of the Group risk inventory. Environmental risk covers climate and environmental risks, which may be transitory or physical. The effects of transitory and physical climate-related risks on the credit risk were categorized as short-term, medium-term or long-term. It can be assumed that the transitory and physical risks will result in higher investment and changes to business models at our customers and thus will primarily negatively impact the respective operating income/expenses. The impact of these risks on reputation risk was also considered relevant. For example, events in our customers' environment (such as working conditions, environmental standards) can also affect LBBW's reputation. Risk management thus places special focus on these factors.

On the other hand, risks from changes to biodiversity, as well as risks related to social and governance issues on credit risks, were considered less relevant from a risk perspective. LBBW also considers the impact of ESG risks on market risks, liquidity risks, operational risks and real estate, development, investment and model risks less relevant.

Governance

The ESG risks have a cross-cutting effect on the established risk types. Accordingly, sustainability risks are monitored and managed on an ongoing basis via existing risk processes. At Board of Managing Directors level, these are the monthly Risk Committee (risk monitoring, determining risk methodology), the monthly Asset Liability Committee (interest (banking book), FX, liquidity, capital and balance sheet management of the LBBW Group) and the Credit Committee (lending decisions in accordance with decision-making system for loans and trading).

Responsibilities for ongoing consideration of the sustainability risk (ESG) are divided among the units in line with the three lines of defense. In line with the risk type (primarily credit and reputation risk), operational responsibility in the first line of defense lies with the business areas responsible. The monitoring function of the second line of defense is split between Risk Control, Group Compliance[1] and COO Risk Management. Internal auditing is the third line of defense, as part of which it monitors the first and second lines and assesses the appropriateness and effectiveness of the risk management system.

Risk management and monitoring

ESG analyses are already an integral part of the entire risk management process, from the risk inventory, to methods, measurement, reporting and scenario analyses. To do justice to the interdisciplinary topic of ESG, employees work together across departments and divisions in agile teams. The internal document “ESG manual in risk management” describes the methods and processes in brief with references to the detailed regulations. The document is available to any employees who are interested on a sustainability page of the intranet, together with links to all relevant regulations.

LBBW uses various methods and tools to systematically assess ESG risks in connection with individual transactions and portfolios and to measure the impact on relevant divisions and segments. The carbon tool, the physical risk tool and the ESG check list are tools developed in-house that are continuously expanded to meet both internal and external requirements.

Transition risks are material factors influencing LBBW’s credit risk. Based on an external report on the lending portfolio’s GHG footprint, prepared by MACS Energy & Water GmbH, a consulting firm specializing in sustainability in the finance sector, Scope 1 and Scope 2 greenhouse gas emissions are calculated for each counterparty using the carbon tool. If no data are available for individual customers, aggregate sector data based on EUROSTAT figures are used. This process ensures that the entire portfolio is covered. The customer’s financed greenhouse gas emissions are then calculated taking account of LBBW’s share of financing. Where appropriate, this is based on the PCAF Standard.

LBBW publishes the financed emissions in the sustainability report. The financed emissions to be published in the disclosure report in accordance with Article 449a of the Capital Requirements Regulation (CRR) refer only to the sub-portfolio of lending items in the banking book to corporate customers (in particular, excluding derivatives and line agreements).

LBBW developed the physical risk tool to analyze the impact of chronic and acute physical climate risks on the credit risk. For real estate, the impact on the status quo of individual physical risk drivers (e.g. flooding, drought etc.) is assessed on a four-point scale. For companies, the processes differ depending on regional dependency. Companies with a regional focus are assessed using a risk map aggregated for the NUTS3 region[2] of the company headquarters. Major international companies often have a number of regionally diversified production locations. Physical risks at these companies are measured on a sector basis using the Sustainability Accounting Standard Board (SASB) Materiality Map and the Intergovernmental Panel on Climate Change Fifth Assessment Report (IPCC AR5).

LBBW uses portfolio-specific check lists to assess potential ESG risks in credit exposures. The risk clusters environment, social and governance establish questions that help risk management identify and measure potential ESG risks. Material risks for customers that have already been specifically identified are taken into account in the internal rating procedure. Loan applications are also examined in terms of compliance and sustainability risks based on internal lending rules. In the event of any uncertainty or for issues that do not yet have any binding regulations or review criteria, a statement can be requested from Group Compliance and/or from the specialized Sustainability and ESG unit. The Sustainability & ESG group and Group Compliance must be included in the lending process if there are specific reputation or sustainability risks.

1 Second line of defense for compliance and reputation risks
2 “NUTS” refers to a hierarchical system for classifying physical reference units for official statistics in the member states of the European Union. In Germany, NUTS3 covers districts (“Kreise”) and “district-free cities” (“kreisfreie Städte”).

ESG scenarios constitute their own scenario class in LBBW's conceptual framework for stress tests and scenario analyses. ESG scenario analyses are prepared for several medium-term and long-term periods and serve primarily as an early warning, a way of identifying the need to take action in the long term and as a basis for strategic discussion.

The Board of Managing Directors is informed about transitional risks once a quarter and about physical risks at least once a year in risk reports. The most important developments in transitional and physical risks are presented and discussed here at sector, segment and customer level.

Impact on reputation

ESG risks can have potentially substantial negative effects on the bank's reputation. LBBW already has measures and processes in place to mitigate reputation risks.

When it comes to reputation risks, LBBW draws a distinction between transaction-based reputation risk management (i.e. precautions relating to individual business transactions) and non-transaction-based reputation risk management (i.e. precautions chiefly in relation to the media and issue management).

As well as sustainability-related review criteria in the loan application process, to identify and assess (chiefly transaction-related) reputation risks LBBW has a product certification process for derivatives and a reputation risk review for new products in the form of the "New Product Process" (NPP).

The media, relevant news agencies and selected social media channels are continuously monitored and the Board of Managing Directors and key decision-makers are informed regarding non-transaction-related reputation risks. A comprehensive media response analysis covers reporting on the bank and its main competitors to assess the bank's reputation in the media and the effectiveness of its communication strategy.

In its risk management LBBW uses the "three lines of defense model" for the two sub-risk types.

Individual front office units are responsible for the transaction-based management of reputation risks ("first line of defense"). The ultimate decision as to whether a transaction is carried out from a reputation risk perspective is made by the employees and their managers responsible for the transaction. The sustainability and ESG group supports the relevant front office units in their day-to-day business in identifying and assessing transaction-related sustainability risks.

In addition to the transaction-related assessment, all employees are subject to public perception regardless of their role or activity for the LBBW Group. Responsibility for the non-transaction-related management of reputation risks ("first line of defense") lies with Group Communication, Marketing, the Board of Managing Directors' Office, the Sustainability and ESG group and all divisional managers and managing directors of Group subsidiaries.

Group Compliance is responsible for transaction-related and non-related reputation risks as the "second line of defense" and performs a control and monitoring function.

Data management and quality

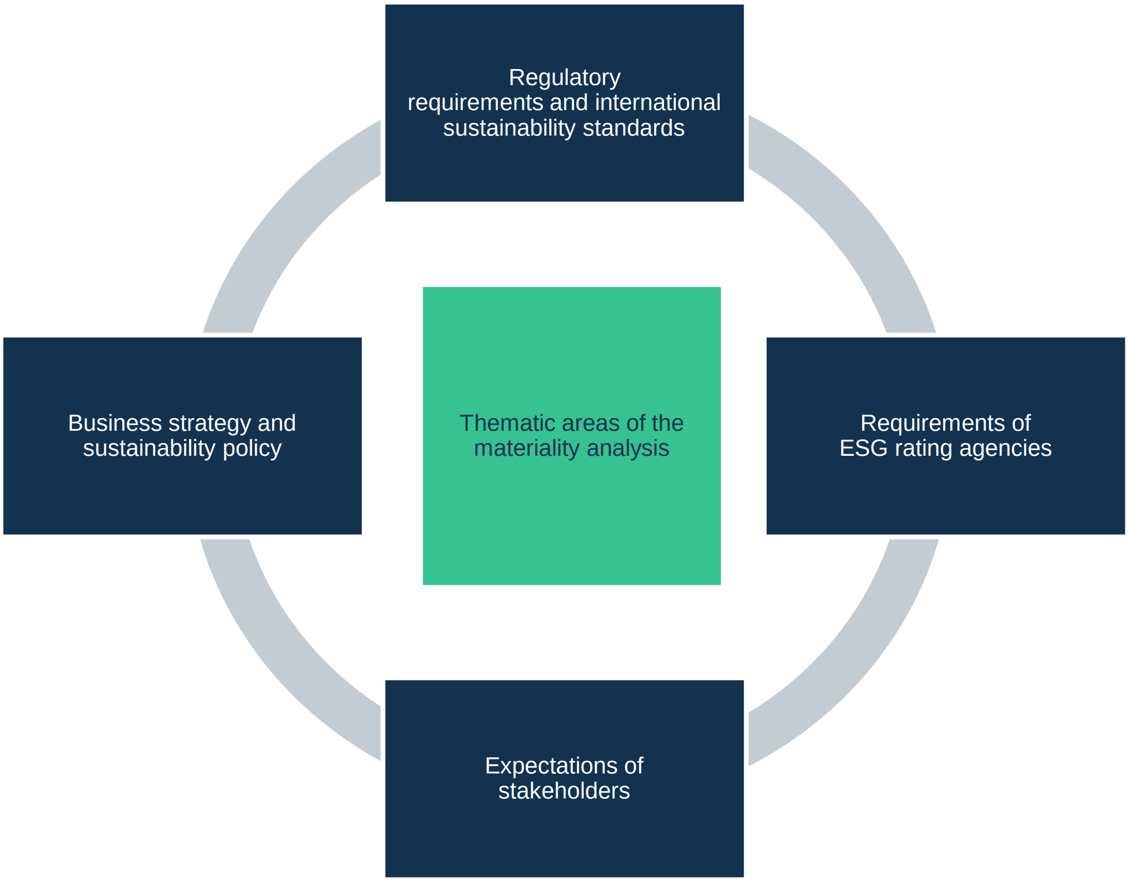
To ensure efficient data management, headed by IT LBBW is currently developing a central ESG data architecture with the ESG core as the "single point of truth". In the future, ESG data will be aggregated, standardized and processed here, both internally and externally. The expansion of the ESG core began in 2022 when data was integrated for disclosure requirements. From 2023 onwards, the central data model will be gradually expanded to include additional areas such as transitory and physical risks.

Data availability and quality, as well as the still not fully developed market standard for all aspects of ESG risk and how this is measured, remain a challenge. Despite continuously stepping up the use of external data providers and encouraging the use of specific customer data, where available, the lending business will remain dependent on estimates, models and approximations in many areas over the years ahead. Accordingly, fluctuations in results and changes in estimates over time cannot be ruled out.

Materiality analysis

LBBW (Bank)’s materiality analysis brings together different dimensions relating to sustainability.

- As shown in the chart below, the materiality analysis is based on regulatory requirements (e.g. NFRD) and international sustainability standards (e.g. GRI), requirements by ESG ratings agencies, the expectations of other stakeholders, our sustainability-focused business strategy and our sustainability policy



- LBBW classifies the potential impact of its focus areas as minimal, average, or significant. Impact is also classified in accordance with the “double materiality” principle, i.e. the outside-in perspective and the inside-out perspective are analyzed and then classed as material or immaterial.
- As part of an internal analysis, LBBW focus areas were reviewed and supplemented and the valuation (on a scale of 1-5) adjusted to account for current conditions in 2022. LBBW focus areas were compared to relevant external developments in a PESTEL analysis (political, economical, social, technological, environmental, legal) and reflected in the internal strategic cornerstone. Following a critical evaluation as part of an internal analysis, material focus areas were identified and focus topics established.

- This resulted in the following material focus areas for LBBW (Bank) for 2022:
  - Regulation
  - Corporate governance
  - Compliance
  - Stakeholder dialog
  - Product responsibility/consumer protection
  - Sustainability standards in investment business
  - Sustainability standards in financing business
  - Sustainable investment products
  - Financing with a sustainable focus
  - Real estate
  - Use of resources and CO_2 emissions

The following table contains information on the LBBW focus areas classed as material and their impact on the aspects that must be reported as part of the non-financial statement in accordance with the CSR Directive Implementation Act:

Material issues in accordance with the materiality analysis	Allocated aspects of the CSR Directive Implementation Act
Corporate governance	
Regulation	
Stakeholder dialog	Social concerns
	Environmental concerns
Sustainability standards in investment business and sustainable investment products	Respect for human rights
	Environmental concerns
Sustainability standards in financing business and financing with a sustainable focus	Respect for human rights
Product responsibility/consumer protection	Social concerns
Real estate	Environmental concerns
Compliance	Anti-corruption and efforts to combat bribery
Personnel management, hiring, and development	Employee concerns

The non-financial statement reports on the issues defined as material by LBBW and discusses the minimum requirements under the CSR Directive Implementation Act, even if LBBW does not directly consider some of these aspects material (e.g. employee concerns).

To improve sustainability performance, appropriate sustainability measures are defined as part of a sustainability program in the respective business units primarily in areas with a substantial effect on sustainability performance.

Berlin Hyp reviewed and updated its materiality analysis from 2021 as part of an internal expert workshop in 2022. The topics identified as material differ from the findings of LBBW (Bank) in some cases. More information on Berlin Hyp's materiality analysis can be found in its 2022 non-financial statement at https://www.berlinhyp.de/en/media/newsroom/financial-reports.

Corporate governance

LBBW takes account of the fundamental aspects of the German Corporate Governance Code. This is a set of essential legal regulations governing the management and monitoring of German listed companies and contains nationally and internationally recognized standards for good and responsible corporate governance – including in the form of recommendations.

As the Code is geared towards listed joint-stock companies, not all points of it are applicable to Landesbank Baden-Württemberg, since LBBW is a non-listed credit institution incorporated under public law (Anstalt des öffentlichen Rechts). For this reason, several provisions of the German Corporate Governance Code can only be transferred analogously to Landesbank Baden-Württemberg. In terms of content, LBBW's corporate governance is oriented very closely to the spirit of the German Corporate Governance Code. For a large number of recommendations of the German Corporate Governance Code there are therefore special regulations in the legislation governing LBBW, in the articles of association and bylaws of the executive bodies and further committees. Furthermore, there are special provisions for corporate governance in the banking supervisory legislation that are not included in the Code, but do apply to LBBW.

At LBBW, management and supervisory rules applicable to corporations are practiced. For instance, the tasks of LBBW's annual general meeting and Supervisory Board are regulated as for a joint-stock company although this is not the legal form of LBBW. The members of the LBBW Board of Managing Directors make their decisions independently of any external instructions. At the same time, it is ensured that independent expertise is drawn on through the supervisory bodies. The Supervisory Board of LBBW has eight independent members, including the Chairman of the Supervisory Board.

Regulation

LBBW closely monitors regulatory publications, requirements and regulations. The sustainability project launched in 2021 ensures that the requirements set out in the ECB guide on climate-related and environmental risks are implemented efficiently and in a structured way. For this purpose, LBBW drew up coordinated action plans (including risk driver analyses, ESG assessment at portfolio and customer level, integration in lending decision processes, internal climate risk scenario analyses and ECB stress test). The measures were implemented in 2021 and further developed in 2022 on account of the mounting importance of ESG risks. LBBW adopts a holistic approach to implementation in all cases, connecting the individual requirements and measures and encouraging further development in line with the importance of the topic.

Work also began on implementing the disclosure and sustainability reporting requirements, which result in part from the Taxonomy Regulation, as part of the sustainability project in mid-2021. The implementation plans drawn up for this purpose were prepared within the project as a whole and are intended to ensure holistic implementation and integration with other regulatory requirements such as the ECB guide on climate-related and environmental risks and internal targets. ESG risks will be reported in the Disclosure report in accordance with Part 8 CRR II for the first time as at 31 December 2022 and the figures pursuant to Article 8 of the Taxonomy Regulation published in the non-financial statement for the second time.

Stakeholder dialog LBBW (Bank)

WWF

Last year’s bilateral discussions with the WWF on biodiversity were continued and expanded on in 2022. In particular, discussion focused on the role of banks, major initiatives and holistic strategic approaches in this context. One key action area identified was “knowledge building and transfer” in relation to biodiversity. Potential educational cooperation and training requirements were then addressed.

Facing Finance

In September 2022, LBBW talked to Facing Finance about new and future requirements for banks’ guidelines. The NGO’s outlook identified plastic as a key focus topic, as well as emphasizing the importance of a transparent process for engaging with our customers.

LBBW biodiversity working group

An internal, interdisciplinary “biodiversity working group” was initiated at LBBW in 2022 with the goal of creating a broad, shared understanding of biodiversity at the bank. Information and knowledge was also shared for internal networking purposes. The group comprises participants from a range of divisions (including Asset Management, Sustainability Advisory, Funding and Investor Relations, Sustainability and ESG) and generally meets twice a month. With internal and external guest speakers, current developments are also addressed and discussed. By actively participating in various workshop and event formats (e.g. VfU Biodiversity Forum, PRB Biodiversity Community), we create opportunities for discussion with other banks and contribute to current topics.

Regular sustainability discussions at LBBW

The purpose of regular sustainability discussions at LBBW is to share information and knowledge on sustainability issues and projects internally and between divisions. All interested employees can take part and contribute topics. Sustainability discussions generally take place once a month.

LBBW workshop: “taking sustainability to the next level”

Together with the Fair Finance Institute, a workshop to develop new business ideas was held in October 2022. 13 colleagues from across LBBW took part and brought with them their specific expertise. The workshop was lead by the head of the Fair Finance Institute and the results are currently being reviewed to see where they can be applied.

Dialog with customers and institutional investors

As well as dialog with NGOs, we also speak to our private and corporate customers and to institutional investors at conferences and at our own events, for example at investor presentations, and contribute to expert panels on the topic of sustainability.

Expert discussions at LBBW and SVBW (Sparkassenverband Baden-Württemberg)

As part of discussions by experts from LBBW and SVBW, current sustainability developments are presented and debated. LBBW and SVBW report on their measures and projects, ensuring close networking and harnessing synergies on ESG issues.

Sustainable investment products

LBBW actively encourages the interest in sustainable investments and raises public awareness of the concept of sustainability at internal and external events. Its investment services are based on the “Guidelines for sustainability” which help reduce risk with respect to sustainability and allow the bank to leverage the corresponding opportunities. The guidelines are business-area specific guides that provide a frame of reference for implementing the sustainability policy and sustainability targets. After all, LBBW’s aim is to help customers invest their assets responsibly and in an environmentally friendly and ethical way and to demonstrate time and time again that financial returns and contributions for the environment and society are not mutually exclusive.

LBBW provides a wide range of sustainable investment products for private, corporate and institutional customers. The thorough sustainability approach is rounded off by voluntary commitments. By signing the United Nations’ “Principles for Responsible Investment” (UN PRI), LBBW undertakes to incorporate aspects relating to responsibility for the environment, society and corporate governance (ESG criteria) into the analysis and decision-making processes for investment activities.

LBBW further increased its range of sustainable investment solutions in 2022. For LBBW Asset Management, this includes converting existing funds to focus on sustainability and launching new mutual funds. In asset management, three existing strategy fund variants for which BW-Bank is the adviser were switched to management with sustainability criteria.

The range of sustainable retail products (certificates and bonds) was expanded and the MiFID II amending directive put into effect. This meant that a considerable number of retail products were classified as PAI products (PAI = Principal Adverse Impact). The range of sustainable underlyings was also expanded to include sustainable indices. As a result, private customers could invest with a regional (idDAX 50 ESG NR Decrement 4.0% Index), European (MSCI EMU SRI Select 30 Decrement 4.0% Index) and global focus (iSTOXX® Global Climate Change ESG NR Decrement 4.5% Index). LBBW’s efforts as regards sustainable retail products were acknowledged by ratings agencies. As in 2021, LBBW received the Scope Award as the “Best ESG certificate issuer” and, for the first time, was named the “Best ESG certificate provider” by FeingoldResearch.

ESG bonds

The LBBW Group is one of the largest issuers of sustainable bonds, known as ESG bonds, outside China in the commercial banking market segment. Within this category, a distinction is made between green bonds, social bonds and sustainability-linked bonds. Both LBBW and Berlin Hyp issue green bonds and social bonds. Berlin Hyp also issued a sustainability-linked bond. Overall, as at 31 December 2022 the LBBW Group (including Berlin Hyp) had outstanding green bonds of EUR 12.63 billion, outstanding social bonds of EUR 3.05 billion and an outstanding sustainability-linked bond of EUR 500 million.

As a pioneer in an early market stage, the LBBW Group helped bring about general market development and transparency in sustainable financing by constantly developing programs. The importance of green bonds continued to increase in 2022 as climate and environmental targets were stepped up generally, investor demand rose sharply and, indirectly, as a result of far higher regulatory pressure to report climate and environmental risks. Another aim of expanding its green and social bonds is to help finance the United Nations' development goals.

Green bonds

Green bonds are used to finance specific projects in the area of environmental and climate protection. In line with its desire to actively drive ahead the development of the green bond market, LBBW launched its own green bond program in 2017. Alongside this, a Green Bond Committee was set up within LBBW that ensures expertise is transferred between divisions. LBBW's green bond program was updated in March 2022 and changes made in line with the EU Taxonomy.

LBBW issued two green bonds in benchmark format in 2022 (EUR 750 million, USD green mortgage-backed covered bond, term 3 years and EUR 1 billion green mortgage-backed covered bond, term 5.6 years).

To ensure that it can make an informed choice about the selection of energy-efficient buildings for its real estate portfolios, when launching its first green bond LBBW (Bank) worked closely with prestigious external consultants to develop an approach whereby the carbon intensity of commercial properties and renewable energies can be measured and compared. The bank uses the proceeds from its green bonds to fund energy-efficient commercial and residential buildings and renewable energy projects. As at 31 December 2022, LBBW (excluding Berlin Hyp) had outstanding green bonds of EUR 5.3 billion.

Social bonds

Social bonds finance a wide range of social and community projects in areas such as education, health, drinking water supply, public infrastructure and transportation.

The groundwork for developing a social bond program at LBBW was laid in 2018 and LBBW issued its first social bond in September 2019. LBBW's social bond program is based on the successful green bond program and expands the range of financing for the United Nations' "Sustainable Development Goals" (SDGs).

LBBW uses the proceeds from its social bonds to fund social projects in the areas of healthcare and social services, vocational training, care homes and homes for the disabled. Other potential financing objects include schools, hospitals, infrastructure projects and public water supply. As at 31 December 2022, LBBW (excluding Berlin Hyp) had outstanding social bonds of EUR 2.3 billion.

Berlin Hyp intends to place more focus on "S" (social) aspects in the future by expanding its environmental, social and governance (ESG) sustainability agenda. Under social issues, affordable housing represents a growing challenging for our society. Berlin Hyp wants to help overcome this social challenge where it can by promoting the availability of affordable housing. LBBW (Bank) will also continue to work on this issue. The loans required for financing projects here are funded through social bonds.

Berlin Hyp issued its first social bond in the reporting period. By doing so, it meets the ICMA (International Capital Markets Association) social bond category of "affordable housing" and thus plays a part in achieving the UN SDG 1 (No poverty), UN SDG 10 (Reduced inequalities) and SDG 11 (Sustainable cities and communities); (SDGs = Sustainable Development Goals). Berlin Hyp's social bond was issued under its social bond framework published in May 2022, which is available on the bank's website at https://www.berlinhyp.de/en/investors/social-bonds.

Sustainability-linked bond

Berlin Hyp became the first commercial bank in the world to issue a sustainability-linked bond (SLB) in 2021. While the sustainability criteria of a green Pfandbrief or other green covered bond relate exclusively to the respective financing portfolio, a SLB links the sustainability targets of the entire company to the financing. Specifically, this means that whether or to what extent a company achieves its sustainability targets directly impact the SLB's coupon, translating into a greater commitment to sustainability at company level.

LBBW’s investments

All Group-wide regulations such as the Code of Conduct, company exclusion lists and lending rules to avoid reputational and sustainability risks during financing are binding for LBBW’s investments.

Standardized ESG investment guidelines for the entire proprietary trading portfolio, which are based on established standards and LBBW’s voluntary commitments, came into force in 2022. As well as an exclusion list for states, these also include sector-specific regulations. Customer business standards have thus also been applied to the investment book and standardized.

Investment business

Asset management according to ethical, social, and environmental criteria

BW-Bank, as a dependent institution under public law of Landesbank Baden-Württemberg, has offered its customers asset management solutions that take into account ethical, social, and environmental criteria since 2004. To this end, it works with external providers that assess and classify financial instruments and/or issuers according to transparent sustainability criteria.

BW-Bank also offers investors two sustainable strategy funds. Both actively managed funds invest in equities and fixed income securities from issuers that contribute to the attainment of the United Nations' Sustainable Development Goals. In asset management, three existing strategy fund variants for which BW-Bank is the adviser were switched to management with sustainability criteria.

LBBW Asset Management Investmentgesellschaft mbH does not ever invest in companies that produce cluster munitions or anti-personnel mines, which are prohibited by international conventions and agreements.

LBBW Asset Management has offered its private and institutional customers investment products and mandates with sustainability features that incorporate non-financial criteria (ESG criteria) into the investment strategy as well as risk/return considerations since as early as 2002.

The EU Sustainable Finance Disclosure Regulation (SFDR) has been in place since 10 March 2021. It establishes a comprehensive reporting framework for financial products and companies. It stipulates specific disclosure requirements for products that take into account social or environmental aspects (Article 8) or target sustainable investments (Article 9), and a general disclosure requirement regarding the integration of sustainability risks with other products (Article 6).

In line with this, LBBW Asset Management introduced a new ESG classification approach. Investment products are classified in accordance with Article 6, 8 and 9 of the SFDR and all products that meet the criteria in Articles 8 and 9 are allocated to “ESG assets”. The classification approach is further developed and refined in accordance with changing regulations and industry standards.

New provisions came into effect on 2 August 2022 in the context of the Markets in Financial Instruments Directive (MiFID II) and so LBBW Asset Management publishes additional sustainability data on its mutual funds that are relevant to private customers in terms of sustainability preference queries in the advisory process.

The ESG assets category at LBBW Asset Management totaled EUR 20.71 billion as at 31 December 2022 (previous year: EUR 23.09 billion), EUR 14.87 billion of which as assets under management and EUR 5.84 billion as assets under administration (in cooperation with external asset managers).

EUR billion	2022	2021	2020
Volume of ESG assets at LBBW Asset Management Investmentgesellschaft mbH (from 2021: new classification approach in accordance with SFDR/the “sustainable investments” category is used for previous years for information purposes)	20.71	23.09	for information purposes 22.51
Volume of sustainable investments (Article 8 products in accordance with SFDR) at BW-Bank Asset Management	3.89	4.11	1, 53

Sustainable financing

Avoiding reputation and sustainability risks in financing

LBBW uses mandatory internal Group review processes and industry-specific sets of rules to ensure that reputation and sustainability risks relating to the environment, society, or ethics (e.g. failure to ensure a work-life balance, violation of equal opportunities) are identified, analyzed, and assessed at an early stage in the process of deciding on extending credit, such as export financing, corporate loans or project finance. This can result in LBBW rejecting such transactions or terminating business relationships.

Financial advisors also examine loan applications in terms of compliance and sustainability risks based on internal lending rules. The reputation and sustainability risks regulations are regularly expanded to include guidelines. Lending guidelines for the agricultural/forestry sector were added in 2022 that regulate the use of palm oil, soy, cotton and logging. In addition, LBBW does not provide general company financing for companies involved in the production of biological or chemical weapons.

An extract from the RepRisk AG database on the companies involved in the planned transaction can also be obtained from the sustainability and ESG group. If this reveals a medium or high reputation risk, the Sustainability and ESG group carries out a comprehensive risk assessment. The Front and Back Office departments have access to an in-house request form that lists all persons involved, the nature and purpose of the business relationship, the findings of all research conducted to date, and any anomalies identified in terms of sustainability risks (including arms, genetic engineering, nuclear power, environmental destruction, species and biodiversity conservation, climate change, workers' rights, and human rights). Compliance risks (including money laundering, fraud) are assessed by Compliance if necessary. Following a corresponding evaluation by the compliance and/or sustainability experts, the financial advisor responsible for the transaction initially decides whether the transaction should be pursued. If so, the corresponding sustainability/compliance analyses are included in the loan application and taken into account in the lending decision.

Our “Principles and Guidelines for Implementing LBBW’s Sustainability Policy and Goals” and the “Guidelines for Lending” contained therein form the basis for the sustainability standards in financing business. The guidelines are business-area specific guides that provide a frame of reference for implementing the sustainability policy and sustainability targets.

In addition to statutory requirements and provisions, LBBW adheres to internationally recognized standards and voluntary commitments for its internal guidelines and operating procedures. These include the UN Global Compact, the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO), the OECD (Organisation for Economic Cooperation and Development) Guidelines for Multinational Enterprises and the Performance Standards of the International Finance Corporation (IFC). Further information on the international standards can be found in LBBW’s sustainability regulations (www.lbbw.de/sustainability).

Internal review processes for financing projects in place at LBBW include the following:

Review process for industry-country risks

In order to identify, analyze, and assess possible sustainability risks in international financing arrangements, loan applications in industries considered particularly relevant in this regard (wood/paper, mining, crude oil/natural gas, and bioenergy) in certain at-risk countries for these industries are subject to a sustainability review.

Company exclusion lists for controversial weapon systems

LBBW does not enter into any business relationships with companies involved in the production of cluster munitions and/or anti-personnel mines, which are prohibited by international conventions. LBBW ensures this at the operational level with a company exclusion list that applies throughout the entire Group (= LBBW (Bank) and all subsidiaries majority owned by LBBW) and is also integrated into the automated embargo monitoring system of the Bank. The exclusion lists are updated on a regular basis.

Project finance

LBBW again funded renewable energy projects in 2022. Renewable energy project financing accounted for approximately 46% of the entire portfolio in 2022. As well as renewable energy and conventional energy projects, this also includes infrastructure projects with a focus on digital infrastructure and public-private partnership projects.

Project finance

EUR billion	2022	2021	2020
Volume of project financing attributable to renewable energy (assets)[1]	2.97	2.54	2.58

1 Finance Controlling data base from which the asset volume (excluding fair values from derivatives) is aggregated via the individual transaction.

Product design processes and collaboration with customers

Sustainable financing products

Sustainable finance has continued to establish itself in the most important financing markets for corporate customers. What is striking here is the increased professionalism of market participants – issuers, banks and investors. The guidelines issued by the ICMA (International Capital Markets Association) and the LMA (Loan Market Association) relevant for these markets were also further developed. The result of this is that company’s own ESG key figures are increasingly integrated into sustainable finance transactions instead of ESG ratings.

LBBW designed additional financing products with sustainable finance qualities in 2022: Through the Weinberg Asset Backed Commercial Paper (ABCP) program it sponsors, LBBW issued green ABCP for the first time and carried out an ABS transaction linked to sustainability criteria.

The green ABCP is issued on the basis of a green ABCP framework based on a second party opinion by Sustainalytics. This framework follows the ICMA Green Bond Principles (GBP). Separate green ABCP was issued for the first time in 2022 under this framework. Other companies with which green ABCP can be issued have already been identified for 2023.

The first sustainability-linked ABS transaction was completed in 2022. As part of this, sustainability activities are transparently analyzed each year in an Ecovadis rating. If the company’s ESG rating improves, this is rewarded with a lower margin. If the rating declines over time, the margin increases. This incentivizes responsible, sustainable action.

Financing the energy transition

The transition to renewable energies is a key lever as we move toward a sustainable future. This means that the complete decarbonization of the energy system is linked to the comprehensive transformation of the entire sector. LBBW has been financing renewable energy projects such as wind turbines and photovoltaic systems for years.

Whereas it was mainly the large energy suppliers that invested in renewable energies at first, we are now seeing more and more municipal companies, production facilities and private households switching to sustainable generation technologies. Our aim is to provide sustainable, reliable financing solutions to help make the energy transition a success and support our customers with all projects, large and small – from sustainable industrial parks to making people’s homes energy efficient.

Energy-efficient renovation of residential properties

We provide simple financing for smaller projects of up to EUR 50,000 with our “low-volume loans”. These are advance loans in combination with a LBS building loan contract as a repayment instrument. For example, this allows private customers to introduce energy-saving measures in their owned or rented properties at low interest rates and with a minimum of red tape. Our customers (regardless of where they live) receive a “climate bonus” to fund energy efficiency upgrades through the “modernization loan”.

We launched our “construction green financing” project in the employee customer advisory service in July 2022. When buying a property or renovating an existing building to improve its energy efficiency, all customers receive a brief KfW analysis of the property’s current energy status, its current primary energy requirements and its associated CO_2 emissions. As well as this brief analysis, they receive an indication of expected legal obligations, anticipated costs and the work required to achieve the efficiency house standard.

Financed emissions

For some years now, we have increasingly been looking at the downstream, climate-related effects of our banking activities. One central component here is calculating and disclosing greenhouse gas (GHG) emissions in connection with the projects and loans we finance. Despite ongoing methodological challenges, a certain industry standard is now emerging in the form of the PCAF Initiative (Partnership for Carbon Accounting Financials). The PCAF is an expanded and more detailed version of the Greenhouse Gas Protocol (GHG Protocol).

In 2022, we again commissioned MACS Energy & Water GmbH, a consulting firm specializing in sustainability in the finance sector, with calculating the GHG footprint of our lending business (known as Scope 3 emissions). As previously, the calculations were based on LBBW’s exposure, which differs by sector and geographical region (i.e. the sum total of all outstanding receivables and commitments from borrowers as at 31 December 2022). Scope 3 emissions correspond to the Scope 1 and Scope 2 emissions of the customers attributable to loans in line with their share of financing. The carbon tool developed in house is used to track the financed emissions calculated in this way throughout the year and report them at a granular level.

Disclosures in accordance with Article 8 of the Taxonomy Regulation

The EU Taxonomy is a classification system intended to create a shared understanding of sustainable business. Business complies with the Taxonomy if it contributes substantially to at least one of a total of six environmental objectives and does no significant harm (DNSH) to any of the other objectives. Minimum social and human rights requirements must also be met.

The Taxonomy Regulation (EU) 2020/852 of 18 June 2020 and the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 specify the form and content of the information to be disclosed. The taxonomy criteria for the first two of the six environmental objectives set out in the taxonomy are described in more detail in the Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021. On 9 March 2022, these two Delegated Regulations were supplemented by the Delegated Regulation (EU) 2022/1214 as regards economic activities in certain energy sectors and specific public disclosures for those economic activities.

Quantitative disclosures and explanatory information

The following section discusses the extent of the assets and activities reported for the ratios, information about data sources and limitations and various matters of interpretation.

Article 10 (2) and Article 7 (1) to (3) of the Commission Delegated Regulation 2021/2178 provide a transition arrangement for the first two reporting years 2021 and 2022. Information is required on the Taxonomy eligibility of economic activities, i.e. an initial indication of what share of the business volume is covered by the Taxonomy, but not on Taxonomy alignment. Ratios must also be disclosed for certain assets. Total assets are used as the denominator for the seven ratios. These are equal to total assets in accordance with FINREP plus allowances for losses on loans and securities. In addition, covered assets are used as the denominator for the share of assets eligible for the taxonomy and those not eligible for the taxonomy. These comprise total assets less exposures to central states, supranational companies, central banks and the trading book. The following disclosures refer to the LBBW Group as per the regulatory definition. Gross carrying amounts are used. Data from FINREP Group reporting as at the end of the reporting period 31 December 2022 are used to calculate the ratios.

Ratios to be disclosed in accordance with the EU Taxonomy Regulation Article 8 (10) as at 31/12/2022

	Mandatory ratio based on turnover KPI		Mandatory ratio based on capex KPI[1]	
Description of ratios	Total assets	Covered assets	Total assets	Covered assets
Ratio 1: Share of financing of economic activities eligible for the taxonomy	6.4%	9.3%	6.5%	9.3%
Ratio 2: Share of financing of economic activities not eligible for the taxonomy	12.0%	17.3%	12.0%	17.3%
Ratio 3: Share of risk exposures to states, central banks and supranational issuers	14.3%		14.3%	
Ratio 4: Share of derivatives	0.2%		0.2%	
Ratio 5: Share of loans and advances to companies not subject to the NFRD	47.3%		47.3%	
Ratio 6: Share of trading portfolio	12.2%		12.2%	
Ratio 7: Share of current interbank loans	1.1%		1.1%	

1 With the exception of the lending business with non-financial undertakings; the turnover KPI is used for the general lending business in accordance with Delegated Regulation (EU) 2021/21 78.

The ratios to be disclosed differ regarding the numerator as follows:

Ratio 1:

For reporting, to assess Taxonomy eligibility assets were classified that are covered by one of the following customer segments: financial undertakings and non-financial undertakings that are obliged to provide non-financial reporting (NFRD obligation), private households and local public-sector entity financing with Taxonomy-eligible uses.

When assessing the Taxonomy eligibility of non-financial undertakings, LBBW differentiates between financing where the use of funds is known and cases where the use of funds is not known. If the use of funds is known, it checks what economic activity is being financed and whether this is covered by the scope of the Taxonomy. If the economic activity is listed in Annex I or II of the Delegated Regulation (EU) 2021/2139, it is classified as Taxonomy-eligible. If the use of funds is unknown, Taxonomy eligibility is determined based on the key figures published by the non-financial undertaking relating to turnover (turnover KPI) and capital expenditure (capex KPI). KPIs at individual entity level are primarily used here. If these are not available – in the event of a Group structure – the Group's Taxonomy KPIs are used.

The Taxonomy KPIs published by the entity are used to assess the Taxonomy eligibility of financial undertakings subject to the NFRD. KPIs at individual entity level are primarily used here. If these are not available – in the event of a Group structure – the Group's Taxonomy KPIs are used. In the 2022 financial year, the Taxonomy KPIs published for financial undertakings did not yet make a distinction between turnover and capex.

Development loans are a special case. These are granted either in own sales to the direct final borrowers or via savings banks in the form of transmitted loans. If the final borrower in own sales is a private household or a non-financial undertaking subject to the NFRD, financing is recognized as Taxonomy-eligible with a funding program covered by the scope of the EU Taxonomy.

In addition, exposures to private households in the building loans internal product category is considered Taxonomy-eligible. These include loans secured by residential properties and building renovation loans and are covered by the Taxonomy in accordance with no. 7.2, 7.3, 7.4, 7.5, 7.6 and 7.7 of Annex I to the Commission Delegated Regulation (EU) 2021/2139. In addition, motor vehicle loans granted are considered Taxonomy-eligible with effect from 1 January 2022.

Ratio 2:

The share of assets that are not Taxonomy-eligible is the difference between the share of assets assessed in terms of their Taxonomy eligibility and the share of assets that are actually Taxonomy-eligible (numerator of ratio 1).

Ratio 3:

The determination of central states uses the definition in accordance with ESA 2010. For supranational issuers, the definition in CRR Articles 117 and 118 is used and they are identified by the country's ISO code. The determination of central banks is based on FINREP positions. In deviation from this, the relevant counterparties for ratio 3 at Berlin Hyp are determined exclusively on the basis of FINREP positions.

Ratio 4:

Derivatives are based on the FINREP position table 1.1 row 140 ("Derivatives – Hedge Accounting"). This includes derivatives not held for trading under IFRS 9.

Ratio 5:

Given the differences in national interpretations of the term "public interest entities", the criteria as per Section 298b and Section 315b HGB (and Section 340a (1a) and Section 341a (1a) HGB) are used to determine the financial and non-financial undertakings not subject to the NFRD for German and other EU undertakings. Financial and non-financial undertakings not subject to non-financial reporting obligations are undertakings that, as individual undertakings, are not subject to the NFRD.

Ratio 6:

The trading portfolio position is based on the FINREP position table 1.1 row 50.

Ratio 7:

The current interbank loans position is based on the FINREP position table 1.1 row 40.

The ratios reported do not add up to 100% as not all asset items are included in the ratios. Furthermore, the use of the covered assets changes the denominator of the reference value.

For the 2022 reporting year, LBBW takes into account the six economic activities in the nuclear and gas energy sectors newly included by the Delegated Regulation of 9 March 2022. No financing for which the use of funds is known was identified in the economic activities described as at the reporting date 31 December 2022. As the counterparties have not yet published relevant KPIs, nuclear and gas financing is not explicitly disclosed for the 2022 reporting year on account of a lack of sufficient data.

Other qualitative disclosures

It should be noted that the ratios disclosed in the current reporting year do not yet provide any indication of the need to disclose a green asset ratio from the 2023 reporting year onwards, as the information relates to economic activities that essentially could be taken into consideration but have not yet been reviewed for actual Taxonomy alignment. Moreover, financial and non-financial undertakings not subject to the NFRD are not currently covered by the EU Taxonomy and so specialized lending, for example, is not included in the Taxonomy-eligible assets ratio numerator or in the green asset ratio numerator. A review of the scope and further clarifications by the European Commission could influence the green asset ratio to be disclosed in the future.

LBBW closely monitors the implementation of the EU Taxonomy so that it can appropriately take it into account in its business strategy, product design processes and collaboration with customers. The EU Taxonomy continues to have an impact on how LBBW further develops its ESG framework on assessing sustainability. It works on implementing these requirements as part of the sustainability project (see page 91).

Full implementation (including the review of Taxonomy compliance in the lending process) will provide more extensive information that will ensure far greater transparency regarding the sustainability of business partners and their activities. (For more information on current product design processes and collaboration with customers, see Financing on page 104).

Product responsibility/consumer protection

Financial plan

LBBW’s customer relationship managers work together with investors to explore their goals – including those beyond investing – and subsequently prepare a personalized financial plan. The focus here is on holistic investment advice.

LBBW provides detailed and readily understandable information about various forms of investment and any associated risks. It prepares a suitability report for each investment consultation, in which banks are required to set out in writing why the recommendation they have made – e.g. to buy a or sell a product is suitable for the respective customer and fits their investment goals.

Securities business

Our advisors are not assigned sales targets for individual securities products. Sales guidelines must always be implemented in line with customer interests. We advise and support our customers on all financial matters in every phase of their lives.

Guidelines for retail customer advice

Our sustainable approach to financial advisory services and the rules for systematic implementation and review are set out in the “Guidelines for Retail Customer Advice at BW-Bank”; see (www.bw-bank.de). Our consultations take a holistic approach, focusing on the individual needs of each and every customer. We take our customers’ suggestions on board and use these to continuously improve.

Specific work instructions and process guidelines provide the framework for the advisory process. Product selection guidelines and review mechanisms ensure that we always put our customers’ interests first.

Real estate

Berlin Hyp

Berlin Hyp is one of Germany's major real estate and covered bond banks in the area of commercial real estate financing and can indirectly influence the development of building stock in its target regions and asset classes.

The need to transition to carbon neutrality is one of the most topical and important issues in the real estate sector. If this is not addressed, it could jeopardize the position of the housing sector – which, depending on the calculation, is estimated to be responsible for between 30% and 40% of CO_2 emissions in Germany (BMWi, December 2021: Energieeffizienz in Zahlen – Entwicklungen und Trends in Deutschland 2021) – as a stable investment (see Berlin Hyp's non-financial statement at https://www.berlinhyp.de/en/media/newsroom/financial-reports). At the same time, even at our latitude buildings are exposed to the negative effects of climate change as a result of increasing climate and environmental risks such as temperature and weather shifts.

Berlin Hyp has committed to the Paris climate goals and is actively working on promoting the transformation to a lower-emission economy. It aims to achieve carbon neutrality for financed CO_2 emissions in commercial real estate financing (Scope 3) by no later than 2050. For own business operations (Scope 1 and 2), the goal is to be carbon neutral by 2025.

Berlin Hyp also signed the PRB in November 2022 and wants to encourage discussions in the PRB network in the future by holding workshops promoting biodiversity. The UN Global Compact is also very important to Berlin Hyp and continually assessing the integration of additional Sustainable Development Goals (SDGs) is on its agenda.

LBBW Immobilien

LBBW Immobilien is the real estate competence center in the Landesbank Baden-Württemberg Group. A large number of sustainable real estate and community development projects are carried out under the auspices of the LBBW Immobilien Group – from constructing pioneering, environmentally friendly residential communities to developing concepts to improve the energy efficiency of entire cities.

LBBW Immobilien Development GmbH

LBBW Immobilien Management GmbH's development company specializes in designing and building sustainable residential complexes and commercial space. As a service provider, the company provides its expertise in sustainability, revitalization project management, efficiency improvements and other areas. LBBW Immobilien Development GmbH is a member of the German Sustainable Building Council (DGNB). Its projects in many locations are DGNB certified. In this connection, DGNB evaluates the overall sustainability of the property over the entire building lifecycle according to around 40 different criteria measuring environmental, economic, socio-cultural, functional, technical, and process quality.

LBBW Immobilien Asset Management GmbH

The LBBW Immobilien Group's asset management company covers the entire value chain, from acquisition across management to disposal. It specializes in managing and optimizing large, diversified and primarily commercial real estate portfolios. Alongside profitability, its main goal is to transform the portfolios managed in terms of compliance with ESG principles and the climate course. To achieve this, digital tools are currently being used to create a database to carry out sustainability analyses and benchmarks, for example based on the ECORE Initiative scoring standards (ESG Circle of Real Estate). This forms the basis for developing and implementing property-specific and cross-portfolio optimization concepts such as the introduction of green facility management and green leases, which is already underway.

LBBW Immobilien Kommunalentwicklung GmbH

As a company of LBBW Immobilien Management GmbH, the German Association of Cities, and the savings bank organization, this Stuttgart-based company is the point of contact for municipalities and the state of Baden-Württemberg for all issues concerning urban planning, urban renewal, land repurposing, and construction site and land development. This municipal center of excellence provides planning and consulting services, spearheads renovation and development projects, and invests in projects. LBBW Immobilien Kommunalentwicklung GmbH (KE) operates in 440 cities and municipalities.

The minimum aspects currently required by law for the non-financial statement are reported below.

Compliance

Responsible corporate action is based on compliance with external and internal rules and laws. Effective compliance management primarily prevents criminal acts such as money laundering, terrorism financing, fraud, corruption, and insider trading, as well as ensuring data protection and monitoring of financial sanctions.

LBBW's Group Compliance division takes a proactive approach. In particular, it provides advice on matters relating to capital market compliance, the prevention of money laundering and fraud (other punishable acts) as well as financial sanctions and embargoes. The decentralized compliance structure includes compliance officers who are responsible for compliance at the branches and subsidiaries and the compliance network created in 2021, which comprises compliance points of contacts[1], platform compliance coordinators [2] and compliance officers[3] from various units of the bank. The aim of this network is to effectively and efficiently introduce compliance issues in the LBBW Group in collaboration between Group Compliance and the divisions on the basis of the three lines of defense model.

Central Outsourcing Management is the point of contact for planned outsourcing activities and is responsible for determining and monitoring the requirements for consistent outsourcing management throughout the entire Group. Central Outsourcing Management informs the specialized divisions in good time about internal rules and requirements and supports the implementation of outsourcing.

As part of compliance reporting and the overarching non-financial risk report, the Group Chief Compliance Officer regularly reports to the Group's Board of Managing Directors on current developments in the material compliance sub-risk types money laundering and terrorism financing, financial sanctions and embargoes, fraud, capital market compliance and data protection.

Compliance training

Compliance with legal requirements requires safeguards to be put into place. One of these safeguards is to raise awareness and train our employees. Their compliance knowledge must be up-to-date at all times. Self-study programs (web-based training) have proved a good and time-effective way of imparting this information. Each training session includes a test at the end to check whether the learning objectives have been achieved.

The training concept applies across the bank and throughout the Group. Compliance – where necessary in coordination with the specialized divisions in question – determines the relevance of the training for each self-study program specifically for each individually organizational unit. LBBW's representative offices and branches have been linked via the online platform HR.lerncampus since the fourth quarter of 2021. It was planned to onboard the participating subsidiaries by the end of 2022. On account of technical requirements, Human Resources is currently assessing how to proceed until the end of the first quarter of 2023. Managers can view what training sessions their employees have completed via HR.lerncampus.

Employees who do not complete the required training within the period stipulated (usually 30 days) automatically receive a personalized standard e-mail on the date by which it should have been completed. After the fourth warning and if the deadline is missed by more than 90 days, the divisional manager is informed of the failure to complete training on time each month by e-mail and asked to rectify this. If the deadline is missed by more than 120 days, the divisional manager must assess the employee's reliability, document this assessment and inform Group Compliance of the result.

As at 31 December 2022, the average completion rate for compliance training across all training modules remained high at 98.67%. Completion rates for the individual modules are between 97.48% and 99.33%.

1 Compliance points of contacts in Group Compliance
2 Platform compliance coordinators represent the bank's platforms (Retail, Commercial, FM, IT) and coordinate compliance issues on their platform
3 Compliance officers are responsible for implementing compliance issues, including regulatory compliance and ICS (internal control system) in their divisions

Code of Conduct

Sustainable business success is built on trust. In the long term, LBBW can be competitive only if it meets its responsibilities to customers, shareholders, competitors, business partners, regulatory bodies and, last but not least, its own employees. For this reason, unconditional compliance with all statutory provisions and internal rules as well as the integrity of each individual employee constitute the foundations of sustainable corporate governance. A Code of Conduct (www.LBBW.de/code-of-conduct) has been adopted as an overarching guideline. This behavior and ethics code applies to LBBW and all its subsidiaries. The aim of the code is to create a reliable, normative frame of reference or guidance for responsible behavior by each individual that satisfies the legal requirements and is in line with ethical and societal standards.

Digitalization, sustainability and stricter regulatory requirements have increasingly become part and parcel of the Group's everyday business over the last few years. Geopolitical developments and the stricter legal provisions that this entails (e.g. German Supply Chain Due Diligence Act) have also noticeably changed the risk situation. In view of this, the internal bank Code of Conduct was last updated by Group Compliance in November 2022. Material changes to content or updates relate to the sections Foreword by the Chairman of the Board of Managing Directors, Dealing with employees, Tax compliance, Cyber risks, Market abuse and market manipulation, Risk culture and Sustainability. As well as individual standards of conduct, the Code of Conduct also includes example situations from day-to-day bank operations with specific recommendations on how to act and a separate section on the whistleblower system.

Regulatory compliance function according to MaRisk (Minimum Requirements for Risk Management)

Today more than ever, it is important for companies to react quickly to critical developments and be able to make well-founded decisions based on reliable data. This includes not only rapid processing of risk-related information, informative risk reporting, and agile risk management but also a corporate compliance culture that models a responsible risk culture.

For this reason, the Federal Financial Supervisory Authority ("Bundesanstalt für Finanzdienstleistungsaufsicht" (BaFin)) more precisely defined the Minimum Requirements for Risk Management ("Mindestanforderungen an das Risikomanagement" (MaRisk)) for credit institutions and financial services providers based on the German Banking Act ("Kreditwesengesetz") in Circular 10/2021. LBBW has a regulatory compliance function that meets the requirements of MaRisk and is involved in material processes and workflows to assess the impact of these on material legal regulations. The legal regulations and standards applicable to LBBW are identified on an ongoing basis, decentrally for the bank as a whole and at the level of the relevant Group units. The regulatory compliance function ensures that this ongoing screening is carried out, helps implement appropriate and effective procedures for compliance with regulations and monitors these on the basis of risks. The compliance functions of the relevant Group units and the regulatory compliance function (Group) continually exchange information to promote a uniform, Group-wide compliance culture.

It is particularly important here to sustainably implement a compliance management system (CMS) required by MaRisk at LBBW, taking account of the "internal control system" (ICS), and to strengthen interface management with the specialized divisions. Based on a sustainable three-stage defense model ("three lines of defense"), organizational and operational networking ensures a comprehensive and effective risk management system.

Preventing money laundering and combating the financing of terrorism

Money laundering describes the practice of integrating into legal circulation assets acquired illegally through organized crime, drug trafficking, fraud, and other punishable acts. The illegal origin of the funds is concealed in order to "launder" them back into the legal economic cycle. The financing of terrorism misuses banks to collect funds that have been acquired legally or illegally and use these funds to conduct partially or wholly terrorist activity. Accordingly, the LBBW Group has developed appropriate Group-wide business and customer-related security systems and controls for preventing money laundering and terrorism financing. These include, for example, rules on relationships with politically exposed persons, the process for accepting applications from new customers, the updating of customer data, and continual monitoring of business relationships as well as the integration of the anti-money laundering officer in the new products process.

The supervisory authorities responsible did not identify any violations of money laundering requirements on the part of LBBW in 2022.

Financial sanctions and embargoes

LBBW is obligated to initiate measures to ensure compliance with national and international financial sanctions and embargo regulations. Financial sanctions result in restrictions on capital movements and payments, whereas embargoes limit the freedom of foreign trade.

Measures and organizational requirements for the Bank and the Group are defined in the internal guidelines. For instance, all cross-border payments and the entire LBBW customer list are automatically compared every day against German and international sanction and embargo lists. The same is true of internal company exclusion lists for cluster munitions and anti-personnel landmines. The processes and IT-based verification procedures required to do so are already firmly established inhouse.

A country and product matrix available on the LBBW intranet shows aspects of internal sustainability requirements that are relevant for international business (sanction and embargo regulations and critical sector/country combinations on account of sustainability and reputation risks). The basic principles are included in the guidelines on financial sanctions/embargoes, which are part of the written policies.

Fraud prevention (other punishable acts)

At LBBW the purpose of fraud prevention is to prevent criminal acts that could expose the assets of the LBBW Group or its customers to the risk of loss or that could harm the LBBW Group's reputation. Risks are analyzed, leading indicators are tracked, and transaction and customer-related security systems and controls are implemented. In an annual threat analysis, all possible internal and external risks in connection with prosecutable offenses relevant to the Bank and the Group are identified and evaluated, and suitable preventive measures are developed on this basis. In addition, LBBW adheres to the overarching OECD Guidelines for Multinational Enterprises, which also contain recommendations on corruption prevention.

The rules and regulations for the Bank and the Group for combating criminal activity primarily comprise fraud and corruption prevention guidelines for the Bank and the Group (the subsidiary Berlin Hyp is not included in the version dated 06/2022). These guidelines provide a general framework for appropriate risk management and suitable fraud and corruption prevention processes and procedures from the perspective of LBBW (e.g. organization of fraud and corruption prevention at the Bank and the Group, role of the Central Office (channel for reporting suspicious activity, point of contact) and the material preventative measures).

The material preventative measures include:

- Transaction monitoring (e.g. of fraudulent accounts or conspicuous customer behavior)
- Exchange of information with other banks and authorities regarding fraudulent accounts
- Collaboration with local authorities on fraud prevention
- Employee training
- Raising awareness among employees
- Raising awareness among customers via security alerts in the online branch or at customer events

The aim of the fraud and corruption prevention guidelines is to uncover risks and early indications of other punishable acts at an early stage to prevent damage to LBBW, its employees or its customers. These standards are implemented in the instruction for giving and receiving benefits (gifts, invitations, events), for example. Employees may also report irregularities and suspicious activity anonymously via an external ombudsman. This is possible across the Group in the LBBW Group's branches and downstream companies. Since January 2019, the ombudsman has also been available to external third parties (e.g. LBBW's customers, business partners, and suppliers).

To the best of LBBW's knowledge, no corruption proceedings were conducted against LBBW (Bank) or the subsidiaries integrated into the sustainability management process in 2022. No fines were imposed in this context.

LBBW has implemented clear internal rules and regulations throughout the Group to tackle corruption and bribery. LBBW detects corruption by raising awareness and training its executives and employees. For example, alongside regular online training to prevent other criminal acts, training sessions are regularly held for executives and employees on the "Giving and receiving benefits" guidelines ("Gift guidelines"). In these training sessions, employees familiarize themselves with LBBW's provisions on giving and receiving benefits and with the reporting and approval procedures and, in particular, learn about the level of transparency required when giving and accepting benefits. Executives and employees have access to the whistleblower system, and thus a wide range of communication options, to report information in accordance with the German Whistleblower Protection Act and the German Supply Chain Due Diligence Act).

The types of fraud to which customers and LBBW are exposed are still extremely multifaceted. Perpetrators always take their cue from current social issues. The amount of attempted fraud remains high. For this reason, LBBW employs numerous preventative measures to protect customers and bank assets from the consequences of fraud and, in particular, financial losses. These include technical payment transactions measures such as extensive transaction monitoring and recalling payments in the event of fraud. Customers are also made aware of the issue on an ongoing basis, for example using security alerts on the website or at customer events. All in all, losses of more than EUR 16.5 million were prevented in 2022 for customers and the bank in 1,001 cases.

Capital market compliance

The compliance function according to the Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organization, and Transparency ("Mindestanforderungen an die Compliance-Funktion und die weiteren Verhaltens-, Organisations- und Transparenzpflichten für Wertpapierdienstleistungsunternehmen" (MaComp)) is responsible for ensuring observance of statutory rules applicable to securities trading and related regulatory requirements.

A risk analysis is performed once a year. Among other factors, this focuses on the relevant statutory regulations and an analysis of individual risks.

Compliance with external and internal standards is monitored regularly. In addition to centralized reviews of documents, processes, and directives, monitoring is also conducted on site, e.g. at the branches, advisory centers, and central units. If any shortcomings are found, the compliance function according to MaComp works with the relevant divisions to bring them into conformity with the rules.

Another responsibility of the compliance function according to MaComp is to prevent market abuse and ensure compliance with the provisions on financial market regulation set out in the revised EU Markets in Financial Instruments Directive (MiFID II). We have a zero tolerance policy towards market abuse and market manipulation. Compliance with requirements is closely monitored and regularly checked to ensure it is up to date.

According to the rules for the compliance function according to MaComp, conflicts of interest in connection with securities and related services must also be avoided. Our employees in the compliance function according to MaComp are available to help identify, avoid, and manage conflicts of interest.

Employee concerns

Personnel development

LBBW provides an extensive internal training program to ensure that all employees have the right qualifications. This features seminars and training sessions that, as well as focusing on professional qualifications, also cover methodological and social skills. This is complemented by training sessions to improve foreign language skills and seminars on specific subjects organized by external providers. Employees who want to build on their business knowledge can also undertake study programs alongside their work. Specific programs are also available to managers on employee management and on the careful use of own and external resources. As well as its traditionally wide range of training offers, LBBW is also committed to promoting top talent through its talent management program. The aim is to strengthen high-potential employees through targeted development programs to help them to compete for key positions and thus retain them at the bank. This is achieved through targeted development projects in the context of ambitious talent programs, which were successfully continued in 2022. In addition, managers can take advantage of coaching opportunities provided by specialists in professional and management development and receive individual advice and support on leadership and personal issues.

Key figures for LBBW (Bank)[1,2]

	2022	2021	2020
Average age in years	46.3	46.1	45.7
Average length of service in years	20.0	19.9	19.5

1 Personnel figures are calculated based on the number of “active employees” in accordance with the HGB definition (excluding trainees, working students, students at universities of cooperative education, temporary employees, those on leave and governance bodies).
2 LBBW (Bank) accounts for about 75.5% of Group employees.

Key figures for Berlin Hyp AG[1]

	2022	2021	2020
Average age in years	46.8	n/s	n/s
Average length of service in years	16.3	n/s	n/s

1 Personnel figures are calculated based on the number of “active employees” (excluding the Board of Managing Directors, working students, trainees, students at universities of cooperative education and employees on leaves of absence).

Diversity

In 2018, LBBW (Bank) signed up to the “Chefsache” initiative (www.initiative-chefsache.de), a network aimed at achieving gender balance in management positions. The network comprises leaders from industry and science, the media and the public sector who lead by example and promote initiatives through concepts and approaches. LBBW has firmly enshrined the promotion of gender equality in its human resources guidelines, primarily in the two pillars “work-life balance” and “equal opportunity and diversity”. LBBW (Bank) also signed the Diversity Charter (www.charta-der-vielfalt.de) in 2008. This involves a commitment to ensure a workplace free of prejudice for all employees. To mark International Women’s Day on 8 March 2022, LBBW was one of the First German banks to sign the UN Women Empowerment Principles (WEPs) – an initiative by UN Women and UN Global Compact – on 9 February 2022. This covers the seven principles to empower women in the workplace and signals LBBW’s commitment to further improving gender equality at work. BRAVE, a LGBTTIQ* network (lesbian, gay, bi, transsexual, transgender, intersexual, queer) founded in May 2020, also complements the spectrum of existing networks as part of the diversity-focused company policy. The name BRAVE is an acronym for “bankers respect and value each other”. The aim of the network is to create open and respectful company policy while at the same time promoting tolerance and acceptance in the workplace.

Promoting the careers of women

LBBW (Bank) plays a role in supporting womens’ career opportunities with the goal of ensuring fair competition for positions and thus significantly increasing the share of women in middle and upper management. To this end, we established a comprehensive concept, which includes various initiatives to actively promote women at different stages of life. This also includes the “Women@LBBW” initiative, which brings together LBBW’s female Board of Managing Directors members and divisional heads at LBBW. Senior female executives are committed to the quota for the share of women and wish to act as role models. They prepare ambitious women to take on leadership responsibilities and are also available as sparring partners, share contacts and create a network of multipliers. Well-established seminars for women and the mentoring program, where ambitious women are supported by experienced managers, are also part of this concept. A mentoring program for women who have not been able to actively engage in leadership issues due to their personal lives but who could be suitable for leadership roles was offered for the first time in 2022. Here, LBBW (Bank) wants to signal that a management career is possible and supported even with a family and on reduced working hours.

Key figures for LBBW (Bank)[1,2]

	2022	2021	2020
Percentage of women	51.5%	51.3%	51.5%
Percentage of women in leadership positions[4]	25.6%	21.2%	19.6%
Percentage of disabled employees/employees with equivalent status[3]	4.9%	5.1%	5.1%
Percentage of non-German nationalities	7.1%	6.7%	6.4%

1 Personnel figures are calculated based on the number of “active employees” in accordance with the HGB definition (excluding trainees, working students, students at universities of cooperative education, temporary employees, those on leave and governance bodies).
2 LBBW (Bank) accounts for about 75.5% of Group employees.
3 The number of employees with disabilities/employees with equivalent status can vary depending on when the data is collected due to their disability status being recognized retroactively. This may result in discrepancies between the non-financial statement in the management report and the LBBW Sustainability Report.
4 Team leaders are included for the first time for 2022.

Key figures for Berlin Hyp AG[1]

	2022	2021	2020
Percentage of women	47.0%	n/s	n/s
Percentage of women in leadership positions	29.5%	n/s	n/s
Percentage of disabled employees/employees with equivalent status	5.4%	n/s	n/s
Percentage of non-German nationalities	4.4%	n/s	n/s

1 Personnel figures are calculated based on the number of “active employees” (excluding the Board of Managing Directors, working students, trainees, students at universities of cooperative education and employees on leaves of absence).

Further information on diversity can be found in the Human rights section (see page 117).

Work-life balance

To provide the best possible work-life balance, LBBW (Bank) offers various options for flexible working hours. As helping parents find childcare services is a matter of course for us as an employee-oriented company, we also allow scope for, for instance, sabbaticals. Our extremely flexible working hours system, combined with the option to arrange to work from home where necessary, again particularly proved their worth.

Support for employees who are caring for older relatives or family members with disabilities is also becoming increasingly important. Subject to prior consultation with their managers, employees who care for a family member can apply for an additional six months' leave over and above the statutory entitlement of six months. Shorter periods of leave are also possible. The works agreement on mobile working provides further options for increased flexibility.

We also offer support with childcare and bank employees at all head offices can utilize childcare services. These include children’s day care services, emergency childcare and special arrangements during school holidays. We offer all employees an advisory and support program provided by a third-party service provider, “pme Familienservice”. LBBW pays the cost of the consulting and placement services, while the actual childcare costs are paid by the parents. In addition to the parental leave time guaranteed by law, mothers and fathers who were employed by LBBW for at least three years previously can take a leave of absence called a family year.

LBBW has been recognized as a “family-oriented company” by the “berufundfamilie” audit since 2010. After successful re-audits in 2013, 2016 and 2019, another re-audit was conducted in 2022. This focused on how to gear the wide range of opportunities for a good work-life balance even more closely to the various age groups/generations in each stage of life. The program of action signed will be put into place in the next three years.

Company health management

Taking the factors generally accepted to have an effect on health – ergonomics and occupational psychology – as a starting point, company health management efforts also move beyond the immediate working environment and aim to strengthen employees’ general health. Whereas leadership and communication styles are of central importance in a professional sense, general healthcare promotion focuses on movement, nutrition, addictive behavior and mental health.

As the primary point of contact, the occupational health service supports and advises all our employees in fundamentally all health-related matters while maintaining strict physician-patient privilege. In addition to typical workplace and social medicine issues such as returning to work after a physical or mental illness, the occupational health service is also available for behavioral and environmental interventions, first aid, emergency medical care/services, and travel medicine, as well as general medical care and vaccinations. These services are closely integrated with those offered by the Social Services department and LBBW’s health promotion activities to create a model that our employees can access to develop their own personal health strategy.

The Social Services department advises employees and executives as well as branch employees on topics such as stress, conflicts, and difficult situations at work, mental health issues like burnout and depression, addiction, and personal issues (such as family conflicts, care requirements or the death of a loved one). Preventive advice on the topic of resilience and healthcare is also offered. After acute crises such as serious accidents, sudden death, or bank robbery, the Social Services department offers direct emergency psychological help that can prevent or mitigate possible subsequent illnesses and missed work. In individual cases, employees can also be referred to external counseling centers, clinics, or psychotherapists. In addition to one-on-one consultations, the Social Services department also offers employees and managers workshops, training courses, and presentations covering psychosocial issues such as resilience.

Occupational safety

For instance, occupational safety experts and occupational physicians are involved in the early stages in workplace-related decisions such as the purchasing of furniture and IT equipment, new construction and renovations, and the development of building standards. The conditions of workplaces are examined during on-site inspections, and possibilities for improvement are examined as necessary. Safety-related on-site inspections and individual consulting sessions on workplace ergonomics were carried out in 2022 on a scheduled or ad-hoc basis. In addition, regular training was provided for employees involved in occupational safety at LBBW (e.g. executives and safety officers). In order to further improve ergonomics in the work-place, safety officers were trained to be Ergo Scouts. In its function as an advisory and coordination body, our occupational safety committee, which meets quarterly and represents LBBW's entire workforce, deals with all key occupational health and safety issues.

LBBW ideas management

In an increasingly dynamic world, it is vital that we address the challenges with new ideas. LBBW ideas managers provides LBBW employees with a tool to use their creativity in a structured way.

The goal is to constantly improve our products, processes and services in order to promote our innovative and competitive strengths and, in this way, to offer attractive services to our customers. In exchange for their dedication, our employees enjoy a percentage share in the success.

A total of 2,818 ideas were submitted in 2022 (previous year: 2,772). Thanks to the high quality of these ideas, innovative, sustainable and digital solutions were developed that generated a benefit of EUR 11.9 million. (This benefit comprises material expenses savings, additional revenue and the time saved thanks to the individual ideas.)

Innovation management

Sustainable ideas, pioneering products and innovative concepts are essential to the future viability of our bank. To drive forwards the digital transformation, continue developing strong business models and bolster LBBW's culture of innovation, we thus established central innovation management in 2020. Together with the divisions, nine employees collect, support and generate ideas. The numerous employee suggestions from ideas management are incorporated into the innovation process accordingly.

Prototypes and business concepts are tested and developed until they are ready for the market. Both LBBW employees and customers are involved in testing and evaluation from the very beginning. This means that potential solutions can be quickly tested out in practice and adjusted and improved on the basis of feedback.

Social concerns

LBBW understands its responsibility and wants to contribute to social change. For this reason, “Social Contribution” was selected as one of the five strategic levers. These levers came into effect as at 1 January 2023 together with the business strategy.

Education: LBBW takes its social mandate seriously and actively helps to increase young people’s familiarity with the business world while giving school pupils early guidance in choosing their career. For example, BW-Bank supports educational institutions in the Stuttgart area and has an active relationship with many schools. In this context, BW-Bank employees lend their expertise to teachers and pupils alike. In doing so, we aim to convey not only knowledge but also reinforce social skills and a sense of responsibility for the sustainable development of society.

For example, LBBW (Bank) has supported the Stutengarten children’s play area run by Stuttgarter Jugendhaus gGmbH since the beginning. BW-Bank trainees and students at universities of cooperative education are responsible for the Stutengarten bank branch and provide funding for the entire play area. The children learn how money circulates in a city and the importance of a bank for the economy and society.

LBBW (Bank) employees also have the opportunity to participate in the “Morgenmacher” pilot program as part of the corporate volunteering program. This was launched by LBBW (Bank) in fall 2022 together with the non-profit organization Kinderhelden gGmbH. Its aim is to give elementary school pupils more opportunities to succeed and better educational opportunities through personal support from an adult. It focuses on financial education but also covers language skills and individual personal development.

Donations are an important part of LBBW’s commitment to society. Donations are primarily focused on social, cultural, and scientific projects.

In 2022, SuppOptimal, an initiative of the “Bürgerstiftung Stuttgart” foundation, invited homeless people to a Christmas event under the Paulinenbrücke bridge. Young LBBW (Bank) employees helped distribute food and organized “food in a jar” for those attending. Their collection drive also supported the homeless people and the initiative through considerable material donations.

As a sponsor, LBBW supports projects and selected institutions in the regions in which it operates. Here, it focuses on art and culture, with its long-standing partnerships including the Stuttgart art museum, the Stuttgart Opera House and the Mannheim National Theater. LBBW is also involved in various educational projects. One successful example of this is Wissensfabrik – Unternehmen für Deutschland e. V.

Since it was established in 1984, the Landesbank Baden-Württemberg Foundation has donated around EUR 27.4 million to about 11,800 projects. The activities of the foundation are aimed at having as broad an effect as possible, supporting young people, and providing assistance for a continuous stream of new initiatives.

Respect for human rights

Company policy

To implement its sustainability policy and sustainability goals, LBBW has defined principles and guidelines as a basis for orientation. Our commitment to the protection of human rights states: “LBBW recognizes that the United Nations’ Universal Declaration of Human Rights applies to all people in the world and expects the same of its contractual partners.”

Supply chain

Supplier registration

Activities with our suppliers are based on supplier registration. Suppliers are accepted by LBBW only if they answer questions concerning sustainability matters on the LBBW Supplier Portal. Every supplier is additionally required to acknowledge the "Sustainability Agreement for LBBW Suppliers" when registering and sign it when entering into a contract. This agreement compels our suppliers to comply with what we consider to be essential environmental and social criteria. Any supplier violating the social standards contained in the Sustainability Agreement (e.g. prohibition against human rights abuses such as child labor) must accept this violation as grounds for termination of the contract without notice.

Group Purchasing

Centrally organized purchasing operations and binding Bank-wide standards enable us to ensure that sustainability issues are factored into investment decisions and, in cases where several product alternatives with comparable quality and cost are available, the best product in terms of sustainability is chosen. On the one hand, this enables us to guarantee that the manufacture and use of products at LBBW meets the highest sustainability standards possible. On the other hand, it allows us to promote environmentally and socially aware policies and business practices by our business partners.

German Supply Chain Due Diligence Act

In connection with the German Supply Chain Due Diligence Act that came into force on 1 January 2023, the relevant procurement processes were analyzed and adapted in 2022. In particular, the sustainability agreement was revised and risk management was introduced in connection with the bank's supply chain.

In accordance with Section 4 (3) of the German Supply Chain Due Diligence Act, at least one human rights officer must be appointed who is responsible for monitoring risk management. The role of the human rights officer include monitoring compliance with due diligence obligations, the effectiveness review, preparing and reviewing the policy statement and the annual risk analysis report and reviewing whistleblowing. With effect from 1 January 2023, a human rights officer was appointed at LBBW who reports to and advises the Board of Managing Directors on human rights issues and environmental risks.

Customer relationships

In its lending business guidelines and those for retail customer advice, LBBW incorporates sustainability aspects in terms of respect for human rights.

Treatment of our employees

Staff representation and representation of employees with disabilities

Co-determination in the Staff Council is based on the State Employee Representation Act for Baden-Württemberg. Staff meetings are held regularly at LBBW's larger locations. Employees have the right to exercise the freedom of association and assembly throughout the Group. LBBW employees who hold severely disabled status are advised and represented by the General Representative Body for Employees with Disabilities (GSBV) and six regional representative bodies.

Diversity

A diversity officer is assigned to supervise and support diversity and equal opportunity efforts at LBBW. According to a Works Agreement on Protection from Discrimination and a Cooperative Environment in the Workplace, employees who feel discriminated against may turn to the staff council, representatives for employees with disabilities, the responsible manager, the social services department, or the complaints board.

Environmental concerns

Environmental management system

Our environmental/sustainability management system is applicable to LBBW (Bank) including BW-Bank, LBBW Gastro Event GmbH, LBBW Immobilien Management GmbH, LBBW Corporate Real Estate Management GmbH and LBBW Asset Management Investmentgesellschaft mbH.

Certification EMAS and ISO 14001

LBBW has committed to complying with the standards of the Eco-Management and Audit Scheme (EMAS) and ISO 14001 and has maintained a certified environmental management system since 1998. The implementation of the Scheme and ISO standard is verified once a year by means of an internal pre-audit by Internal Auditing and an external audit by an environmental expert.

The following locations were certified in 2022:

- four buildings at "Am Hauptbahnhof" and two buildings at "Pariser Platz" in Stuttgart,
- the Fritz-Elsas-Strasse 31 building (known as the "Bollwerk" building) in Stuttgart,
- the Königstrasse 3 building in Stuttgart,
- the Kleiner Schlossplatz 11 building in Stuttgart, and
- the Augustaanlage 33 building in Mannheim

CO_2 emissions

At LBBW, we are aware of our responsibility to society and are therefore particular advocates of climate protection. As well as systematically minimizing emissions from our own business operations (Scope 1 and 2), we also invest in reforestation projects and thus make a significant positive contribution.

In 2022, measures were put into place to reduce CO_2 emissions (Scope 1 and 2). For example, charging infrastructure was expanded for e-bikes, pedelecs and electric cars and energy efficiency work was completed in IT (e.g. by digitalizing processes). The installation of a photovoltaic system at the Stuttgart campus was reviewed and is planned for 2023.

The target for Scope 1 and 2 emissions in 2023 was set at 10,500 t CO_2 for LBBW (Bank).

Under the "Net Zero Banking Alliance Germany" commitment, the preparation and publication of sector paths is also included in the balanced scorecard. LBBW has already set eight sector-specific climate goals for the respective sub-portfolio to be met by 2030 and it published three of these in 2022 (energy producers, automotive manufacturers and automotive suppliers).

Results of concepts

Sustainability program

Based on the "Principles and Guidelines for Implementing LBBW's Sustainability Policy and Goals", the responsible specialized divisions at LBBW and its subsidiaries define specific projects for the sustainability program. This program is mandatory as part of EMAS certification. In addition, other projects are adopted during the year to improve LBBW's sustainability performance. These projects resulting from the program are assigned to the following aspects:

- Strategy and management
- Customers
- Employees
- Business operations
- Social commitment and communication

In 2022, the program comprised a total of 42 projects. 34 projects were completed, while seven projects were partially completed and one was not achieved. The projects that were not completed or were completed only partially will be included in the following year's sustainability program.

External and internal audits as part of the certified environmental management system

The internal and external audits were conducted successfully in 2022. Neither audit found substantive violations of environmental law.

03

Consolidated financial statements

Contents

Income statement

for the period 1 January to 31 December 2022

EUR million	Notes	01/01 – 31/12/2022	01/01 – 31/12/2021[1]
Net interest income	11	2,305	2,031
Interest income and current income from equity instruments		17,513	13,899
of which interest income from financial assets measured at amortized cost		3,794	2,325
of which interest income from financial assets measured at fair value through other comprehensive income		286	251
Interest expenses and current expenses from equity instruments		– 15,208	– 11,868
of which interest expenses from financial liabilities measured at amortized cost		– 2,303	– 973
Net fee and commission income	12	628	598
Fee and commission income		789	744
Fee and commission expenses		– 161	– 146
Net gains/losses on remeasurement and disposal	13	55	35
of which allowances for losses on loans and securities		– 239	– 240
Other operating income/expenses	15	1,061	93
Administrative expenses	16	– 1,985	– 1,802
Expenses for bank levy and deposit guarantee system	17	– 188	– 137
Net income/expenses from restructuring	18	– 2	– 1
Consolidated profit/loss before tax		*1,873*	*817*
Income taxes	19	– 363	– 399
Net consolidated profit/loss		*1,510*	*418*
of which net income/loss of which attributable to non-controlling interest after tax		– 7	0
of which attributable to shareholders after tax		1,517	418

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

Statement of comprehensive income

for the period 1 January to 31 December 2022

EUR million	Notes	01/01 – 31/12/2022	01/01 – 31/12/2021
Net consolidated profit/loss		*1,510*	*418*
Items that will not be transferred subsequently to the income statement			
Retained earnings	54	297	189
Actuarial gains/losses before tax		480	271
Realized gains/losses from own credit rating		0	1
Realized gains/losses from the sale of equity instruments		– 37	0
Income taxes	18	– 146	– 82
Measurement gains/losses from own credit rating	54	39	– 37
Measurement gains/losses from own credit rating before tax		56	– 52
Transfer to realized gains/losses from own credit rating		0	– 1
Income taxes	18	– 17	16
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)	54	1	1
Measurement gains/losses before tax		– 18	– 1
Transfer to realized gains/losses from the sale of equity instruments		37	0
Income taxes	18	– 17	2
Measurement gains/losses from investments accounted for using the equity method (financial assets measured at fair value through other comprehensive income)	54	3	– 1
Measurement gains/losses before tax		3	– 1
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)		– 358	17
Measurement gains/losses before tax		– 451	41
Change in allowances for losses on loans and securities		5	– 0
Transferred to income statement		2	– 9
Income taxes	18	87	– 16
Currency translation differences		12	11
Changes before tax		11	11
Transferred to income statement		2	0
Net consolidated profit/loss in equity		*– 4*	*180*
Net consolidated total comprehensive income		*1,506*	*598*
of which total net income/loss of which attributable to non-controlling interest after tax		– 7	0
of which attributable to shareholders after tax		1,513	597

Statement of financial position

as at 31 December 2022

Assets

EUR million	Notes	31/12/2022	31/12/2021
Cash and cash equivalents	29	10,569	36,871
Financial assets measured at amortized cost	30	228,969	167,323
Loans and advances to banks		81,283	46,468
Loans and advances to customers		146,542	119,851
Debentures and other fixed-income securities		1,144	1,004
Financial assets measured at fair value through other comprehensive income	31	36,668	33,288
Financial assets designated at fair value	35	1,779	1,374
Financial assets mandatorily measured at fair value through profit or loss	36	39,379	36,976
Shares in investments accounted for using the equity method	9	226	274
Portfolio hedge adjustment attributable to assets		– 549	708
Non-current assets and disposal groups held for sale	47	1	1
Intangible assets	48	209	158
Investment property	49	791	805
Property and equipment	50	813	731
Current income tax assets	19.52	71	104
Deferred income tax assets	19.52	967	1,029
Other assets	53	4,281	2,703
Total assets		*324,174*	*282,344*

Equity and liabilities

EUR million	Notes	31/12/2022	31/12/2021
Financial liabilities measured at amortized cost	38	273,657	235,174
Deposits from banks		84,082	88,259
Deposits from customers		115,748	97,022
Securitized liabilities		68,660	44,869
Subordinated capital		5,167	5,024
Financial liabilities designated at fair value	39	3,584	4,895
Financial liabilities mandatorily measured at fair value through profit or loss	40	29,825	23,689
Portfolio hedge adjustment attributable to liabilities		– 3,164	11
Provisions	54	1,825	2,080
Liabilities from disposal groups	47	0	0
Current income tax liabilities	19.52	190	346
Deferred income tax liabilities	19.52	22	24
Other liabilities	53	2,794	1,928
Equity	*55*	*15,442*	*14,197*
Share capital		3,484	3,484
Capital reserve		8,240	8,240
Retained earnings		1,665	1,211
Other comprehensive income		– 237	65
Net consolidated profit/loss		1,517	418
Shareholders' equity		*14,669*	*13,417*
Additional equity components		745	745
Equity attributable to non-controlling interests		28	35
Total equity and liabilities		*324,174*	*282,344*

Statement of changes in equity

for the period 1 January to 31 December 2022

EUR million	Share capital	Capital reserve	Retained earnings[1]	Valuation reserve for equity instruments	Valuation reserve for debt instruments	Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from own credit rating	Currency translation reserve	Net consolidated profit/loss	Shareholders' equity	Additional equity components	Equity attributable to non-controlling interests	Total
Equity as at 1 January 2021	*3,484*	*8,240*	*1,238*	*– 38*	*61*	*– 1*	*38*	*15*	*172*	*13,209*	*745*	*33*	*13,987*
Allocation to retained earnings	0	0	172	0	0	0	0	0	– 172	0	0	0	0
Distribution to shareholders	0	0	– 358	0	0	0	0	0	0	– 358	0	0	– 358
Net consolidated profit/loss in equity	0	0	189	1	17	– 1	– 37	11	0	180	0	0	180
Net consolidated profit/loss	0	0	0	0	0	0	0	0	418	418	0	0	418
Net consolidated total comprehensive income	0	0	189	1	17	– 1	– 37	11	418	597	0	0	598
Servicing of additional equity components	0	0	– 30	0	0	0	0	0	0	– 30	0	0	– 30
Other changes in equity	0	0	– 1	0	0	0	0	0	0	– 1	0	1	– 0
Equity as at 31 December 2021	*3,484*	*8,240*	*1,211*	*– 38*	*78*	*– 2*	*1*	*25*	*418*	*13,417*	*745*	*35*	*14,197*
Equity as at 1 January 2022	*3,484*	*8,240*	*1,211*	*– 38*	*78*	*– 2*	*1*	*25*	*418*	*13,417*	*745*	*35*	*14,197*
Allocation to retained earnings	0	0	418	0	0	0	0	0	– 418	0	0	0	0
Distribution to shareholders	0	0	– 230	0	0	0	0	0	0	– 230	0	0	– 230
Net consolidated profit/loss in equity	0	0	297	1	– 358	3	39	12	0	– 4	0	0	– 4
Net consolidated profit/loss	0	0	0	0	0	0	0	0	1,517	1,517	0	– 7	1,510
Net consolidated total comprehensive income	0	0	297	1	– 358	3	39	12	1,517	1,513	0	– 7	1,506
Servicing of additional equity components	0	0	– 30	0	0	0	0	0	0	– 30	0	0	– 30
Other changes in equity	0	0	– 1	0	0	0	0	0	0	– 1	0	1	– 0
Equity as at 31 December 2022	*3,484*	*8,240*	*1,665*	*– 36*	*– 280*	*0*	*40*	*38*	*1,517*	*14,669*	*745*	*28*	*15,442*

1 Profit and loss carryforwards from prior periods are also recognized under “Retained earnings”.

Cash flow statement

for the period 1 January to 31 December 2022

EUR million	Notes	01/01 – 31/12/2022	01/01 – 31/12/2021
Net consolidated profit/loss		*1,510*	*418*
Non-cash items in net consolidated profit/loss and reconciliation to cash flow from operating activities			
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and financial investments (including equity investments)		354	307
Increase in/reversal of provisions		307	220
Other non-cash expenses/income		254	549
Gains/losses from the sale of equity investments, property and equipment and intangible assets		– 8	– 1
Other adjustments (net)		– 1,852	– 1,339
Subtotal		*565*	*154*
Changes in assets and liabilities from operating activities			
Financial assets measured at amortized cost		– 36,100	9,950
Loans and advances to banks		– 34,323	21,986
Loans and advances to customers		– 1,719	– 11,991
Debentures and other fixed-income securities		– 58	– 46
Financial assets measured at fair value through other comprehensive income		2,576	1,554
Debentures and other fixed-income securities		2,229	1,374
Loans and advances		350	184
Equity instruments		– 3	– 4
Financial assets designated at fair value		– 603	– 297
Financial assets mandatorily measured at fair value through profit or loss		14,839	3,833
Portfolio hedge adjustment attributable to assets		7	10
Other assets from operating activities		– 1,585	173
Financial liabilities measured at amortized cost		5,381	14,638
Deposits from banks		– 12,744	9,828
Deposits from customers		14,282	1,767
Securitized liabilities		3,844	3,043
Financial liabilities designated at fair value		– 1,041	– 1,476
Financial liabilities mandatorily measured at fair value through profit or loss		– 12,448	– 2,325
Other liabilities from operating activities		418	– 722
Dividends received		55	83
Interest received		16,699	11,411
Interest paid		– 16,409	– 12,032
Income taxes paid		– 500	– 87
Cash flow from operating activities		*– 28,144*	*24,868*
Proceeds from the sale of			
Equity investments		78	15
Property and equipment		11	3
Intangible assets		3	0
Payments for the acquisition of			
Equity investments		– 90	– 33
Property and equipment		– 53	– 21
Intangible assets		– 37	– 39
Payments for the acquisition of consolidated companies net of cash and cash equivalents acquired		2,722	0
Cash flow from investing activities		*2,634*	*– 75*
Payments for servicing additional equity components		– 30	– 30
Dividends paid		– 230	– 358
Net change in cash and cash equivalents from other capital		13	– 650
Cash flow from financing activities		*– 247*	*– 1,038*

EUR million	Notes	01/01 – 31/12/2022	01/01 – 31/12/2021
Cash and cash equivalents at the beginning of the period	*29*	*36,871*	*13,650*
Cash flow from operating activities		– 28,144	24,868
Cash flow from investing activities		2,634	– 75
Cash flow from financing activities		– 247	– 1,038
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		– 545	– 534
Cash and cash equivalents at the end of the period	*29*	*10,569*	*36,871*

The cash flow statement shows the change in cash and cash equivalents resulting from cash flows from operating, investing and financing activities during the financial year.

Cash and cash equivalents correspond to the LBBW Group’s cash reserve and include cash, balances with central banks, public-sector debt instruments eligible for refinancing operations and bills.

Cash flow from operating activities is determined indirectly from net consolidated profit/loss. Cash flows that are primarily connected with the revenue-producing activities of the LBBW Group or cash flows resulting from activities that cannot be allocated to investing or financing activities are allocated to cash flow from operating activities. At the LBBW Group, outgoing payments for the interest and repayment components of lease liabilities and payments for short-term leases and low-value lease assets are shown in cash flow from operating activities. Total cash outflows from leases amounted to EUR – 49 million in the reporting year.

Cash flow from investing activities shows proceeds and payments relating to the disposal or acquisition of non-current assets.

All proceeds and payments from transactions relating to equity and subordinated capital are included in cash flow from financing activities. 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 increased by EUR 143 million from the previous year. As well as the the addition from the business combination in the amount of of EUR 228 million, there was a cash reduction of EUR – 11 million. The change also resulted from measurement effects of EUR – 119 million and the effects from present value accounting of EUR 5 million. Changes in exchange rates also resulted in a EUR 40 million change in the volume of subordinated capital held.

The acquisition of Acteum Investment GmbH (“Acteum”) by LBBW Immobilien Investment Management GmbH (“LIIM”) in the first half of 2022 resulted primarily in goodwill of EUR 10 million (see Note 8). There were no cash and cash equivalents. The net cash outflow (purchase price less cash and cash equivalents received) came to EUR – 10 million.

Assets and liabilities were added following the acquisition of Berlin Hyp AG (“Berlin Hyp”) by LBBW as at 1 July 2022. The amounts of these at the acquisition date are stated in Note 8. As at the acquisition date, Berlin Hyp had cash and cash equivalents of EUR 4,057 million. Taking account of the purchase price payment, the net cash inflow was EUR 2,732 million.

Notes to the consolidated financial statements

for the 2022 financial year

A. Principles and material changes

1. Basis of 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 in Germany 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.

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 financial statements for the 2022 financial year were prepared in accordance with Section 315e (1) of the German Commercial Code (HGB) and Commission Regulation (EU) no. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 (IAS regulation) in accordance with the regulations of the International Financial Reporting Standards (IFRS) as applicable 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 binding for the Group, are authoritative.

The consolidated financial statements were approved by the Board of Managing Directors for publication on 3 March 2023.

2. Accounting principles

The consolidated 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 annual financial statements of the fully consolidated companies or investments accounted for using the equity method are prepared as at the statement of financial position date of the consolidated financial statements of LBBW.

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated 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 2022 financial year:

- Reference to the Conceptual Framework – Amendments to IFRS 3
  The amendment has no material effect on the LBBW consolidated financial statements.
- Annual Improvements to IFRS Standards 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41
  The amendment has no material effect on the LBBW consolidated financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
  The amendment has no material effect on the LBBW consolidated financial statements.
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
  The amendment has no material effect on the LBBW consolidated financial statements.

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
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	2023 financial year	Yes	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	Yes	The amendments to IAS 8 are intended to provide a better distinction between changes in estimates and changes in methods.
Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction	2023 financial year	Yes	These amendments provide clarification where there is doubt surrounding applying IAS 12 to exemptions on the recognition of deferred taxes.
IFRS 17 “Insurance Contracts” and Amendments to IFRS 17	2023 financial year	Yes (with reservations)	This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4. It has been endorsed by the EU with reservations relating to an optional exemption for EU users regarding the annual cohort requirement in accordance with IFRS 17.22.
Amendments to IFRS 17 – Initial Application of IFRS 17 and IFRS 9 – Comparative Information	2023 financial year	Yes	This amendment includes optional rules for the simultaneous first-time adoption of IFRS 17 and IFRS 9 and, for users of IFRS 9, the option of limited recategorizations in connection with the first-time adoption of IFRS 17.
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current – Amendments to IAS 1 – Classification of Liabilities as Current or Non-current – Deferral of Effective Date Amendments to IAS 1 - Non-current Liabilities with Covenants	2024 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). It also clarifies the assessment of loan agreements that could lead to early repayment.
Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback	2024 financial year	No	The amendments set out additional IFRS 16 regulations on the subsequent measurement of lease liabilities that arise in connection with sale and leaseback transactions.

Adjustments

Estimates and assumptions were made in accordance with the accounting standards concerned for determining the assets, liabilities, income and expenses recognized in the consolidated financial statements. These are based on historical experiences and other factors such as plans and – as far as can be currently judged – probable expectations and forecasts of future events. Such significant estimates can change from time to time and significantly affect the net assets and financial position, as well as the results of operations.

In addition, discretionary decisions were reached when preparing the financial statements regarding the determination of the scope of consolidation, the classification of the financial instruments, investment property, the leasing relationships and the allocation to the levels pursuant to IFRS 13.

Estimates and assumptions mainly relate to the calculation of the fair value of financial instruments and investment property, the value of assets and the calculation of the allowances for losses on loans and securities, as well as the recognition and measurement of subordinated capital, provisions and taxes, including incidental tax charges and benefits. Moreover, estimates and assumptions are made regarding specific cash flows. Where significant estimates and/or complex judgments were required, the assumptions made are explained in detail in the Notes to the corresponding items.

The estimates and assumptions are each based on the level of knowledge currently available about the expected future business performance and trends in the global and sector-specific or regulatory environment. Where actual values differ from the estimates made, the underlying assumptions and – if necessary – the carrying amounts of the relevant assets and liabilities are adjusted accordingly on a prospective basis.

The potential impact of the changes made to estimates on future reporting periods are in particular dependent on the development of market parameters and expectations in the future. A quantitative determination of the effects on future reporting periods is therefore only possible on the basis of models and to a limited extent.

The following changes in estimates were corrected prospectively in accordance with IAS 8.39 in the financial year:

- The funding valuation adjustment (FVA) accounts for the costs of funding unsecured derivatives as a mark-up/mark-down when calculating fair value. The model-based approach was further developed on the basis of NSFR costs in line with the market standard as follows. The FVA now represents the exit price for funding costs at a potential purchase date of an unsecured derivatives portfolio. This change results in a net gains from financial instruments measured at fair value through profit or loss of EUR 17.8 million as at the transition date at the end of June 2022. At the same time, deferred tax expenses increased by EUR – 5.4 million. A method was also developed in the second half of 2022 to determine double counting effects from the funding valuation adjustments and for own default risk, resulting in an offsetting effect of EUR – 13 million at the end of the year. At the same time, deferred tax income increased by EUR 4 million.

Due to technical improvements, some disclosures in the notes were determined in more detail in the financial year, primarily in Note 11. The relevant prior year figures were restated accordingly to improve clarity and transparency. This affects only disclosures in the notes and has no impact on figures in the statement of financial position or earnings in the income statement.

4. Events after the reporting period

On 22 February 2023, LBBW signed an agreement to sell the subsidiary targens GmbH. The transaction is still subject to approval from antitrust authorities. It is planned to close the transaction at the start of the second quarter of 2023. After all conditions are met, the sale is expected to generate net income in the mid double-digit million range.

B. Group of companies

5. Basis of consolidation

A subsidiary is an entity that is controlled by another entity (known as the parent). Control is assumed to exist if the company can exert direct or indirect authority over the relevant activities of a company, obtains variable benefits from a company or has rights to variable benefits, or can use its authority to draw on the account of the company to influence the amount of its variable benefits. In assessing whether LBBW exercises a controlling influence, the purpose and structure as well as the company's relevant activities must be taken into consideration. Voting rights represent a key aspect here.

The following factors are also taken into consideration when assessing the possibility of control:

- The voting rights relate solely to administrative duties and relevant activities, on the other hand, are governed by contractual agreements.
- Functions and rights granted give power of control together with other parties.
- Company carries a burden of risk or rights to variable benefits from liquidity lines provided and from interest and fees paid, among other things.

LBBW usually obtains control over a company by gaining a majority of voting rights (directly or indirectly). In exceptional cases, LBBW does not obtain control if at least one other investor has the practical capability to unilaterally determine the relevant activities (for example, due to statutory provisions or agreements). Furthermore, LBBW can also control a company without holding a majority of voting rights if it has the practical capacity to unilaterally control the relevant activities. This applies particularly to structured entities where voting rights relate only to administrative duties and comparable rights are the dominant factor when determining control. For example, this is the case for securitization platforms initiated by LBBW or funds launched by LBBW (authority over contractual rights) and for some project companies (power of control together with the rights of other parties because of the financing structure). It also bears a burden of risk or has rights to variable benefits from financing the companies.

In addition to LBBW (Bank) as the parent company, 91 subsidiaries (31 December 2021: 92 subsidiaries) including four structured entities were included in the consolidated interim financial statements.

A total of 42 subsidiaries (31 December 2021: 45 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 LBBW is not significant. These comprise mainly real estate and shelf companies.

The appropriateness of the consolidation decisions met previously is reviewed regularly and on a case-by-case basis.

The following subsidiaries were consolidated for the first time in 2022 (see Note 8):

- Berlin Hyp AG
- Acteum Investment GmbH

The fully consolidated subsidiary Lyoner Quartier GmbH & Co. KG was merged with LBBW Immobilien Management GmbH after being entered in the Commercial Register on 04 February 2022 on account of the merger of the non-consolidated subsidiary KB Projekt GmbH.

The fully consolidated subsidiary Pasing Projekt GmbH & Co. KG was merged with the fully consolidated subsidiary LBBW Immobilien Capital due to the departure of the limited partner at the end of 31 July 2022.

After being entered as at 27 December 2022, the fully consolidated subsidiary Landesbank Baden-Württemberg Capital Markets Plc i.L. was dissolved.

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

Joint ventures are joint agreements whereby LBBW and other parties exercise joint control over the agreement and have rights to the net assets of the agreement.

A joint agreement is an agreement where two or more contractual parties are linked by means of a contractual agreement and exercise joint control over the participating interest. A joint agreement can be a joint venture or a jointly controlled operation. LBBW has only joint ventures.

An associate is a company over which LBBW exercises significant influence but no controlling influence over the financial and operating policy decisions. Associates are companies in which LBBW holds a voting interest of between 20% and 50% (rebuttable presumption of association) or an unambiguous proof of association and an LBBW voting interest of less than 20%.

6. Principles of consolidation

The subsidiaries and structured entities are consolidated according to the purchase method in accordance with IFRS 10.B86 in conjunction with IFRS 3. Accordingly, all of the subsidiaries' assets and liabilities recognized from the acquirer's perspective at the time of acquisition or at the time when controlling influence is acquired are recognized at their fair value. The remeasured assets and liabilities are taken over into the consolidated statement of financial position, taking deferred taxes into account, and are treated according to the standards to be applied in the subsequent periods.

Where the cost for the business combination exceeds the fair value of the assets and liabilities at initial acquisition, goodwill (goodwill in proportion with the investment) is recorded under intangible assets. The share of the equity or in the net gain/loss of the fully consolidated companies of LBBW not attributable to shareholders is reported separately in the item Equity attributable to non-controlling interests or Net income/loss of which attributable to non-controlling interest after tax in the income statement. Negative goodwill is recognized in the income statement at the date of acquisition.

Intra group receivables and liabilities, as well as expenses, income and interim results, were adjusted by adjusting debt and profit or the elimination of the interim result.

7. Foreign currency translation

The foreign currency translation in the Group is conducted in accordance with IAS 21. Each LBBW Group company determines its functional currency. The items included in the financial statements of the relevant group company are measured using this functional currency and translated into the reporting currency (euro).

A foreign currency transaction must be initially recognized at the spot rate between the functional currency and the foreign currency at the transaction date. Monetary assets and liabilities denominated in foreign currency and unsettled foreign currency spot transactions are always translated into euro at the prevailing closing rate. Non-monetary items measured at amortized cost are translated at the historical rate at the transaction date. Non-monetary items measured at fair value are translated at prevailing exchange rates on the date of the measurement (closing rate).

Exchange differences are generally recognized in profit or loss in the period in which they occur. Exceptions are non-monetary items for which fair value adjustments are recognized in “Other comprehensive income”. Resulting translation differences are also recognized in “Other comprehensive income”.

In the consolidated financial statements, the statement of financial position items of consolidated companies whose reporting currency is not the euro are translated at the exchange rate on the statement of financial position date. Average annual rates are used to translate the expenses and income of these companies. Equity is translated at historic prices. All the resulting translation differences are recognized in “Other comprehensive income” (currency translation reserve).

The exchange rates used for the most important currencies at LBBW at the closing date are as follows:

Amount per EUR 1 in the respective currency	31/12/2022	31/12/2021
USD	1.0671	1.1304
SGD	1.4304	1.5301
MXN	20.8358	23.2272
RUB	78.1800	84.5228
RON	4.9485	4.9499

8. Business combinations during the current reporting period

Berlin Hyp AG

Following signing the contract on 26 January 2022 and subsequent approval steps, LBBW acquired 100% of interests and voting rights in Berlin Hyp AG, Berlin (hereinafter referred to as: Berlin Hyp) as at 1 July 2022. The transfer of shares on 1 July 2022 marked the fulfillment of all contractual and supervisory preliminary conditions (closing) and so 1 July 2022 is the acquisition date.

Berlin Hyp is a commercial real estate financier and was a wholly owned subsidiary of Landesbank Berlin Holding AG, Berlin, until the acquisition date. The main reason for the acquisition was Berlin Hyp's highly profitable, low-risk and sustainability-focused business model. The takeover allowed the division to significantly bolster commercial real estate financing in the Real Estate/Project Finance segment. As at the acquisition date, Berlin Hyp had a financing volume of around EUR 27 billion. The corresponding financing volume in commercial real estate financing at LBBW was around EUR 28 billion.

In the period from 1 July to 31 December 2022, Berlin Hyp contributed income[1] of EUR 208 million/net profit of EUR 34 million to LBBW's net consolidated profit/loss. There are no net profit/loss figures on the basis of IFRA for the period from 1 January to 30 June 2022 as the project to transition accounting from HGB to IFRS was not yet complete. As a result, HGB figures were used instead for the period from 1 January to 30 June 2022. According to these, net profit/loss after tax (and before profit transfer) as per the report published by Berlin Hyp for the short financial year (H1) was EUR 30 million.

The consideration transferred was EUR 1,330.2 million. This was paid in cash, although a tax refund claim of EUR 5.2 million still to be paid was added as the expected value for contingent consideration for the former owner's tax exemption for certain tax differences in earnings compared to the profit transfer for the short financial year under HGB. Further information on net cash inflows/outflows can be found in the cash flow statement.

The LBBW Group incurred costs of EUR 17.1 million in the 2022 financial year in connection with the business combination, essentially fees for external services. Costs associated with the business combination in the 2021 prior period came to EUR 2.8 million. These costs are recognized in administrative expenses.

The purchase price allocation was finalized as at the reporting date. The amounts reported for the assets acquired and liabilities assumed at the as at the acquisition date are shown below:

1 LBBW defines income as the sum of net interest income, net fee and commission income, net gains/losses on remeasurement and disposal (before allowances for losses) and other operating income/expenses.

01/07/2022 EUR million	Fair value of net assets
Cash and cash equivalents	4,057
Financial assets measured at amortized cost	26,260
Loans and advances to banks	1,120
Loans and advances to customers	25,140
Financial assets measured at fair value through other comprehensive income	6,190
Financial assets mandatorily measured at fair value through profit or loss	444
Intangible assets	53
Property and equipment	122
Income tax assets	36
Other assets	3
Total assets	*37,166*
Financial liabilities measured at amortized cost	33,741
Deposits from banks	9,157
Deposits from customers	4,460
Securitized liabilities	19,896
Subordinated capital	228
Financial liabilities designated at fair value	327
Financial liabilities mandatorily measured at fair value through profit or loss	470
Provisions	259
Income tax liabilities	14
Other liabilities	54
Equity	2,302
Total equity and liabilities	*37,166*

Off-balance-sheet transactions were accounted for as part of the fair value calculation. The nominal amount of these transactions as at 1 July 2022 was EUR 3,725 million.

Fair values of the receivables as at the acquisition date were as follows: Loans and advances to banks measured at amortized cost (essentially current account assets and overnight and term deposits) comprise gross contractual amounts receivable of EUR 1,120 million, none of which was expected to be uncollectible as at the acquisition date (net: EUR 1,120 million). Loans and advances to customers measured at amortized cost (essentially mortgage loans) comprise gross contractual amounts receivable of EUR 26,592 million, EUR 4 million of which was expected to be uncollectible as at the acquisition date (net: EUR 25,140 million). Financial assets mandatorily measured at fair value through profit or loss include gross contractual loans and advances to customers of EUR 250 million, EUR 35 million of which was expected to be uncollectible as at the acquisition date (net: EUR 209 million).

The transaction resulted in badwill of EUR 972 million, which was assigned in full to the Corporate Item segment and recognized in the income statement in other operating income/expenses as at the acquisition date. The resulting badwill in connection with the acquisition is due to several effects. LBBW also benefited from developments in the market environment, primarily in terms of general interest rate developments in the period between signing and closing.

Badwill is essentially based on different concepts of value when calculating the fair values the individual assets and liabilities and the value of the consideration transferred. As part of the purchase price allocation, each individual asset and each individual liability is remeasured at fair value based on IFRS 3 in conjunction with IFRS 13 and, in turn, the realization of hidden reserves and hidden liabilities. Consideration transferred, however, is recognized primarily on the basis of yield claims derived on a capital market basis, as used in the context of a company valuation, and targeting Berlin Hyp’s long-term income as part of the LBBW Group.

Acteum Investment GmbH

On 26 April 2022, LBBW Immobilien Investment Management GmbH (“LIIM”) resolved to acquire 100% of Acteum Investment GmbH (“Acteum”) as part of further expanding the “Real estate funds” area of LIIM. The acquisition of Acteum on 31 May 2022 thus made LIIM the sole shareholder of Acteum and so it obtained control. Acteum focuses on providing services for asset management companies, primarily in fund, investment, portfolio and asset management.

Acteum’s contributions to earnings as at 31 December 2022 came to EUR 1 million (rounded), with income of approximately EUR 2 million (revenue from property services in other operating income/expense). Assuming an initial consolidation date for Acteum as at 1 January 2022, income would have been EUR 1 million (rounded) higher than reported, whereas net consolidated profit/loss would not have changed. When calculating these amounts, management assumed that the changes in fair value made at the acquisition date would also have been accurate if it had been acquired on 1 January 2022.

The consideration transferred comprises EUR 10 million in cash and contingent consideration (essentially dependent on key figures for working capital) valued at less than EUR 0.4 million as at 31 December 2022.

The LBBW Group incurred costs of far lower than EUR 1 million in the 2022 financial year to 31 December 2022, chiefly for consultancy and legal costs. These costs are recognized in Other operating income/expenses.

The purchase price allocation for the assets acquired and liabilities assumed (as described below) had not yet been finalized at the time of preparing the consolidated financial statements. Fair values as at the acquisition date were as follows: Loans and advances to banks of EUR 0.5 million (current account assets), Other assets of EUR 0.6 million (essentially receivables from asset management companies) and Other liabilities of EUR 1 million. Loans and advances to banks comprise gross contractual amounts receivable of EUR 0.5 million, none of which was expected to be uncollectible as at the acquisition date (net: EUR 0.5 million). If new information comes to light within one year of the acquisition date about facts and circumstances that existed at the acquisition date and that would have resulted in adjustments to the amount stated above, accounting for the business combination is revised or taken into account when preparing the consolidated financial statements.

The transaction resulted in goodwill of EUR 10 million, which was capitalized and assigned to the Real Estate/Project Finance segment in full. Goodwill as at the reporting date 31 December 2022 again came to EUR 10 million and is not tax deductible. The goodwill generated by the acquisition stems primarily from further expanding/making small additions to portfolios, additional sources of income in property management and synergy effects in LIIM's fund/asset management.

9. Portfolio hedge adjustment attributable to assets

Investments in associates or joint ventures accounted for using the equity method are carried at cost in the consolidated balance sheet once a significant influence is obtained or on formation of the company. This also comprises goodwill from the acquisition of an associate or a joint venture and hidden reserves. In subsequent years, the amount accounted for using the equity method is adjusted by the Group's share in the associate's equity. The proportion of profit or loss generated by the investment is reported in the income statement as Net income/expenses from investments accounted for using the equity method. Changes in the investment's other comprehensive income are recognized directly and proportionately in LBBW's "Other comprehensive income".

EUR million	31/12/2022	31/12/2021
Associates	226	273
Total	*226*	*274*

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".

10. Disclosure of Interests in Other Entities

Significant restrictions on the Group's ability to access or use the Group assets.

Assets are held within the Group that are subject to contractual, legal or regulatory disposal restraints, which can restrict LBBW's ability to access these assets and use them to meet the Group's liabilities. The restrictions result from the cover pools of the covered bond business, assets for the collateralization of liabilities from repurchase transactions and from the pledging of collateral for liabilities from OTC derivative transactions, as well as for liabilities issued by consolidated structured entities. Regulatory requirements, requirements of central banks and local company law rules can restrict the usability of assets.

There are no significant restrictions from property rights of non-controlling interests that restrict the ability of the Group to transfer assets or meet liabilities.

The carrying amounts of the assets with significant restrictions amounted to:

EUR million	**31/12/2022**	**31/12/2021**
Assets with restrictions on disposal		
Financial assets measured at amortized cost	91,421	69,765
Loans and advances to banks	29,306	27,751
Loans and advances to customers	61,994	41,853
Debentures and other fixed-income securities	121	160
Financial assets measured at fair value through profit or loss	2,589	4,948
Financial assets measured at fair value through other comprehensive income	5,245	5,994
Other assets	1,292	1,120
Total	*100,547*	*81,826*

The assets with significant restrictions comprised mainly the EUR 51 billion (previous year: EUR 32 billion) in cover assets in the covered bond business, financial assets of EUR 47 billion (previous year: EUR 46 billion) that have been transferred but not fully derecognized, especially in securities repurchase or lending transactions and development loan transactions (see Note 37) and collateral pledged for liabilities from OTC derivative transactions in the amount of EUR 1 billion (previous year: EUR 3 billion).

Shares in consolidated structured entities

A total of four (previous year: four) structured entities were included in the consolidated financial statements, whose relevant activities are not influenced by voting or comparable rights. LBBW maintains business relationships with these companies and also acquires commercial paper from the consolidated structured entities as part of investment decisions.

As at 31 December 2022, liquidity lines in the amount of EUR 3,091 million (previous year: EUR 2,473 million) were provided to the consolidated structured entities.

Shares in joint agreements and associates

One joint venture and two associates are of material importance to LBBW due to the carrying amount of the equity investment or the total assets and proportionate earnings and are accounted for using the equity method.

Summarized financial information for each joint venture that is material to LBBW and accounted for using the equity method is shown in the following table:

	GIZS GmbH & Co. KG, Frankfurt am Main[1, 2]	
EUR million	**31/12/2022**	**31/12/2021**
Revenues	16	22
Scheduled amortization	– 1	– 2
Profit/loss from continuing operations	– 8	– 2
Net consolidated total comprehensive income	*– 8*	*– 2*
Current assets	6	12
Cash and cash equivalents	5	7
Other current assets	1	4
Non-current assets	5	7
Current liabilities	4	5
Other current liabilities	4	5
Net assets of the joint venture	*8*	*14*
Share of capital (in %)	33	33
Share of net assets	3	5
Other adjustments	– 3	– 5
Carrying amount of the equity investment	*0*	*0*

1 Principal place of business.
2 Strategic equity investment.

The “Other adjustments” item includes impairments on the equity investments.

GIZS GmbH & Co. KG, in which LBBW holds a 33% stake in the capital and voting rights, holds and manages the equity investment in a joint venture of institutions of the German banking industry, whose purpose is to establish, operate and further develop a process for mobile and online payments.

Summarized financial information for each associate that is material to LBBW is shown in the following table:

	BWK GmbH Unternehmensbeteiligungsgesellschaft, Stuttgart[1, 2]		Hypo Vorarlberg Bank AG, Bregenz[1, 2]	
EUR million	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Revenues	70	67	288	306
Profit/loss from continuing operations	– 0	60	113	66
Net consolidated profit/loss in equity	0	0	11	– 1
Net consolidated total comprehensive income	*– 0*	*60*	*124*	*66*
Current assets	104	58	4,573	5,096
Non-current assets	271	332	10,644	10,450
Current liabilities	4	3	6,582	5,607
Non-current liabilities	8	8	7,290	8,711
Contingent liabilities	0	0	447	481
Net assets of the associate	*363*	*379*	*1,345*	*1,227*
Share of capital (in %)	40	40	23	23
Share of net assets	145	152	311	284
Other adjustments	– 27	– 27	– 213	– 144
Carrying amount of the equity investment	*119*	*125*	*98*	*140*

1 Principal place of business.
2 Strategic equity investment.

The summarized financial information represents contributions of the IFRS financial statements of the associated entity, adjusted to the Group-wide accounting rules.

The “Other adjustments” item includes mainly impairments on the equity investments.

As an investor with a long-term perspective, BWK GmbH Unternehmensbeteiligungsgesellschaft, in which LBBW holds a 40% stake in the capital and voting rights, offers equity solutions to SMEs.

Hypo Vorarlberg Bank AG, in which LBBW has a 23% share of the capital and voting rights, offers banking services for retail and corporate customers.

During the year under review, LBBW received dividends in the amount of EUR 6 million (previous year: EUR 6 million) from its equity investment in BWK GmbH Unternehmensbeteiligungsgesellschaft and EUR 1 million (previous year: EUR 1 million) from Hypo Vorarlberg Bank AG.

The shares in the success and the carrying amount of the share for each joint venture and associate, which are deemed insignificant individually and are accounted for using the equity method, are shown in the following table:

	Associates		Joint ventures	
EUR million	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Portion of the profit or loss from continuing operations	– 0	0	– 0	– 1
Share in net consolidated total comprehensive income	– 0	0	– 0	– 1
Total carrying amounts of the Group shares	*8*	*8*	*0*	*0*

Other unrecognized liabilities of EUR 1 million (previous year: EUR 0 million) existed in connection with shares in associates and joint ventures.

Shares in non-consolidated structured entities

Structured entities are entities designed in a manner that voting and comparable rights do not represent the dominant factor when determining which party exercises controlling influence. This is the case, for example, when the voting rights relate solely to administrative duties and the relevant activities that significantly influence the entities' returns are controlled by contractual agreements or virtual positions of power.

A structured entity is often defined by several or all of the following characteristics:

- limited activities;
- narrow and clearly defined purpose;
- insufficient equity capital to conduct its relevant activities without secondary financial support;
- funding through the pooling of credit and other risks (tranches) in the form of multiple contractual instruments that are linked to the investors.

Accordingly, structured entities are consolidated in the principles shown in Note 5, if LBBW can exercise a controlling influence because of its relationships with the structured entity. The information on the non-consolidated structured entities is based on structured entities that are not consolidated as LBBW Group cannot exercise any controlling influence over them. This must be reported if LBBW is subject to variable returns from the activities of the structured entities from its contractual and non-contractual relationships (“shares”). Shares in non-consolidated structured entities comprise loans and credits, equity instruments, various types of derivative, guarantees and liquidity facilities.

LBBW has business relationships with the following types of non-consolidated structured entities:

- Funds: LBBW provides customers with opportunities to invest in funds established and sponsored by LBBW itself, and invests in funds established and sponsored by third parties. Funds allow investors to make targeted investments in assets in line with a fixed investment strategy. Financing is generally provided through the issue of fund units and usually secured by the assets held by the structured entity. LBBW may operate as manager of the structured entity, investor, trustee for other investors or in another function.
- Securitization vehicles: Securitization vehicles offer investment opportunities to investors in diversified portfolios of different assets, such as, for example, leasing and trade receivables. The securitization vehicles are financed through the issue of tranched debentures, whose disbursements are dependent on the performance of the assets of the securitization vehicles and from the position of the respective tranche within the payment waterfall. LBBW participates in the funding or structuring of such vehicles.
- Financing companies: Financing companies (including leasing companies) are established for the purpose of funding various assets or transactions. They follow a specific company purpose, which means that the relevant activities are predetermined or not controlled by voting or comparable rights. As a lender, LBBW provides funding for these structured entities that are secured by assets held by the company.
- Other: Other structured entities are entities that cannot be assigned to any of the types stated above.

The scope of a structured entity depends on its type:

- Funds: Volume of assets under management
- Securitizations: Nominal value of the issued securities
- Financing companies: Total assets
- Other structured entities: Total assets

The scope of non-consolidated structured entities without publicly available data is stated with the nominal value of LBBW's exposure.

The scope of the non-consolidated structured entities was as follows:

	Securitization vehicle		Funds		Financing companies		Other		Total	
EUR million	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Scope of the structured entities	3,486	5,711	379,173	459,375	6,811	6,933	1,929	1,147	391,399	473,166

The following table shows the carrying amounts of the assets and liabilities, the nominal values of the off-balance-sheet obligations that concern the shares in non-consolidated structured entities, and the items in the consolidated statement of financial position in which these assets and liabilities are recognized, depending on the type of structured entity:

	Securitization vehicle		Funds		Financing companies		Other		Total	
EUR million	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial assets measured at amortized cost	1,022	846	3,525	3,317	1,501	1,290	0	0	6,049	5,453
Loans and advances to customers	394	418	3,525	3,317	1,501	1,290	0	0	5,421	5,025
Debentures and other fixed-income securities	628	427	0	0	0	0	0	0	628	427
Financial assets mandatorily measured at fair value through profit or loss	883	2,841	345	515	27	27	1,929	1,147	3,184	4,531
Trading assets	883	2,841	190	296	27	27	1,929	1,147	3,029	4,311
Positive fair values from derivative hedging instruments	0	0	0	3	0	0	0	0	0	3
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	0	0	155	216	0	0	0	0	155	216
Financial assets designated at fair value	0	0	856	0	0	0	0	0	856	0
Financial assets measured at fair value through other comprehensive income	138	105	0	0	0	0	0	0	138	105
Other assets	0	0	0	1	0	0	0	0	0	1
Total assets	*2,044*	*3,792*	*4,727*	*3,832*	*1,529*	*1,317*	*1,929*	*1,147*	*10,227*	*10,089*
Financial liabilities measured at amortized cost	20	63	7,859	5,452	106	74	0	0	7,985	5,588
Deposits from banks	0	0	15	22	0	0	0	0	15	22
Deposits from customers	20	63	7,843	5,430	106	74	0	0	7,969	5,566
Financial liabilities mandatorily measured at fair value through profit or loss	18	1	335	65	7	0	0	0	361	66
Trading liabilities	18	1	335	61	7	0	0	0	361	63
Negative fair values from derivative hedging instruments	0	0	0	3	0	0	0	0	0	3
Other liabilities	0	0	0	0	0	0	0	0	0	0
Total equity and liabilities	*38*	*64*	*8,195*	*5,516*	*113*	*74*	*0*	*0*	*8,346*	*5,654*
Off-balance-sheet transactions	*0*	*0*	*390*	*284*	*122*	*100*	*0*	*0*	*513*	*384*

The maximum potential losses from shares in non-consolidated structured entities depend on the type of shares. The maximum risk of loss on assets presented in the table corresponds to the statement of financial position figures (after allowances for losses on loans and securities if necessary). Of the derivatives with a carrying amount of EUR 73 million (previous year: EUR 139 million) and EUR 360 million (previous year: EUR 63 million) included in the trading assets or trading liabilities, respectively, and the off-balance-sheet obligations, including loan commitments, guarantees and liquidity facilities, the nominal amounts represent the maximum potential losses. The nominal value for derivatives with a positive replacement value was EUR 2,160 million (previous year: EUR 7,482 million) while that for derivatives with a negative replacement value was EUR 8,144 million (previous year: EUR 3,451 million). The maximum risk of loss does not correspond to the expected loss and does not take into account existing collateral and hedge relationships that limit the economic risk.

LBBW received interest income and fee and commission income from financing its shares in these non-consolidated structured entities. Further income was generated from management fees and possible profit-sharing within the scope of fund management operations by LBBW. In addition, income was realized from the valuation or sale of securities issued by non-consolidated structured entities.

Sponsored non-consolidated structured entities in which LBBW does not hold any shares as at the reporting date

LBBW participated as a sponsor for the launch or marketing of various structured entities in which it held no shares as at the reporting date. A structured entity is considered to be sponsored if it is reasonably associated with LBBW and supported by LBBW. Support in this respect can comprise the following services:

- Using the name “LBBW” for the structured entity;
- LBBW assets are transferred or sold to this structured entity;
- The structured entity was funded by LBBW and/or start-up capital provided by LBBW.

LBBW received gross income of EUR 7 million (previous year: EUR 7 million) from fees and commission from business transactions with sponsored, non-consolidated funds and securitizations in which LBBW holds no shares as at the reporting date. No assets were transferred from third parties to sponsored, non-consolidated structured entities in 2022 (previous year: EUR 0 million).

C. Segment reporting

LBBW's segment reporting for the 2022 financial year is also drawn up 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.

LBBW's segment reporting is divided into the following segments:

- The Corporate Customers segment comprises business with SMEs and major corporate customers and the public sector. In line with the universal bank approach, a very wide range of products and services are offered. These range from classic to structured and off-balance-sheet financing, as well as services in the areas of cash management, interest rate, currency and commodities management. Services also cover asset and pension management and factoring business. The results of capital market business products and international business products, when those are sourced from corporate customers, are also reported here.
- The Real Estate/Project Finance segment primarily focuses on commercial real estate financing business and on structured project finance. As well as conventional financing, property, portfolio and corporate financing structures are also offered to real estate clients as an arranger or syndicate bank with a supplementary range of liability, interest rate and currency management products. The range of real estate services also includes asset management, municipal development and development products. Project Finance offers financing solutions for renewable energy and infrastructure and transport financing.
- The Capital Markets Business segment offers products for the management of interest rate, currency and credit risk and liquidity management for institutional, banks and savings banks customer groups. In addition, the segment includes products and services for international business. Equity and debt financing solutions are also offered on the primary market, along with asset management services and custodian bank services. These also include trading activities for customers. All treasury activities are also allocated to this segment.
- The Private Customers/Savings Banks segment comprises all activities with private customers in retail banking in addition to services for high net-worth private clients. Business customers including non-medical practitioners, freelancers and tradespeople are also assigned to this segment. The product range extends from checking accounts and card business to financing solutions and investment advice. Selected business activities connected with the Bank's function as the central bank for savings banks are also included in this segment.
- The Corporate Items segment comprises all business activities not included in the above segments. In particular, these are the financial investments and the management of the Bank's portfolio of buildings.
- The Reconciliation/Consolidation includes purely consolidation adjustments and also shows the reconciliation of internal financial control data to external financial reporting data.

Further information on the operating segments can be found in the Group overview in the combined management report section of this 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 also include expenses assigned on the basis of intragroup cost allocation.

The assets on the statement of financial position 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.[1]

Segment results

01/01 – 31/12/2022 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Recon-ciliation/ Consolidation	LBBW Group
Net interest income	1,024	667	371	347	– 104	2,305
Net fee and commission income	241	18	100	277	– 8	628
Net gains/losses on remeasurement and disposal[1]	– 84	– 129	286	– 17	– 1	55
of which allowances for losses on loans and securities	– 61	– 168	– 30	– 20	40	– 239
Other operating income/expenses	8	99	5	5	943	1,061
Total operating income/expenses	*1,188*	*655*	*763*	*612*	*830*	*4,048*
Administrative expenses	– 618	– 300	– 492	– 505	– 70	– 1,985
Expenses for bank levy and deposit guarantee system	– 57	– 28	– 88	– 3	– 12	– 188
Net income/expenses from restructuring	0	0	0	0	– 1	– 2
Consolidated profit/loss before tax	*513*	*328*	*183*	*104*	*746*	*1,873*
Income taxes						– 363
Net consolidated profit/loss						*1,510*
Assets[2] (EUR billion)	68.3	67.9	144.9	42.4	0.5	324.2
Risk weighted assets[3] (EUR billion)	37.6	26.5	16.8	8.7	3.9	93.5
Tied-up equity[3] (EUR billion)	5.2	2.7	2.7	1.1	2.2	13.9
Return on equity (RoE) (in %)	9.8	12.1	6.8	9.3		13.4
Cost/income ratio (CIR) (in %)	54.0	39.8	73.2	80.4		50.7

1 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR – 43 million in the Corporate Customers segment – including EUR – 54 million from impairment losses –, EUR 0 million in the Real Estate/Project Finance segment and EUR – 1 million in Corporate Items (including EUR – 1 million from impairment losses).
2 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 223 million for Corporate Customers, EUR 3 million in the Real Estate/Project Finance segment and EUR 0 million for Corporate Items.
3 In accordance with CRR II/CRD V.

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

01/01 – 31/12/2021 EUR million	Corporate Customers[1]	Real Estate/ Project Finance[1]	Capital Markets Business[1]	Private Customers/ Savings Banks[1]	Corporate Items/ Recon-ciliation/ Consolidation[1]	LBBW Group
Net interest income	965	437	409	267	– 47	2,031
Net fee and commission income	198	16	118	262	4	598
Net gains/losses on remeasurement and disposal[2]	– 150	– 92	231	1	44	35
of which allowances for losses on loans and securities	– 190	– 94	0	0	46	– 240
Other operating income/expenses	27	132	11	– 12	– 65	93
Total operating income/expenses	*1,041*	*493*	*769*	*519*	*– 64*	*2,757*
Administrative expenses	– 595	– 182	– 457	– 505	– 64	– 1,802
Expenses for bank levy and deposit guarantee system	– 40	– 19	– 65	1	– 14	– 137
Net income/expenses from restructuring	0	0	– 1	0	0	– 1
Consolidated profit/loss before tax	*406*	*292*	*246*	*14*	*– 141*	*817*
Income taxes						– 399
Net consolidated profit/loss						*418*
Assets[3] (EUR billion)	64.7	32.7	138.9	40.6	5.5	282.3
Risk weighted assets[4] (EUR billion)	39.4	14.8	17.5	8.2	4.6	84.6
Tied-up equity[4] (EUR billion)	5.0	1.8	2.3	1.1	3.5	13.7
Return on equity (RoE) (in %)	8.1	16.1	10.6	1.4		6.0
Cost/income ratio (CIR) (in %)	51.6	34.2	67.9	97.2		64.7

1 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.
2 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR 24 million in the Corporate Customers segment – including EUR – 17 million from impairment losses –, EUR 0 million in the Real Estate/Project Finance segment and EUR 0 million in Corporate Items.
3 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 271 million for Corporate Customers, EUR 3 million in the Real Estate/Project Finance segment and EUR 0 million for Corporate Items.
4 In accordance with CRR/CRD IV.

Corporate Items, Reconciliation and Consolidation

	Corporate Items[1]		Reconciliation/ Consolidation[1]		Corporate Items/Reconciliation/ Consolidation[1]	
EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021	01/01 – 31/12/2022	01/01 – 31/12/2021	01/01 – 31/12/2022	01/01 – 31/12/2021
Net interest income	– 78	– 6	– 26	– 41	– 104	– 47
Net fee and commission income	7	2	– 15	2	– 8	4
Net gains/losses on remeasurement and disposal	28	51	– 29	– 7	– 1	44
of which allowances for losses on loans and securities	40	46	0	0	40	46
Other operating income/expenses	943	– 65	0	0	943	– 65
Total operating income/expenses	*900*	*– 17*	*– 70*	*– 47*	*830*	*– 64*
Administrative expenses	– 70	– 64	0	0	– 70	– 64
Expenses for bank levy and deposit guarantee system	– 12	– 14	0	0	– 12	– 14
Net income/expenses from restructuring	– 1	0	0	0	– 1	0
Consolidated profit/loss before tax	*816*	*– 95*	*– 70*	*– 47*	*746*	*– 141*
Assets (EUR billion)	1.9	3.7	– 1.4	1.8	0.5	5.5
Risk weighted assets[2] (EUR billion)	4.5	5.0	– 0.7	– 0.4	3.9	4.6
Tied-up equity[2] (EUR billion)	2.3	3.6	– 0.1	– 0.1	2.2	3.5

1 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.
2 In accordance with CRR II/CRD V.

Reconciliation of segment results to the consolidated income statement

In the 2022 financial year, the total of “Reconciliation/Consolidation” on the consolidated profit/loss before tax came to EUR – 70 million (previous year: EUR – 47 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.

Disclosures at the company level

Information about products and services

With regard to the allocation of income to products and services required under IFRS 8.32, please refer to the explanations entitled “Notes to the income statement” in the Notes.

Segmentation according to geographical region

The allocation of results to geographical regions is based on the head office of the branch or Group company and is as follows for LBBW:

01/01 – 31/12/2022 EUR million	Germany	Europe (excl. Germany)	America	Asia	Recon-ciliation/ Consolidation	LBBW Group
Total operating income/expenses	3,767	148	179	47	– 92	4,048
Consolidated profit/loss before tax	1,682	112	125	10	– 56	1,873

01/01 – 31/12/2021 EUR million	Germany	Europe (excl. Germany)	America	Asia	Recon-ciliation/ Consolidation	LBBW Group
Total operating income/expenses	2,496	141	115	46	– 40	2,757
Consolidated profit/loss before tax	628	107	71	17	– 7	817

D. Income statement

11. Net interest income

The interest income and expense items include interest paid and received, accrued interest and pro rata reversals of premiums and discounts from financial instruments. The classification of “silent partners’ contributions” as debt under certain circumstances in accordance with IAS 32 means that the expenses to typical silent partners are also reported under interest expenses.

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021[1]
Interest income and current income from equity instruments	*17,513*	*13,899*
Interest income	17,457	13,817
Trading derivatives	9,297	8,090
Lending and money market transactions	3,909	2,256
Hedging derivatives	2,188	1,840
Fixed-income securities and debentures	302	171
Early termination fees[2]	32	98
Leasing business	238	231
Other	1,162	509
Positive interest expenses from financial liabilities	330	622
Current income from equity instruments	55	83
Equities and other non-fixed-income securities	45	70
Equity investments and affiliates	10	12
Interest expenses and current expenses from equity instruments	*– 15,208*	*– 11,868*
Interest expenses	– 15,202	– 11,858
Trading derivatives	– 9,011	– 7,795
Hedging derivatives	– 2,212	– 1,823
Deposits	– 1,444	– 652
Securitized liabilities	– 834	– 388
Leasing business	– 36	– 40
Lease liabilities	– 2	– 2
Subordinated capital	– 184	– 194
Other	– 1,240	– 589
Negative interest income from financial assets	– 238	– 375
Current expenses from equity instruments	– 6	– 9
Transfer of losses	– 6	– 9
Total	*2,305*	*2,031*

1 Restatement of prior year amount (see Note 3).
2 The offsetting effect from refinancing costs is included in interest expenses.

At operating level, net interest income was bolstered primarily by the Real Estate/Project Finance segment with a rise of EUR 230 million. This good performance primarily reflected the first-time inclusion of Berlin Hyp’s net interest income in the second half of 2022. The turnaround in money market and capital market interest rates after a long period of zero and negative rates also boosted deposit business.

Other interest income/expenses include amortization on purchase price allocations of EUR 348 million and EUR – 355 million.

Net interest income in the 2022 financial year included EUR 94 million (previous year: EUR 319 million) in connection with participation in the tender program. EUR 135 million of this was attributable to government grants (previous year: EUR 319 million). Only IFRS 9 applies after the end of the interest period from 24 June 2021 to 23 June 2022 for TLTRO III transactions, as no government grants were recognized for these periods when the tranches were added. This was offset by 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 20.21 billion (previous year: EUR 27.78 billion).

12. Net fee and commission income

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Fee and commission income	*789*	*744*
Securities and custody business	347	361
Payments business	130	115
Brokerage business	49	42
Loans and guarantees	154	124
Lending business fee and commission income	84	67
Fee and commission income from financial guarantees	15	11
Fee and commission income from guarantee business	55	46
Fee and commission income from factoring business	18	17
Fee and commission income from asset management	77	75
Other	14	10
Fee and commission expenses	*– 161*	*– 146*
Securities and custody business	– 98	– 97
Payments business	– 26	– 24
Loans and guarantees	– 19	– 10
Lending business fee and commission expense	– 12	– 8
Fee and commission expense from guarantee business	– 7	– 2
Brokerage business	– 4	– 4
Leasing business	– 3	– 3
Other	– 11	– 9
Total	*628*	*598*

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.

The lending business, including guarantees, performed especially well here: the syndicated loan business and business with guarantees and bonds are particularly noteworthy. Commission from securities and custody business moved in the opposite direction. Income from the securities underwriting business included here decreased by EUR – 6 million, primarily due to SSA[1], with reduced emission volumes by German states compared to the two previous years, which were dominated by the pandemic, and non-recurring effects on economic policy (EU SURE program).

13. Net gains/losses on remeasurement and disposal

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Net income/expenses from investments accounted for using the equity method	– 44	23
Net gains/losses from financial assets measured at amortized cost	– 259	– 241
Net gains/losses from financial instruments measured at fair value through other comprehensive income	– 7	9
Net gains/losses from financial instruments measured at fair value through profit or loss	365	244
Total	*55*	*35*

1 SSA - supranational, sub-sovereign and agency bonds

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

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Net gains/losses on measurement	*– 44*	*23*
Net gains/losses from investments in associates	– 43	23
Current expenses	– 1	– 0
Current income	26	40
Impairment	– 69	– 17
Result from shares in joint ventures	– 1	– 0
Impairment	– 1	0
Total	*– 44*	*23*

Net income/expenses from investments accounted for using the equity method were shaped primarily by a negative measurement effect at an associate. The measurement effect was essentially the result of the higher cost of capital, which was not offset by the level of ambition in planning.

Net gains/losses from financial assets measured at amortized cost

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 234*	*– 240*
Reversal of/disposals from allowances for losses on loans and securities	328	313
Net gains/losses from provisions for lending business	– 79	30
Recoveries on loans and securities previously written off	16	13
Direct loan write-offs	– 4	– 7
Gains/losses from financial assets that were already impaired when purchased or originated	– 8	– 24
Additions to allowances for losses on loans and securities	– 483	– 562
Refund amount from synthetic securitization	2	0
Other expenses for the lending business	– 5	– 3
Realized gains/losses	*– 24*	*– 1*
Lending business net gains/losses on disposal	– 23	0
Securities net gains/losses on disposal	– 1	– 1
Total	*– 259*	*– 241*

While allowances for losses on loans and securities were low due to underlying defaults (Level 3 impairment), existing adjustments for allowances for losses on loans and securities increased by a further EUR 206 million (net) (previous year: EUR 155 million). A considerable portion of the rise was due to the first-time recognition of model adjustments at the subsidiary Berlin Hyp. The adjustments allow LBBW to account for uncertainties in connection with further developments in the war in Ukraine, supply chain bottlenecks, the impact on energy-intensive sectors, high inflation and higher production costs due to the interest rate changes and the digital and sustainable transformation. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and a still low default rate[1]. As at the end of the reporting period 31 December 2022, this was 0.4% (previous year: 0.5%).

Gains or losses recognized in profit or loss due to derecognizing financial assets measured at amortized cost resulted from the following:

31/12/2022

EUR million	Derecognition gain	Derecognition loss
Derecognition due to sale	0	– 23
Derecognition due to termination	0	– 1

31/12/2021

EUR million	Derecognition gain	Derecognition loss
Derecognition due to termination	0	– 1

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	01/01 – 31/12/2022	01/01 – 31/12/2021
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 5*	*0*
Reversal of/disposals (from allowances for losses on loans and securities)	1	1
Additions to allowances (for losses on loans and securities)	– 6	– 1
Realized gains/losses	*– 2*	*9*
Net gains/losses on disposal	– 2	9
Total	*– 7*	*9*

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

As well as net gains/losses on remeasurement and disposal from financial instruments held for trading, this item also includes gains or losses from the fair value measurement and derecognition of financial instruments mandatorily measured at fair value through profit or loss. All net income from the currency translation of financial assets and liabilities, regardless of their measurement category, is recognized as currency gains/losses within net trading gains/losses.

In addition, realized and unrealized gains and losses from financial assets and liabilities voluntarily designated at fair value (fair value option) are also recognized in this item.

Changes in the value of the hedged items and hedging instruments designated as hedge accounting resulting from the hedged risk (interest risk, foreign currency risk), as well as any ineffectiveness, are recognized in net gains/losses from hedging transactions. The hedging costs of the hedging derivatives used to hedge foreign currency risks are included in cumulative other comprehensive income in equity. Micro hedges are used exclusively to hedge interest rate risks. Group hedges serve to hedge foreign currency risks.

In addition, net income from non-consolidated investments and affiliates for which the option was applied to measure at fair value through other comprehensive income is shown here.

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Net gains/losses from hedging transactions	*– 30*	*– 16*
Portfolio fair value hedge	– 32	– 12
of which hedged items	– 724	– 183
of which hedging instruments	692	170
Micro fair value hedge	2	– 4
of which hedged items	– 115	0
of which hedging instruments	117	– 4
Group fair value hedge	– 0	0
of which hedged items	– 55	11
of which hedging instruments	55	– 11
Net trading gains/losses	*343*	*176*
Lending business	– 3	– 3
Equity transactions	– 103	– 601
Foreign exchange transactions	103	145
Economic hedging derivatives	56	3
Interest rate transactions	277	651
Gains/losses from foreign exchange/commodity products	14	– 19
Net gains/losses from financial instruments designated at fair value	*349*	*121*
Realized gains/losses	1	– 6
Unrealized gains/losses	348	128
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	*– 297*	*– 37*
Net gains/losses from credits and loans	– 241	– 64
Net gains/losses from equity investments	17	15
Net gains/losses from investments in affiliates	– 7	4
Net gains/losses from shares and other equity instruments	– 66	8
Total	*365*	*244*

Currency translation differences recognized in currency gains/losses from financial instruments not measured at fair value through profit or loss amounted to EUR 44 million (previous year: EUR – 377 million).

14. Net gains/losses from financial instruments

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Financial assets/liabilities mandatorily measured at fair value	911	294
Net gains/losses recognized through profit or loss	911	295
Net gains/losses recognized in other comprehensive income	0	– 0
Financial assets designated at fair value	– 199	– 55
Financial liabilities designated at fair value	587	140
Net gains/losses recognized through profit or loss	548	176
Net gains/losses recognized in other comprehensive income	39	– 37
Financial assets measured at amortized cost	– 1,573	– 495
Financial liabilities measured at amortized cost	3,762	574
Equity instruments measured at fair value through other comprehensive income	4	– 0
Financial debt instruments measured at fair value through other comprehensive income	– 3,630	– 496
Net gains/losses recognized in other comprehensive income	– 3,623	– 505
Net gains/losses transferred from other comprehensive income to the income statement after derecognition	– 7	9

15. Other operating income/expenses

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Other operating income	*1,495*	*956*
Disposal of inventories	204	687
Reversal of other provisions	68	48
Revenue from property services	19	16
Income from cost refunds by third parties	31	29
Operating leases	21	21
Fixed assets and intangible assets	5	2
Lease income from investment property	52	48
Net income from the fair value measurement of investment property	3	19
Foreign currency translation on investment property	0	1
Miscellaneous operating income	1,092	85
Other operating expenses	*– 435*	*– 863*
Disposal of inventories	– 152	– 604
Addition to other provisions	– 61	– 35
Impairment of inventories	– 18	– 2
Operating leases	– 8	– 6
Operating expenses for leased properties	– 13	– 17
Net losses from the fair value measurement of investment property	– 8	– 16
Foreign currency translation on investment property	– 2	0
Miscellaneous operating expenses	– 172	– 181
Total	*1,061*	*93*

The earnings upturn was chiefly thanks to the acquisition of Berlin Hyp AG. The purchase price allocation in accordance with IFRS 3.34 et seqq. resulted in badwill of EUR 972 million, which was reported in miscellaneous operating income.

Gains/losses from investment property declined from EUR 35 million in the previous year to EUR 32 million. This was affected chiefly by lower measurement effects for investment properties.

The sub-item income and expenses from the disposal of inventories includes contributions to earnings from real estate developments. Impairment of inventories included write-downs on real estate project developments in view of current interest rate and construction price developments.

Increase in/reversal of other provisions resulted in net income of EUR 7 million (previous year: EUR 13 million). This included provisions for litigation and legal risks (see Note 54).

16. Administrative expenses

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Staff costs	*– 1,108*	*– 1,031*
Wages and salaries	– 769	– 730
Expenses for pensions and benefits	– 95	– 95
Social security contributions	– 126	– 120
Other staff costs	– 118	– 86
Other administrative expenses	*– 764*	*– 646*
IT costs	– 410	– 365
Legal and consulting expenses	– 105	– 63
Expenses from leases	– 3	– 3
Cost of premises	– 64	– 64
Association and other contributions	– 41	– 40
Advertising, public relations and representation costs	– 30	– 20
Audit costs	– 11	– 9
Miscellaneous administrative expenses	– 99	– 81
Depreciation, amortization and write-downs[1]	*– 114*	*– 126*
Amortization and write-downs of intangible assets	– 48	– 59
Depreciation and write-downs of property and equipment	– 26	– 24
Depreciation and write-downs on right-of-use assets	– 40	– 42
Total	*– 1,985*	*– 1,802*

1 This includes scheduled and unscheduled write-downs. The partial amount of the unscheduled write-downs can be found in Notes 48 and 50.

The rise in administrative expenses was driven by the first-time consolidation of Berlin Hyp, which was chiefly reflected in higher staff costs.

Other administrative expenses in the Group also picked up, with the rise in costs at LBBW Bank the result primarily of higher investment in growth initiatives and IT infrastructure. The Berlin Hyp subsidiary also contributed to the increase in other administrative expenses for the first time.

For further explanations on leasing business, please see Note 51.

Expenses for pensions and other benefits included:

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Expenses for defined benefit obligations	*– 85*	*– 87*
Net interest income from defined benefit plans	– 17	– 9
Service cost	– 67	– 62
Past service cost	0	– 15
Other expenses for pensions and benefits	*– 7*	*– 5*
Expenses for defined contribution obligations	*– 3*	*– 3*
Total	*– 95*	*– 95*

In addition to the expenses for pensions, LBBW paid EUR – 62 million (previous year: EUR – 60 million) in the financial year into the German pension fund for employees and recorded this as an expense under social security contributions.

The fee for audit costs were expensed in the current financial year in the amount of EUR – 11 million (previous year: EUR – 9 million). The (net) fees for audit costs in accordance with IDW RS HFA 36 broke down as follows:

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Audit services	– 8	– 7
Other audit-related services	– 1	– 1
Tax advisory services	0	– 0
Other services	– 1	– 1
Total	*– 10*	*– 8*

The audit services related above all to the audits of the annual financial statements and the consolidated financial statements of the parent company, as well as various audits of the annual financial statements of its subsidiaries including mandatory extensions of contract. Audit reviews of interim financial statements were integrated in the audit and specialist accounting and regulatory matters were clarified.

The other audit-related services concern mandatory or contractually-agreed audits, such as the audit pursuant to Section 89 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) and Section 68 (7) of the German Capital Investment Code (Kapitalanlagegesetzbuch – KAGB), the audit pursuant to Section 16j (2) sentence 2 of the German Act Establishing the Federal Financial Supervisory Authority (Gesetz über die Bundesanstalt für Finanzdienstleistungsaufsicht – FinDAG), the review of financial statements, the audit for assessing the contribution for the bank-related guarantee system of the Sparkassen-Finanzgruppe, which is recognized as a deposit guarantee system under Section 5 (1) of the German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG) and the audit of the combined non-financial report.

Other services include, inter alia, quality assurance activities and training courses.

17. Expenses for bank levy and deposit guarantee system

EUR million	01/01 – 30/12/2022	01/01 – 31/12/2021
Expenses for bank levy	– 134	– 104
Expenses for deposit guarantee system	– 55	– 33
Total	*– 188*	*– 137*

The higher contribution to the bank levy was affected by the further increase in the target volume for the bank levy due to the 7% rise in covered deposits in the eurozone and the greater consideration given to uncertainties in connection with economic developments.

In addition, expenses for the statutory deposit guarantee system also increased as a result of a new weighting of the contribution allocation within the guarantee system.

18. Net income/expenses from restructuring

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Reversal of provisions for restructuring measures	1	1
Additions to restructuring provisions	– 3	– 1
Current expense/income from restructuring	– 0	– 1
Total	*– 2*	*– 1*

19. Income taxes

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Current income taxes from the reporting period	– 303	– 267
Current income taxes from previous years	– 73	– 132
Current income taxes	*– 375*	*– 399*
of which decrease in current income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	1	2
Deferred income taxes	*12*	*– 1*
of which deferred income tax expense/income from change in temporary differences	– 68	19
of which deferred income tax expense/income from change in deferred tax assets from loss carryforwards	80	– 20
of which deferred tax expense/income from change in tax rates	1	5
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	11	6
Total	*– 363*	*– 399*

The following reconciliation shows the relationship between reported and expected income taxes:

EUR million	**01/01 – 31/12/2022**	**01/01 – 31/12/2021**
Consolidated profit/loss before tax	*1,873*	*817*
Applicable tax rate	30.525%	30.525%
Expected income taxes	*– 572*	*– 249*
Tax effects		
from non-deductible operating expenses	– 85	– 39
from tax-free income	14	7
from change to value adjustments	47	– 1
from taxes from the previous year recorded in the financial year	– 89	– 117
from permanent tax effects	– 11	– 20
from changes in tax rates	1	5
from differing tax rates affecting on deferred taxes as shown in profit or loss	24	29
from other differences	308	– 14
Total	*– 363*	*– 399*

The tax rate used for the reconciliation is calculated as the combined corporate income tax rate including the solidarity surcharge of 15.825% applicable in Germany at the reporting date and the trade tax rate (average: 14.70%) depending on the relevant multiplier (Hebesatz).

The tax effect of non-deductible operating expenses results primarily from the bank levy, as well as interest expenses not taken into account for tax purposes in connection with non-periodic taxes. Tax-free income includes in particular effects from tax-free dividend income.

Taxes from the previous year recorded in the financial year essentially relate to tax arrears payments on the basis of amended tax assessment notices for matters for which a provision for tax risks was already recognized in the previous year.

The tax effect from other differences is due primarily to the recognition of badwill in connection with the acquisition of an investment without a corresponding tax expense.

The volume of tax loss and interest carryforwards, as well as the installments for which deferred tax assets are not recognized are shown in the following table. It is stated whether the loss and interest carryforwards not recognized can still be used in subsequent years according to the relevant tax law. Loss and interest carryforwards in companies subject to tax in Germany can be used for an indefinite period.

EUR million	**01/01 – 31/12/2022**	**01/01 – 31/12/2021**
Loss and interest carryforwards	*4,338*	*3,889*
of which loss and interest carryforwards for which deferred tax assets were created	946	481
of which loss and interest carryforwards for which no deferred tax assets were recognized	3,392	3,408
of which expire in 2024 and thereafter	9	10
of which non-forfeitable	3,383	3,398

Deferred tax assets of EUR 14 million (previous year: EUR 34 million) were recognized for Group companies that incurred a tax loss in the current or previous financial year that depends on the realization of future taxable results that are higher than the impact on earnings from the reversal of existing to taxable temporary differences. The approach is based on a tax planning calculation for the respective company or for the consolidated group.

Deferred tax assets are potential tax benefits arising from temporary differences between the carrying amounts of the assets and liabilities in the IFRS consolidated statement of financial position and the national tax base. Deferred income tax liabilities are potential income taxes payable arising from temporary differences between the carrying amounts of assets and liabilities in the IFRS statement of financial position and the national tax base.

Deferred tax assets and liabilities were recognized in connection with the following items in the 2022 financial year:

EUR million	Deferred tax assets 2022	Deferred tax assets 2021	Deferred tax liabilities 2022	Deferred tax liabilities 2021
Assets				
Financial assets measured at amortized cost	986	504	– 433	– 909
Financial assets measured at fair value through other comprehensive income	1,142	229	– 12	– 7
Financial assets designated at fair value	53	0	– 33	– 23
Financial assets mandatorily measured at fair value through profit or loss	1,365	6,245	– 1,943	– 421
Non-current assets and disposal groups held for sale	171	0	0	– 209
Non-current assets and disposal groups held for sale	7	0	0	– 12
Investment property	0	0	– 24	– 27
Property and equipment/investment property	39	12	– 173	– 149
Total assets	118	136	– 78	– 60
Equity and liabilities				
Financial liabilities measured at amortized cost	1,784	862	– 1,269	– 492
Financial liabilities designated at fair value	94	161	– 6	0
Financial liabilities mandatorily measured at fair value through profit or loss	193	1	– 920	– 5,751
Portfolio hedge adjustment attributable to liabilities	0	3	– 966	0
Provisions	640	739	– 1	– 1
Other liabilities	84	108	0	0
Loss and interest carryforwards	144	68	0	0
Outside basis differences	0	0	– 17	– 2
Net amount	– 5,853	– 8,039	5,853	8,039
Total	*967*	*1,029*	*– 22*	*– 24*
Change in the balance from deferred taxes	*– 60*	*– 80*		
of which changes recognized in profit or loss	12	– 1		
of which from valuation reserves (from FVOCI financial instruments)	69	– 14		
of which measurement gains/losses of financial liabilities	– 17	16		
of which retained earnings (provisions – actuarial gains/losses)	– 146	– 82		
of which other changes recognized directly in equity (change in basis of consolidation)	22	1		

No deferred tax liabilities were recognized for taxable temporary differences of EUR 9 million (previous year: EUR 11 million) from shares in subsidiaries and joint ventures, since a reversal of the temporary differences is not expected in the near future.

E. Financial instruments

Accounting policies

20. Recognition

Financial instruments are initially recognized when LBBW (Bank) or a subsidiary included in the consolidated financial statements becomes a contractual party of the financial instrument. The financial instruments are derecognized if one of the following events occurs:

- Contractual rights to the cash flows from a financial asset expire (e.g. repayment of loans or expiry of options).
- The financial asset is sold, in part or in full (e.g. sale of securities (true sale) or syndication).
- Cash flows, including the material opportunities and risks from the financial asset, are passed on to third parties via contractually arranged obligations (“pass through-arrangement”).
- The contractual terms and conditions of a financial asset or liability have been substantially modified. The distinction between substantial and non-substantial modifications is based on judgments. At LBBW, a contractual amendment is considered a substantial modification if it results in a change of currency, changes the gross carrying amount of a financial asset or the amortized costs of a financial liability by 10% or more or if the changes to the contract mean that maintaining the previous measurement category is no longer permitted. By contrast, non-substantial modifications lead not to derecognition but to an adjustment of the gross carrying amount or amortized cost through profit or loss.
- The financial liability is repaid.
- The financial liability is repurchased.

If material opportunities and risks are neither transferred nor retained when transferring a financial asset to third parties, derecognition from the statement of financial position is conditional upon control of the asset being transferred. In this case, the financial asset is derecognized when the recipient is entitled and also able to sell or pledge the transferred financial asset to third parties without requiring the agreement of the transferring entity or needing to impose restrictions on resale. If control is not transferred, the transferred asset must continue to be recognized in LBBW’s statement of financial position in the amount of the continuing involvement and an associated liability must also be recognized.

Spot purchases and sales of financial assets that are delivered not on the trade date but instead within a standard period on the settlement date are recognized on the settlement date, regardless of the category.

Genuine securities repurchase transactions and securities lending transactions

Securities under genuine repurchase transactions continue to be recognized in the pledgor’s statement of financial position. The pledgor recognizes a liability to the pledgee and the pledgee recognizes a receivable from the pledgor. Both are measured at amortized cost. The pledgor is still entitled to interest and dividends from the securities and recognizes these through profit or loss. Any difference between the amounts received when the securities were originally transferred and the amount to be paid upon return must be allocated by the pledgor to the liability over the term of the repurchase agreement. The pledgee must recognize the receivable.

The same applies to securities lending transactions with cash collateral. By contrast, no liability or receivable is recognized for lending transactions without cash collateral. The consideration paid by the borrower is reported under Net interest income.

Development loans

A two-stage transmission procedure is used at the public sector savings banks and Volks- and Raiffeisen banks to transmit development loans to final borrowers. In this transmission chain, LBBW is located between the development bank and the affiliated savings bank and must recognize a liability to the development bank and a receivable of the same amount from the savings bank for the development loan. Given the volume of development loans, loans and advances to banks and deposits from banks are not comparable to the corresponding items at private banks. For this reason, these transmitted loans are disclosed separately under the two items.

Embedded derivatives

Derivatives embedded in financial liabilities must be separated and recognized as independent derivatives under the following conditions:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value through profit or loss.

21. Measurement

Financial instruments are recognized at fair value. Transaction costs for financial instruments measured at fair value through profit or loss are recognized directly in profit or loss. In all other cases, transaction costs – where material – are distributed on an accrual basis.

After acquisition, financial instruments are measured either at amortized cost or at fair value. For financial assets, amortized cost generally constitutes impairment. The following measurement categories are used:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at fair value through profit or loss
- Financial liabilities measured at amortized cost
- Financial liabilities measured at fair value through profit or loss

Categorizing financial assets

Financial assets are assigned to one of these categories on the basis of a classification decision at the time of acquisition. The classification decision depends on the objectives of the respective business model for managing financial assets and whether the financial asset represents a simple loan agreement and thus generates solely payments of principal and interest within the meaning of IFRS 9.

The business models are determined at portfolio level and provide information about the investment strategies for assets included in a portfolio. LBBW has three business models: “Hold”, “Hold to collect and sell” and “Sell”. The business models are identified on the basis of portfolio-specific information on remuneration and measuring performance, internal reporting and risks and risk management. At LBBW (Bank), the portfolios are identified and the individual business models determined by the LBBW (Bank) Board of Managing Directors. For subsidiaries included in the consolidated financial statements, this is done by the management of the subsidiary in question. At LBBW (Bank), the business models are determined at segment level, with the exception of the “Capital Markets Business” segment where the business models are established at a lower level. As opposed to other segments, which (with some exceptions – syndicated loans) use the “Hold” business model, this segment features a diverse variety of portfolios under the business models “Hold”, “Hold to Collect and Sell” and “Sell”.

The “Hold” business model means that the intention is to hold the assets of a portfolio for the foreseeable future and to collect the payments of principal and interest over their term. Sales from these portfolios are not intended. Nevertheless, financial assets whose credit risk has increased since initial recognition could still be sold under a “Hold” business model. The same applies to sales made close to maturity, if the proceeds from the sales approximate the collection of the remaining contractual cash flows, and to infrequent sales and sales involving smaller volumes. Sales from portfolios operating under the “Hold” business model are subject to internal processes which monitor holding intent. For this purpose, sales agreements with third parties under civil law are considered sales, which lead to the assets sold being derecognized from the statement of financial position.

The “Hold to collect and sell” business model does not involve the strict intention to hold the financial assets in a portfolio in the long term. In addition to collecting cash flows from the financial assets held, the assets can also be sold in line with the investment strategy of the portfolio. These kind of investment strategies can be found, to some extent, in portfolios in the Treasury’s area of responsibility.

The “Sell” business model comprises all investment strategies that do not fall under the other two models. In particular, this includes financial assets acquired for trading and shares of loans intended for syndication. In LBBW Group, loans intended for syndication are allocated to two portfolios with different business models. The part of the loan to be placed on the market is assigned to a “Sell” business model portfolio while the final take is assigned to a “Hold” portfolio. Syndicated loans for which placement was unsuccessful remain in the original “Sell” portfolio permanently.

The term “repayment” generally refers to the repayment of capital. For the purpose of classifying financial assets, the capital concept is defined not as the nominal value but as the fair value of the financial asset on initial recognition. The interest term also has its own definition for the purpose of classifying financial assets. It represents consideration for the provision of capital and can only include components which are also reflected in a simple credit agreement. These include:

- time value of money,
- credit risk premium,
- surcharges for other risks associated with a loan (e.g. liquidity risk),
- surcharges for costs associated with a loan (e.g. administrative costs)
- profit margin

Equity instruments and derivatives thus do not constitute financial assets comparable to a simple loan agreement. The same applies to debt instruments with embedded derivatives that generate leverage. Non-recourse financing, which primarily involves an investment risk, also constitutes a breach of a simple loan relationship. At LBBW, non-recourse financing includes financing of special investment vehicles, which are characterized by the limitation of LBBW (Bank)/Berlin Hyp's right of recourse to certain assets of the special investment vehicle or payments from these assets. At LBBW (Bank) and Berlin Hyp, this method of financing is therefore always in accordance with a simple loan agreement if either the special investment vehicle is able to service its debt without selling the financing object or if sufficient unimpaired collateral has been provided by third parties.

LBBW also chooses to voluntarily recognize selected equity investments not held for trading at fair value through other comprehensive income in order to keep net consolidated profit/loss free from measurement volatility arising from these equity investments (OCI-option). Furthermore, LBBW voluntary recognizes selected financial assets at fair value through profit or loss if this offsets or reduces fluctuations in results that are not justified from an economic viewpoint and that arise from countertransactions that must be recognized at fair value through profit or loss (fair-value-option).

Reclassification on account of a change in business model after acquisition is permitted only in exceptional cases.

Basis for measurement category

Business model	Simple loan relationship	Choice exercised	Category
Hold	Yes	No	Measured at amortized cost
		Yes (fair value option)	Measured at fair value through profit or loss
	No	No	Measured at fair value through profit or loss
		Yes (OCI option)	Measured at fair value through other comprehensive income
Hold to collect and sell	Yes	No	Measured at fair value through other comprehensive income
		Yes (fair value option)	Measured at fair value through profit or loss
	No	No	Measured at fair value through profit or loss
		Yes (OCI option)	Measured at fair value through other comprehensive income
Sell	Yes/no	n/a	Measured at fair value through profit or loss

Categorizing financial liabilities

Financial liabilities are to be categorized as "measured at amortized cost". However, this does not apply to financial guarantees or financial liabilities measured at fair value through profit or loss. At LBBW, the latter group primarily comprises financial liabilities held for trading and selected financial liabilities voluntary measured at fair value through profit or loss to offset or reduce fluctuations in results that are not justified from an economic viewpoint and that arise from countertransactions that must be recognized at fair value through profit or loss (fair-value-option).

In financial liabilities measured at amortized cost, embedded derivatives are also to be recognized as independent derivatives at fair value through profit or loss under certain conditions.

22. Allowances for losses on loans and securities

In accordance with IFRS 9, impairment for credit risks is recognized using a three-stage impairment model on the basis of expected credit losses.

Calculating allowances for losses on loans and securities

A review is carried out on an ongoing basis to assess whether there is any evidence that a financial asset is credit-impaired. The criteria for this review are based on the regulatory definition of default in accordance with the Capital Requirements Regulation (CRR). This definition is also used for internal management. They apply to all customers, regardless of rating or scoring procedures.

If there is no evidence of credit-impairment, impairment losses are recognized in the amount of the expected credit loss. The time frame for determining this essentially depends on whether the asset’s default risk has risen significantly since initial recognition (stage 2) or not (stage 1). The entire remaining term of the financial instrument is recognized for stage 2 assets, whereas a term of 12 months is generally recognized for stage 1 assets. They are transferred to stage 2 if there is specific information directly relating to the financial instrument that indicates a significant rise in the default risk at individual level. Macroeconomic turbulence (e.g. a sharp rise in energy prices or abrupt increase in interest rates), the impact of which on the financial instruments’ credit quality cannot yet be specifically, individually estimated, does not directly trigger a stage transfer. To adequately account for the overall increased risk of loss, impairment losses for stage 1 assets that are fundamentally affected in these special cases are determined on the basis of the expected credit losses over their remaining term.

If there is evidence of credit-impairment, the impairment loss for significant financial assets is measured as the gross carrying amount of the financial instrument less the present value of the estimated cash flows (stage 3). To calculate anticipated future cash flows, various probability-weighted scenarios are used to estimate expected proceeds from the financial instrument (payments of principal and interest) and any payments from the liquidation of collateral on the basis of their amount and accrual date. The procedure for financial assets that are not significant is the same as for stage 2 assets (stage 3 based on parameters).

For financial assets allocated to stages 1 and 2 or measured on the basis of parameters under stage 3, the expected credit loss is calculated based on the probability of default (PD), the estimated loss given default (LGD) and the expected exposure at default (EaD).

Regardless of the remaining term, expected credit losses (calculated as the product of the three parameters already described) are discounted to the end of the reporting period using the effective interest rate of the financial instrument or an approximation of this rate. This does not apply to significant financial assets which already show credit-impairment at initial recognition. In this case, the effective interest rate is adjusted by taking into account the life-time expected credit losses, with the result that no further allowances for losses on loans and securities are reported on initial recognition. The credit-adjusted effective interest rate resulting from this is used for subsequent measurement.

LBBW has not used the simplified approach in accordance with IFRS 9.5.5.15 for lease receivables.

Inputs and assumptions

The process used to calculate expected losses is described in the Counterparty risk section of the combined management report under risk measurement. The section below considers some additional aspects specific to IFRS 9.

Specific rating and risk classification procedures are used for all relevant business activities. These procedures quantify the probability of default of the individual investments, which is initially standardized to twelve months. In addition, multi-year probabilities of default are determined on the basis of many years of internal rating histories. Historical, current and forward-looking information is considered when determining customer creditworthiness, provided this demonstrably improves the forecast quality. In addition, probabilities of default assigned to the regulatory ratings and collateral values are adjusted to take account of economic effects expected.

The loss given default is primarily determined by the probability of recovery and the collateral ratio of the underlying asset. There are specific forecasts for different types of collateral and customer groups. The estimates of the model inputs are based on pool data gathered by the Bank itself and in cooperation with savings banks and other Landesbanks, in which case it has been ascertained that these data are representative for LBBW. The LGD is initially standardized at twelve months. In addition, multi-year loss rates for defaults are determined using collateral value models and EaD forecasts for each potential default date for the debtor. Similar to the probability of default forward-looking information is also considered.

The expected exposure at default (EaD) is determined using various models on the basis of the characteristics of the underlying financial instrument. For non-revolving financial instruments, contractually agreed cash flows are taken into account that are expanded to include customer and transaction specific characteristics if financial instruments are not disbursed in full in order to determine the full disbursement date and a linear disbursement profile. For revolving commitments, different types of regression models are used to forecast expected use for any point in the future until the end of the contract. This is based on statistical business and customer characteristics, the period until the default date and the credit line’s historical draw-down pattern. If this is not explicitly stipulated, the notice period is used to determine the term. A performance-based term that extends beyond the notice period is estimated on the basis of historic data only for overdrafts and credit cards. Guarantees, which are not fully used in the event of default, represent a special case. The amount at risk for these transactions is calculated by means of a credit conversion factor (CCF).

Consideration of changes to estimation techniques or assumptions

All models used to calculate expected credit losses in the reporting period were maintained regularly and adjusted if necessary. There were no significant changes to methodology that would affect the calculation of expected credit losses.

Consideration of forward-looking information

As well as taking into account future information on a parameter-specific basis, all business areas are also regularly subjected to qualitative and quantitative analysis to determine whether there is a special case requiring an adjustment to allowances for losses on loans and securities. Special cases are extraordinary, temporary circumstances in which the models are unable to create parameters suitable for the calculation of allowances for losses on loans and securities set out in IFRS 9 (e.g. due to major macroeconomic or political distortions). In this case, qualitative information, estimates, scenario analyses and simulations are utilized to determinate to what extent allowances for losses on loans and securities must be adjusted so as to adequately cover all risks. If it is not possible to carry out these adjustments for individual financial instruments, suitable clusters are established. To identify and account for special cases, a group of experts from Research, Front Office, Back Office and Risk Controlling deal with all relevant events that may influence LBBW’s operating activities on both a regular and ad hoc basis. Its aims include identifying crises and developing scenarios for LBBW’s management bodies in the event that they emerge. The following developments were deemed special cases as at the reporting date:

- The significant, regionally asymmetrical rise in energy prices and inflation due to the Russian invasion of Ukraine and the resulting risk of recession in Europe
- Structural change in the automotive sector

The adjustment to allowances for losses on loans and securities as a result of these special circumstances is described in Note 28 (“Financial assets measured at amortized cost”), development of allowances for losses on loans and securities.

Three criteria are used to assess whether to assign a financial instrument to stage 1 or stage 2:

- Quantitative transfer criterion: First, the expected probability of default at the end of the reporting period is calculated using the initial rating and expected migrations specific to the segment. If the current risk assessment is significantly worse than the expected value at the end of the reporting period, the financial asset is transferred.
- “De minimis threshold” criterion: A change in the probability of default by a maximum of 10 basis points in comparison to the initial rating is considered low. The financial instrument is allocated to stage 1 in these cases.
- Qualitative “warning signal” transfer criterion: If certain warning signals are present, a financial instrument is always allocated to stage 2. This includes internal warnings (e.g. observation case or seizure), 30-day arrears, actively intensified loan management and forbearance measures.

Securities are exempt from the above criteria; stages are allocated on the basis of the current rating. If this falls under “investment grade”, it is allocated to stage 1. In all other cases, the securities are allocated to stage 2. The definition of “investment grade” is based on international standards.

There is another exception for financial assets which already showed credit-impairment at initial recognition. In this case, impairment loss is always measured using the life-time expected credit losses of the financial instrument, even when recovery is expected or actually occurs. There is no stage transfer for these instruments.

For the quantitative aspects of the transfer criterion, the current rating is considered. As shown by analysis in the context of maintaining and validating the transfer criterion, this is equivalent to measuring the probability of default over the remaining term.

If the criteria described above for allocation to stages 2 and 3 cease to apply, it is transferred back to stage 1 following a period of compliance.

Depreciation, amortization and write-downs

A financial instrument is written down directly in the event of an actual, potentially only partial, default. This is considered uncollectible if no surrogate substitutes the defaulted receivable. The receivable is derecognized. This is the case, for example, with:

- insolvency, when no further proceeds from the liquidation of collateral or an insolvency ratio are expected
- terminated exposures where the residual receivables cannot be settled
- the claim is waived fully or partially
- sale of receivables with a loss

Exposures that are still subject to enforcement activity after being written down are serviced centrally. The objective is to collect extraordinary income from these receivables. To this end, negotiations are conducted with customers in order to achieve voluntary repayments or settlements, engage in personal enforcement against the debtor’s assets, accompany insolvency proceedings and account for payment transactions.

Balance sheet recognition

For financial assets measured at amortized cost, allowances for losses on loans and securities are deducted directly. The amount remaining after the deduction of allowances for losses on loans and securities is reported in the statement of financial position. For transactions subject to measurement at fair value through other comprehensive income, the amount reported in the statement of financial position is the fair value. Credit losses for off-balance-sheet transactions are shown in the item provisions for credit risks.

23. 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 in active markets are not available, measurement methods, prices for similar assets or liabilities on active markets, 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/dividend 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 spreads, yield curves
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 statement of financial position 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, currency forwards, interest rate swaps and interest rate options, interest forwards, credit derivatives, equity/index options, equity index/dividend futures, commodity options, forward commodity agreements, interest rate swaps
Equity instruments	Investment units, equities, equity investments, shares in affiliates
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial assets measured at amortized cost	
Cash and cash equivalents	Cash, balances with central banks
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial liabilities measured at fair value	
Derivatives	Currency options, currency forwards, interest rate swaps and interest rate options, interest forwards, credit derivatives, equity/index options, equity index/dividend futures, commodity options, forward commodity agreements, interest rate swaps
Delivery obligations from short sales of securities	Delivery obligations from short sales of securities
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions
Financial liabilities measured at amortized cost	
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market 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 a financial instrument 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.

24. Recognition

Net amount

Financial assets and financial liabilities are recognized in the statement of financial position on a net basis if, at the statement of financial position date, the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to liquidate the respective asset and settle the associated liability simultaneously. In all other cases, they are recorded by way of gross disclosure.

If asset and liabilities are reported as offset in the statement of financial position, the associated income and expenditure in the income statement must also be offset, unless offsetting is expressly prohibited by an applicable accounting standard.

Measurement categories and recognition/recognition of gains/losses

Measurement category	Recognition
Recognition in the statement of financial position	
Financial assets measured at amortized cost	Cash and cash equivalents Financial assets measured at amortized cost Total assets
Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through other comprehensive income
Financial assets measured at fair value through profit or loss	Financial assets designated at fair value Financial assets mandatorily measured at fair value through profit or loss
Financial liabilities measured at amortized cost	Financial liabilities measured at amortized cost Other liabilities
Financial liabilities measured at fair value through profit or loss	Financial liabilities designated at fair value Financial liabilities mandatorily measured at fair value through profit or loss
n/a	Non-current assets and disposal groups held for sale Portfolio hedge adjustment attributable to liabilities
Recognition of gains/losses	
Financial assets measured at amortized cost	Net interest income (interest income)
	Net gains/losses on remeasurement and disposal
	Net gains/losses from financial assets measured at amortized cost (allowances for losses on loans and securities, net gains/losses on disposal)
	Net gains/losses from financial instruments measured at fair value through profit or loss (hedge accounting, currency translation)
Financial assets measured at fair value through other comprehensive income	Net interest income (interest income, dividends)
	Net gains/losses on remeasurement and disposal (debt instruments only)
	Net gains/losses from financial instruments measured at fair value through other comprehensive income (allowances for losses on loans and securities, gains/losses on disposal)
	Net gains/losses from financial instruments measured at fair value through profit or loss (hedge accounting, currency translation)
	Net consolidated profit/loss in equity
	Retained earnings (gains/losses from the sale of equity instruments)
	Measurement gains/losses from equity instruments (change in fair value, transfers from gains/losses on disposal to retained earnings)
	Measurement gains/losses from debt instruments (change in fair value, allowances for losses on loans and securities, hedge accounting)
Financial assets measured at fair value through profit or loss	Net interest income (interest income)
	Net gains/losses on remeasurement and disposal
	Net gains/losses from financial instruments measured at fair value through profit or loss (changes in fair value, gains/losses on disposal, hedge accounting, currency translation)
Financial liabilities measured at amortized cost	Net interest income (interest expenses)
	Net gains/losses on remeasurement and disposal
	Net gains/losses from financial instruments measured at fair value through profit or loss (hedge accounting, currency translation)
Financial liabilities measured at fair value through profit or loss	Net interest income (interest expenses)
	Net gains/losses on remeasurement and disposal
	Net gains/losses from financial instruments measured at fair value through profit or loss (changes in fair value, currency translation)
	Net consolidated profit/loss in equity
	Measurement gains/losses from own credit rating (only from fair value option and only if this does not create or increase any measurement discrepancies)

Classes

Financial instruments are to be partially sorted into classes to comply with disclosure requirements. Determining classes requires making discretionary decisions. LBBW’s classes account for measurement categories, balance sheet items and product groups. The level of detail varies for class-related disclosure requirements and has been chosen to ensure that there is not too much non-essential information provided nor is information relevant to decisions hidden.

25. Hedge relationships

Changes in interest rates and exchange rate fluctuations can have a substantial impact on the value of financial instruments. LBBW therefore applies the provisions on accounting for hedge relationships to account for the economic effects of risk management in the banking book. Applying these provisions means that valuation adjustments to the hedged items through profit or loss largely offset the unilateral fluctuations in results, which are not justified from an economic viewpoint, as a result of measuring derivative hedging instruments. The opening pages of the risk report and the explanations on market price risk in the management report provide an insight into LBBW's risk management strategy.

All hedge relationships at LBBW are to hedge the fair value of hedged items (fair value hedges). LBBW uses micro fair value hedges, portfolio fair value hedges and group fair value hedges. Micro and group fair value hedges are recognized in accordance with IFRS 9, whereas portfolio fair value hedges continue to be recognized in line with the provisions of IAS 39. Company-wide portfolio fair value hedges were also recognized in the second half of the year after the the acquisition of Berlin Hyp.

LBBW designated the following risk components as hedged items:

- changes in the fair value of fixed-income underlying transactions as a result of the change to benchmark interest rates (e.g. 3M Euribor) (micro fair value hedge, portfolio fair value hedge)
- changes in the fair value of layer components of nominal amounts from deferred and single currency groups of underlying transactions in foreign currencies as a result of exchange rate fluctuations (group fair value hedge)
- in individual cases, changes in the fair value of fixed-income underlying transactions in foreign currencies as a result of the combined interest rate and currency risk (micro fair value hedge)

Hedged items are accounted for depending on the type of hedge relationship:

- Micro fair value hedge: For financial assets measured at amortized cost, the carrying amount is adjusted. For financial assets measured at fair value through other comprehensive income, it is "Other comprehensive income" in equity. In both cases, the adjustment is made through profit or loss and is equal to the changes in fair value attributable to the hedged risk components. The effect of this on net gains/losses is reported in "Net gains/losses from hedging transactions", a sub-item of "Net gains/losses on remeasurement and disposal". The adjustments to carrying amounts and adjustments in "Other comprehensive income" are amortized over the remaining term of the hedged item in net interest income after the end of the hedge relationship. If the hedge relationship is ended because the hedged item is disposed of (e.g. sale, early redemption), this adjustment is immediately reported in "Net gains/losses on remeasurement and disposal".
- Portfolio fair value hedge: The statements on micro fair value hedge essentially also apply to portfolio fair value hedges. Unlike for micro fair value hedges, however, the changes in fair value attributable to the hedged risk components are recognized separately under "Portfolio hedge adjustment attributable to assets" or "Portfolio hedge adjustment attributable to liabilities".
- Group fair value hedge: The hedged items are recognized in exactly the same way as financial instruments in the same measurement category that are not connected with any hedge relationship. In departure from this, only the gains/losses resulting from currency translation are recognized in "Net gains/losses from hedging transactions".

LBBW uses interest rate swaps and cross currency swaps as hedging instruments. For micro fair value hedges, derivatives are always designated as hedging instruments in their entirety. For portfolio fair value hedges, derivatives can also be designated on a percentage basis. For group fair value hedges, however, currency-basis spreads of cross currency swaps are exempt from being designated as hedging instruments. All hedging instruments are recognized under "Positive fair values from derivative hedging instruments" or "Negative fair values from derivative hedging instruments". Changes to fair value for group fair value hedges attributable to the currency-basis spreads of cross currency swaps relate to period-based hedged items and are reported in "Other comprehensive income". Changes to fair value of the designated hedging instruments are recognized in "Net gains/losses from hedging transactions" through profit or loss.

The use of particular provisions to account for hedge relationships is subject to certain conditions. At the start of a hedge relationship, the hedging transaction must be formally designated and documented, as must the risk management objectives and strategies in connection with the hedge. Furthermore, regular evidence must be provided at the beginning and in the subsequent period that the hedge relationship is effective. Requirements vary for different types of hedges:

- Micro and group fair value hedges: Effectiveness is to be demonstrated prospectively. LBBW demonstrates this monthly. For micro fair value hedges, prospective effectiveness is demonstrated using regression analysis at LBBW (Bank) and critical term matches at Berlin Hyp. Critical term matches are also used for group fair value hedges, which are so far formed only at LBBW (Bank). This indicates whether the hedging instrument and the hedged item are expected to have offsetting future changes in value in relation to the hedged risk, taking into account the credit risk of the hedged item and the hedging transaction. Furthermore, the hedging ratio for the hedging relationship must be the same as the hedging ratio resulting from the volume of actual hedged items and the volume of hedging instruments actually used for hedging.
- Portfolio fair value hedges: Effectiveness is to be demonstrated prospectively and retrospectively. Prospective effectiveness is demonstrated using regression analysis and retrospective effectiveness using the dollar offset method. A hedge is considered effective only if the ratio of the offsetting changes in value of the hedging instrument and the hedged item is between 80% and 125%.

“Net gains/losses from hedging transactions” include the effect on net gains/losses from hedged items and hedging instruments of effective hedge relationships as described above. It thus represents the extent of contributions to net gains/losses attributable to ineffectiveness. In the case of hedge relationships to hedge fair value against interest rate risks, ineffectiveness could be the result, for example, of differences in the measurement parameters for hedged items and hedging instruments (e.g. nominal deviations, maturity mismatches, different interest payment dates, etc.) or of discounting the cash flows from hedged items and hedging instruments using different discounting curves. In the case of hedge relationships to hedge fair value against foreign currency risks, ineffectiveness may arise because measuring the hedging instrument results in contributions to net gains/losses that do not occur in the spot rate-based measurement of the hedged item. LBBW’s micro and group fair value hedges do not contain any basis risks. Accordingly, it is not necessary to adjust the hedging ratio over time at LBBW.

A hedge relationship ends when the hedged item or hedging transaction is disposed of. It also ends if the conditions for recognizing hedging relationships are no longer met. Furthermore, the hedge relationship at LBBW for the portfolio fair value hedge ends at the end of the month. This process reflects the dynamic development of the banking book. Existing transactions expire or are repaid early and new transactions are added. These changes then result in additional hedging instruments being terminated or new such instruments being concluded. For this reason, the hedging relationships in the portfolio fair value hedges are designated and redesignated at the end of the month. The cash flow is allocated to the appropriate time interval for each financial instrument according to the expected maturity.

As part of the IBOR reform, the IASB issued various exemptions for a transitional period that prevent hedging relationships from being terminated prematurely on account of the IBOR reform (see Note 27).

26. Financial guarantees

If the LBBW Group is the assignee, stand-alone financial guarantee contracts that are considered an integral contract component of the secured financial asset are taken into account when determining its allowances for losses on loans and securities under IFRS 9. If the financial guarantees are not considered an integral contract component (in particular to hedge lending portfolios), claims for compensation against the guarantor are capitalized through profit or loss (taken into account in allowances for losses on loans and advances). Related commission payments are recognized as a commission expense on an accrual basis in accordance with IFRS 15.

LBBW also issued a liability with an embedded financial guarantee to hedge a lending portfolio. In this case, the hedging effect is taken into account when measuring the liability recognized at amortized cost. If there is a right to reimbursement, this is done by reducing the effective interest rate of the liability and is thus recognized over the remaining term of the liability in net interest income. As the risk premium for the hedge purchase is reflected in the liability’s (variable) coupon, commission expense is not disclosed separately.

If the LBBW Group is the assignor, financial guarantee contracts are initially recognized at a fair value of zero (net method with equal present values of expected incoming commission payments and expected benefits at arm’s length). As part of subsequent measurement, financial guarantee contracts issues are included in the IFRS 9 impairment model and the related amounts for allowances for losses on loans and securities are recognized under “Provisions for lending business”.

27. IBOR reform

At LBBW, the IBOR reform affects both lending and capital markets products. LBBW set up an independent project to address the many challenges presented by this reform, with representatives from the areas affected by the IBOR reform playing a role.

After existing lending and capital markets transaction were largely transitioned to the alternative reference interest rates in the 2021 financial year, LBBW (Bank)'s IBOR project were completed as planned in the 2022 financial year.

The remaining LIBORs for USD will be discontinued on 30 June 2023. The CDORs for CAD will also be discontinued on 28 June 2024. As previously, no material risks are expected as a result of this transition.

Material accounting methods in connection with the IBOR reform:

- Provided they are a result entirely of the IBOR reform, interest rate adjustments do not entail any substantial modifications, not for the underlying nor for the derivative financial instruments.
- Redesignations of hedged risk components in connection with the IBOR reform do not result in existing hedge relationships being discontinued.
- Settlement payments for derivatives arising in connection with these interest rate adjustments are accrued over the remaining term of the derivatives in question.
- In connection with the change in the measurement of derivatives to the alternative reference interest rates ("discounting switch"), settlement payments made or received as compensation for the effects through profit or loss of the derivatives' valuation adjustments are also recognized through profit or loss at the same time as the valuation adjustments.

As at 31 December 2022, the following transactions were still to be switched on the basis of the IBOR reform:

31/12/2022 EUR billion	Balance sheet figures
Financial assets (excluding derivatives)	*5.2*
of which based on USD LIBOR	5.2

31/12/2022 EUR billion	Nominal amounts
Derivatives	*82.0*
of which based on USD LIBOR	81.8
of which based on CAD CDOR	0.2

LBBW's hedging instruments in the last financial year were essentially based on EURIBOR, CDOR, USD LIBOR, SARON and SONIA. LBBW believes that the conditions for applying the practical expedients granted in IFRS 9.6.8 are still met for USD LIBOR as at 31 December 2022 and, since 16 May 2022, are also met for CDOR.

The nominal volume of the hedging instruments still covered by the exemptions under IFRS 9.6.8 amounted to EUR 13,154 million as at 31 December 2022 (previous year: EUR 22,463 million). The hedged risk components were still separately identifiable as at 31 December 2022.

28. Government grants

LBBW accounts for European Central Bank (ECB)'s targeted longer-term refinancing operations (TLTRO) in accordance with IFRS 9 and IAS 20. The base rate reduction and additional interest rate reductions in the Special and Additional Special Interest Period, which are granted if certain conditions are met, were accounted for as government grants in accordance with IAS 20. As an institution of the European Union, the ECB performs sovereign functions (e.g. setting and carrying out monetary policy, monitoring the banking system) and so is to be considered under "government" as per IAS 20.3. As interest rate deductions are not customary for the ECB's usual open market operations (in particular main or longer-term refinancing operations), the loans bear interest at a rate below the market rate. This benefit is not to be recognized (where applicable, cumulatively for the past) until the period in which there is reasonable assurance that the Group will comply with the conditions attached and that the grant will be received. The benefit is assigned in profit or loss to the periods in which the costs to be compensated by the grant are recognized as an expense. These are the regular refinancing costs resulting from (expanded) lending, which are incurred on a pro rata basis during the term of the tender. Income generated as a result of the reductions is reported as a reduction in interest expenses (net presentation).

The conditions for recognizing additional interest rate reductions (hereinafter referred to as the bonus) of EUR 68 million (previous year: EUR 186 million) were met in the year under review. Alongside the base rate reduction of EUR 67 million (previous year: EUR 133 million), net interest income for the reporting year included a total of EUR 135 million (previous year: EUR 319 million) in connection with government grants.

In contrast, interest after the Additional Special Interest Period is again based solely on IFRS 9. LBBW considers these refinancing operations variable rate financial instruments. The effective interest rate is updated after each change to the deposit facility. This also includes expected future changes to the deposit facility. The recalibration of the conditions of these refinancing operations by the ECB was also accounted for by adjusting the effective interest rate. Early repayment intentions by LBBW as a result of the recalibration were represented through adjustments to carrying amounts through profit or loss.

Financial assets

29. Cash and cash equivalents

EUR million	31/12/2022	31/12/2021
Balances with central banks	10,404	36,682
Cash	165	189
Total, gross	*10,569*	*36,871*
Allowances for losses on loans and securities	– 0	– 0
Total, net	*10,569*	*36,871*

Balances with central banks included balances with Deutsche Bundesbank of EUR 593 million (previous year: EUR 24,079 million).

30. Financial assets measured at amortized cost

Loans and advances to banks

EUR million	31/12/2022	31/12/2021
Public-sector loans	69,897	34,106
Current account claims	670	418
Securities repurchase transactions	6,886	6,828
Other loans	893	1,056
Schuldschein loans	10	0
Overnight and term money	2,671	3,480
Other receivables	324	614
Total, gross	*81,351*	*46,501*
Allowances for losses on loans and securities	– 69	– 32
Total, net	*81,283*	*46,468*

The rise in public-sector loans was chiefly due to a EUR 34.5 billion deposit under the ECB’s deposit facility.

Of loans and advances to banks (gross), EUR 31 billion (previous year: EUR 28 billion) had a term of over twelve months as at the reporting date.

The item Loans and advances to banks also included transmitted loans of EUR 27,765 million (previous year: EUR 26,278 million) in the sub-item public-sector loans.

Loans and advances to customers

EUR million	31/12/2022	31/12/2021
Other loans	27,649	25,136
Mortgage loans	66,848	38,801
Public-sector loans	13,339	14,124
Receivables from finance leases	5,676	5,571
Transmitted loans	4,060	3,580
Securities repurchase transactions	7,257	9,042
Current account claims	2,936	2,113
Overnight and term money	5,885	9,861
Schuldschein loans	8,032	8,055
Other receivables	6,226	4,855
Total, gross	*147,907*	*121,139*
Allowances for losses on loans and securities	– 1,364	– 1,288
Total, net	*146,542*	*119,851*

By acquiring Berlin Hyp, LBBW benefited from its expertise in the area of commercial real estate financing. The portfolio of mortgage backed loans increased dramatically as a result. LBBW also further expanded its corporate finance business.

Loans and advances to customers (gross) amounting to EUR 103,044 million (previous year: EUR 83,380 million) had a term of over twelve months as at the reporting date.

As well as the transmitted loans shown in the table, the sub-item mortgage loans also included transmitted loans of EUR 3,128 million (previous year: EUR 3,142 million), with the sub-item public-sector loans containing transmitted loans of EUR 900 million (previous year: EUR 1,013 million).

Debentures and other fixed-income securities

EUR million	31/12/2022	31/12/2021
Government bonds and government debentures	257	318
Other bonds and debentures	896	694
Total, gross	*1,152*	*1,012*
Allowances for losses on loans and securities	– 8	– 8
Total, net	*1,144*	*1,004*

Debentures and other fixed-income securities amounting to EUR 1,074 million (previous year: EUR 1,001 million) had a term of over twelve months as at the reporting date.

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	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2022	*89*	*716*	*524*	*– 1*	*1,328*
Changes	292	– 378	91	4	9
Transfer to Stage 1	358	– 357	– 0	0	– 0
Transfer to Stage 2	– 10	12	– 1	0	– 0
Transfer to Stage 3	– 4	– 6	10	0	0
Additions	21	63	205	4	293
Reversals	– 72	– 90	– 63	– 0	– 224
Utilization	0	0	– 60	0	– 60
Additions	128	7	56	0	191
Disposals	– 5	– 18	– 80	0	– 103
Other changes	0	1	15	0	17
Balance as at 31 December 2022	*503*	*328*	*607*	*3*	*1,441*

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2021	*44*	*520*	*541*	*– 0*	*1,104*
Changes	33	207	50	– 1	289
Transfer to Stage 1	17	– 16	– 1	0	– 0
Transfer to Stage 2	– 11	14	– 2	0	0
Transfer to Stage 3	– 1	– 17	19	0	0
Additions	53	290	176	0	519
Reversals	– 25	– 63	– 95	– 6	– 188
Utilization	0	– 0	– 47	5	– 42
Additions	18	13	13	0	43
Disposals	– 6	– 25	– 93	– 0	– 125
Other changes	1	2	14	0	17
Balance as at 31 December 2021	*89*	*716*	*524*	*– 1*	*1,328*

It is a great challenge to calculate the allowances for losses on loans and securities given the current economic and geopolitical uncertainties (e.g. Ukraine conflict). Statistical allowances for losses on loans and securities, which are based on normal economic situations and calibrated in line with cyclical averages, do not provide unlimited reliability in the current situation. For this reason, LBBW determined allowances for losses on loans and securities at the end of 2022 using a multi-scenario approach that adequately represents the many possible economic developments. This involved forecasting single and multi-year PDs on the basis of macrofactor projections using quantitative macromodels and making qualitative adjustments to PD projections for customers in particularly energy-intensive industries competing outside Europe in order to account for the disruption to energy markets caused by Russia's invasion of Ukraine. The IFRS 9 stage transfer that was cyclically adjusted in the previous year no longer exists and so the shares transferred to stage 2 were transferred back to stage 1. Allowances for losses on loans and securities to quantify the effects of structural change towards e-mobility were reduced marginally towards the end of 2021. This decline was essentially a result of a reduction in the portfolio volume. Overall, model adjustments increased allowances for losses on loans and securities by EUR 206 million (net). This also included components recognized in lending business provisions.

For more details on changes in allowances for losses on loans and securities see Notes 13 and 32.

The following table shows the development of gross carrying amounts:

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2022	*138,773*	*28,767*	*1,081*	*30*	*168,652*
Changes	– 8,628	– 6,728	291	– 0	– 15,065
Transfer to Stage 1	13,530	– 13,527	– 3	0	0
Transfer to Stage 2	– 8,396	8,428	– 33	0	0
Transfer to Stage 3	– 253	– 179	432	0	– 0
Repayments	– 13,509	– 1,450	– 106	– 0	– 15,066
Additions	120,219	70	0	0	120,289
Disposals	– 76,453	– 3,962	– 197	0	– 80,612
Write-downs through profit or loss (direct write-down)	0	0	– 4	0	– 4
Write-downs through other comprehensive income (use of allowances for losses on loans and securities)	0	0	– 60	0	– 60
Change from basis of consolidation	26,111	0	0	0	26,111
Other changes	10,092	870	138	0	11,100
Balance as at 31 December 2022	*210,113*	*19,018*	*1,249*	*30*	*230,410*

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 31 December 2020	*138,686*	*38,840*	*1,053*	*28*	*178,607*
Restatement of prior year amounts	– 7	0	0	0	– 7
Balance as at 1 January 2021	*138,679*	*38,840*	*1,053*	*28*	*178,600*
Changes	– 7,437	– 6,859	287	– 1	– 14,009
Transfer to Stage 1	16,413	– 16,415	2	0	0
Transfer to Stage 2	– 12,521	12,566	– 45	0	– 0
Transfer to Stage 3	– 176	– 333	509	0	0
Repayments	– 11,152	– 2,678	– 178	– 1	– 14,009
Additions	83,405	4	– 13	67	83,462
Disposals	– 86,175	– 4,006	– 199	– 14	– 90,394
Write-downs through profit or loss (direct write-down)	0	0	– 7	0	– 7
Write-downs through other comprehensive income (use of allowances for losses on loans and securities)	0	0	– 47	5	– 41
Other changes	10,301	788	7	– 55	11,041
Balance as at 31 December 2021	*138,773*	*28,767*	*1,081*	*30*	*168,652*

Sensitivity analysis

The cyclically adjusted allowances for losses on loans and securities are determined using a multi-scenario model based on macrofactor projections by LBBW Research. Four scenarios were considered at the end of 2022 that adequately represent the possible economic developments: (1) a basis scenario, (2) a negative scenario featuring a further increase in inflation and a two-year recession (negative inflation), (3) a negative scenario featuring a severe recession in 2023 caused by an escalation in Russia's war against Ukraine (negative Russia) and (4) a positive scenario. Following on from the macro factor projections in the scenarios, the PD and, where applicable, LGD parameters contingent on these are forecast using quantitative macro models and aggregated to form the expected credit loss in the scenario in question. The expected credit loss of a financial instrument is the probability-weighted average of the expected credit losses in the four scenarios.

German GDP growth is the most important macro factor in the quantitative macro model to calculate allowances for losses on loans and securities. At the end of 2022, average GDP growth across the four macro scenarios considered was assumed to be – 1.5% in the first forecast year, with zero growth projected for the second year and an economic recovery with GDP growth of 1.4% in the third year. With a GDP decline of 1.5 percentage points p.a. in the first three forecast years, allowances for losses on loans and securities would rise by around EUR 100 million. This is around EUR 25 million higher than the additional allowances for losses on loans and securities that would result in the negative inflation scenario. A one percentage point p.a. GDP rise compared to the figure expected at the end of the year would reduce allowances for losses on loans and securities by around EUR 70 million, provided the level of the model adjustments otherwise remained unchanged. The sensitivity analysis is based throughout on the cautious assumption that the scope and effectiveness of government measures to prevent defaults are limited.

Modifications

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

31/12/2022 EUR million	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	1,702	346	1	2,049

31/12/2021 EUR million	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	1,644	195	2	1,841

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.

31. Financial assets measured at fair value through other comprehensive income

EUR million	31/12/2022	31/12/2021
Equity instruments	*46*	*61*
Equity investments	43	58
Shares in affiliates	3	3
Debentures and other fixed-income securities	*33,474*	*29,801*
Money market instruments	858	652
Bonds and debentures	32,616	29,149
Receivables	*3,147*	*3,426*
Total	*36,668*	*33,288*

Bonds and debentures saw an increase. The portfolio was expanded by EUR 5.1 billion due to the acquisition of Berlin Hyp, although the decrease in securities held to manage liquidity resulted in a reduction of EUR – 1.7 billion.

The item “Financial assets measured at fair value through other comprehensive income” contains EUR 4,097 million (previous year: EUR 470 million) in total collateral provided with the protection buyer’s right to resell or repledge.

“Financial assets measured at fair value through other comprehensive income” amounting to EUR 30,500 million (previous year: EUR 27,983 million) had a term of over twelve months as at the reporting date.

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	Total
Balance as at 1 January 2022	*3*	*3*
Changes	– 1	– 1
Reversals	– 1	– 1
Additions	6	6
Balance as at 31 December 2022	*8*	*8*

EUR million	Stage 1	Total
Balance as at 1 January 2021	*3*	*3*
Changes	– 1	– 1
Reversals	– 1	– 1
Additions	1	1
Balance as at 31 December 2021	*3*	*3*

The following table shows the development of gross carrying amounts:

EUR million	Stage 1	Stage 2	Total
Balance as at 1 January 2022	*33,220*	*7*	*33,227*
Changes	– 201	– 7	– 208
Transfer to Stage 1	7	– 7	0
Repayments	– 208	0	– 208
Additions	9,633	0	9,633
Disposals	– 9,105	0	– 9,105
Change from basis of consolidation	6,165	0	6,165
Other changes	– 3,089	– 0	– 3,090
Balance as at 31 December 2022	*36,621*	*– 0*	*36,621*

EUR million	Stage 1	Stage 2	Total
Balance as at 1 January 2021	*34,751*	*0*	*34,751*
Changes	– 460	7	– 453
Transfer to Stage 2	– 7	7	0
Transfer to Stage 3	0	0	0
Repayments	– 453	0	– 453
Additions	6,108	0	6,108
Disposals	– 6,551	0	– 6,551
Other changes	– 629	0	– 629
Balance as at 31 December 2021	*33,220*	*7*	*33,227*

Note 34 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

32. 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, LBBW México Sofom and, for the first time in the 2022 financial year, Berlin Hyp are included in consolidation under the management approach. Prior year figures exclude Berlin Hyp. In line with internal risk management, the primary parameter in the information below is gross/net exposure.

All Central banks holdings have been included in the internal reporting since the 2022 financial year. External reporting was compared against internal disclosures. The relevant prior year figures in the annual report were restated to improve clarity and transparency. In rating 1 (AAAA), the Financials sector and Germany region thus report a EUR 23 billion higher gross exposure and net exposure as at 31 December 2021. Only stage 1 financial instruments are affected.

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 (equal to gross exposure) and the effect of risk-mitigating measures.

31/12/2022 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	40,451	43	0	407	40,001
Equity instruments	1,506	0	0	0	1,506
Debentures and other fixed-income securities	35,947	43	0	0	35,904
Receivables	2,997	0	0	407	2,590
Financial assets designated at fair value	1,846	0	937	0	908
Debentures and other fixed-income securities	37	0	0	0	37
Receivables	1,809	0	937	0	872
Financial assets mandatorily measured at fair value through profit or loss	156,397	136,182	7,019	578	12,618
Trading assets	144,778	125,375	7,019	485	11,898
Derivatives	113,335	103,774	4,738	73	4,750
Equity instruments	628	569	0	0	59
Debentures and other fixed-income securities	6,943	3,179	516	138	3,110
Receivables	23,872	17,854	1,765	274	3,979
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	863	132	0	93	638
Equity instruments	476	132	0	0	344
Receivables	386	0	0	93	293
Positive fair values from derivative hedging instruments	10,757	10,674	0	0	82
Financial assets measured at amortized cost					
Cash and cash equivalents	9,938	0	0	0	9,938
Financial assets measured at amortized cost	246,509	36,483	0	67,726	142,299
Loans and advances to banks	98,929	25,785	0	641	72,503
Loans and advances to customers	146,445	10,698	0	67,086	68,662
Debentures and other fixed-income securities	1,135	0	0	0	1,135
Total	*455,141*	*172,707*	*7,956*	*68,712*	*205,765*
Loan commitments and other agreements	79,066	0	0	4,491	74,575
Total exposure	*534,207*	*172,707*	*7,956*	*73,203*	*280,340*

31/12/2021[1] EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	33,364	0	0	0	33,364
Equity instruments	1,491	0	0	0	1,491
Debentures and other fixed-income securities	29,105	0	0	0	29,105
Receivables	2,767	0	0	0	2,767
Financial assets designated at fair value	1,240	0	310	0	930
Debentures and other fixed-income securities	56	0	0	0	56
Receivables	1,184	0	310	0	874
Financial assets mandatorily measured at fair value through profit or loss	84,972	62,623	5,613	663	16,074
Trading assets	76,809	55,477	5,613	663	15,057
Derivatives	52,951	41,373	4,110	498	6,971
Equity instruments	566	535	0	0	31
Debentures and other fixed-income securities	6,538	2,629	471	0	3,439
Receivables	16,753	10,940	1,032	165	4,616
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,137	195	0	0	942
Equity instruments	592	195	0	0	397
Receivables	545	0	0	0	545
Positive fair values from derivative hedging instruments	7,027	6,952	0	0	75
Financial assets measured at amortized cost					
Cash and cash equivalents	36,630	0	0	0	36,630
Financial assets measured at amortized cost	186,407	43,143	0	41,206	102,057
Loans and advances to banks	65,784	28,492	0	681	36,612
Loans and advances to customers	119,671	14,651	0	40,526	64,494
Debentures and other fixed-income securities	951	0	0	0	951
Total	*342,613*	*105,767*	*5,922*	*41,870*	*189,055*
Loan commitments and other agreements	69,161	0	0	3,429	65,732
Total exposure	*411,774*	*105,767*	*5,922*	*45,298*	*254,787*

1 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

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 534 billion as at 31 December 2022 is EUR 254 billion or 47.5% in total (previous year: 38.1%). The higher share of risk mitigation is mainly on account of collateral performance of interest rate derivatives. Credit collateral rose, primarily as a result of adding the Berlin Hyp portfolio. 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.

Of the total portfolio of EUR 534 billion of gross exposures and EUR 280 billion of net exposures as at 31 December 2022, transactions of EUR 368 billion of gross exposures (previous year: EUR 313 billion) and EUR 262 billion of net exposures (previous year: EUR 232 billion) are within the scope of the provisions of IFRS 9 on allowances for losses on loans and securities.

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 around EUR 1.4 billion and net exposure of EUR 1.1 billion as at 31 December 2022.

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

31/12/2022 EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,204	309	895
Loans and advances to banks	48	0	48
Loans and advances to customers	1,156	309	847
Total	*1,204*	*309*	*895*
Loan commitments and other agreements	192	25	167
Total exposure	*1,396*	*334*	*1,062*

31/12/2021 EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,020	300	720
Loans and advances to banks	18	0	18
Loans and advances to customers	1,002	300	702
Total	*1,020*	*300*	*720*
Loan commitments and other agreements	331	20	311
Total exposure	*1,351*	*319*	*1,031*

The outstanding contract value for financial assets that were written down during the reporting period but for which enforcement proceedings are still pending amounted to EUR 2 million (previous year: EUR 33 million).

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)

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	61,828	73	0	0	61,901
1 (AAA)–1 (A-)	167,247	1,360	0	1	168,608
2–5	86,587	9,213	0	10	95,810
6–8	18,110	8,291	0	0	26,401
9–10	2,034	2,645	0	0	4,678
11–15	2,237	3,403	0	0	5,640
16–18 (default)[1]	0	0	1,341	55	1,396
Other[2]	3,279	22	0	0	3,301
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

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.

31/12/2021[3] EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	53,645	1,268	0	0	54,913
1 (AAA)–1 (A-)	135,039	12,360	0	1	147,400
2–5	60,142	18,790	0	10	78,942
6–8	9,088	8,402	0	0	17,490
9–10	1,324	3,545	0	0	4,869
11–15	1,037	3,946	0	0	4,982
16–18 (default)[1]	0	0	1,306	44	1,351
Other[2]	3,118	164	0	0	3,282
Gross exposure	*263,393*	*48,474*	*1,306*	*56*	*313,229*

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.
3 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

Gross exposure by sector

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Financials	*160,142*	*1,059*	*67*	*0*	*161,268*
Corporates	*92,247*	*15,262*	*1,046*	*55*	*108,609*
Automotive	7,924	2,511	466	41	10,943
Construction	9,515	652	63	0	10,230
Chemicals and commodities	7,523	1,134	13	0	8,670
of which chemicals	3,557	623	0	0	4,180
of which commodities	3,966	511	13	0	4,490
Retail and consumer goods	14,871	2,860	198	0	17,929
of which consumer goods	11,047	1,166	40	0	12,253
of which durables	3,824	1,694	158	0	5,676
Industry	10,240	1,686	137	11	12,074
Pharmaceuticals and healthcare[1]	4,910	685	45	3	5,643
TM and electronics/IT[1]	10,995	684	15	0	11,694
Transport and logistics	6,214	2,160	28	0	8,401
Utilities and energy[1]	10,878	2,378	61	0	13,318
of which utilities and disposal companies	6,979	1,486	56	0	8,521
of which renewable energies	3,899	893	5	0	4,797
Other	9,176	511	20	0	9,707
Real estate	*61,688*	*6,962*	*204*	*1*	*68,855*
Commercial real estate (CRE)	43,214	5,497	200	0	48,911
Housing	18,474	1,465	4	1	19,944
Public sector	*17,185*	*72*	*0*	*0*	*17,257*
Private individuals	*10,062*	*1,652*	*25*	*10*	*11,747*
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

1 Growth sectors. New growth sector added in 2022, consumer goods.

31/12/2021² EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Financials	*138,059*	*10,788*	*29*	*0*	*148,875*
Corporates	*73,107*	*25,557*	*1,140*	*44*	*99,849*
Automotive	6,160	4,315	492	41	11,009
Construction	8,106	1,563	103	0	9,773
Chemicals and commodities	4,958	2,241	20	0	7,219
of which chemicals	2,881	872	1	0	3,753
of which commodities	2,077	1,369	20	0	3,466
Retail and consumer goods	12,279	5,570	221	0	18,070
of which consumer goods[1]	9,405	3,197	51	0	12,654
of which durables	2,874	2,373	169	0	5,416
Industry	8,176	3,020	162	0	11,358
Pharmaceuticals and healthcare[1]	4,748	637	15	3	5,403
TM and electronics/IT[1]	6,617	1,602	19	0	8,238
Transport and logistics	4,759	3,121	25	0	7,905
Utilities and energy[1]	9,906	2,139	62	0	12,107
of which utilities and disposal companies	6,070	1,355	57	0	7,482
of which renewable energies	3,836	784	5	0	4,625
Other	7,398	1,349	20	0	8,767
Real estate	*27,781*	*8,414*	*110*	*1*	*36,307*
Commercial real estate (CRE)	18,910	6,698	106	0	25,714
Housing	8,870	1,717	4	1	10,593
Public sector	*14,528*	*1,861*	*0*	*0*	*16,390*
Private individuals	*9,919*	*1,853*	*27*	*10*	*11,809*
Gross exposure	*263,393*	*48,474*	*1,306*	*56*	*313,229*

1 Growth sectors. New growth sector added in 2022, consumer goods.
2 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

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. This is because the credit ratings of the two customer groups are affected by the economic downside risks resulting from factors including the shortage of raw materials and intermediates, disruption to global supply chains, sustained high inflation, interest rate hikes and geopolitical tension.

Gross exposure by region

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Germany	218,970	16,651	994	28	236,643
Western Europe (excluding Germany)	74,343	4,143	50	28	78,565
North America	28,703	1,888	164	3	30,757
Asia/Pacific	10,451	830	13	0	11,294
Other[1]	8,855	1,494	121	7	10,476
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

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

31/12/2021[2] EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Germany	166,848	24,759	1,065	18	192,690
Western Europe (excluding Germany)	65,863	8,683	38	28	74,613
North America	26,880	2,095	85	3	29,063
Asia/Pacific	968	8,758	17	0	9,743
Other[1]	2,833	4,179	102	7	7,121
Gross exposure	*263,393*	*48,474*	*1,306*	*56*	*313,229*

1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions).
2 Restatement of prior year amounts due to methodology changes in the presentation of central bank deposits.

The risk report contains further information on impairment on the portfolio and qualitative disclosures.

Forbearance

As at 31 December 2022, LBBW held assets with a net carrying amount of EUR 1,371 million (previous year: EUR 1,536 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 287 million (previous year: EUR 299 million) sub-portfolio of the assets for which forbearance measures had been adopted comprised credit-impaired assets.

LBBW has received guarantees of EUR 140 million (previous year: EUR 316 million) for assets with forbearance measures.

The risk report contains further information on impairment on the portfolio and qualitative disclosures.

33. Collateral

Issuer

LBBW pledges collateral especially within the scope of the development loan business and repurchase transaction agreements. Collateral is generally provided at commercially available terms that are determined in standard agreements. With securities repurchase agreements, the protection buyer has the right to dispose of or repledge the collateral in the meantime. Overall, assets in the amount of EUR 47,360 million (previous year: EUR 49,607 million) were assigned as collateral for liabilities or contingent liabilities.

Assignee

On the basis of securities repurchase transactions, LBBW receives securities pledged as collateral, which it has the right to resell or repledge, provided it returns securities of equal value at the end of the transaction. The fair value of the financial or non-financial assets received as collateral, which LBBW may sell or repledge even if the owner of such collateral is not in default, totals EUR 25,406 million (previous year: EUR 26,747 million). Of the collateral received, LBBW is required to return collateral with a total fair value of EUR 25,406 million (previous year: EUR 26,747 million) to its owners. The fair value of collateral disposed of or forwarded with an obligation to return the securities to the owner amounted to EUR 3,268 million (previous year: EUR 3,303 million).

34. 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 46 million as at the end of the reporting period (previous year: EUR 61 million; see Note 31).

Dividends of EUR 2 million (previous year: EUR 2 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the financial year. As in the previous year, these related entirely to equity instruments held at the reporting date.

35. Financial assets designated at fair value

EUR million	31/12/2022	31/12/2021
Debentures and other fixed-income securities	*37*	*57*
Bonds and debentures	37	57
Receivables	*1,742*	*1,317*
Total	*1,779*	*1,374*

“Financial assets designated at fair value” amounting to EUR 1,606 million (previous year: EUR 1,360 million) had a term of over twelve months as at the reporting date.

31/12/2022 EUR million	Cumulative changes in fair value resulting from the credit spread	Changes in fair value resulting from the credit spread in the year under review
Debentures and other fixed-income securities	– 1	– 0
Receivables	4	1
Total	*3*	*1*

31/12/2021 EUR million	Cumulative changes in fair value resulting from the credit spread	Changes in fair value resulting from the credit spread in the year under review
Debentures and other fixed-income securities	– 0	0
Receivables	3	3
Total	*2*	*4*

The maximum default risk is shown in Note 32.

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

EUR million	31/12/2022	31/12/2021
Trading assets	38,126	34,526
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	728	1,033
Positive fair values from derivative hedging instruments	525	1,416
Total	*39,379*	*36,976*

Trading assets

EUR million	31/12/2022	31/12/2021
Positive fair values from derivative financial instruments	*19,586*	*16,949*
Equity instruments	*603*	*540*
Equities	463	366
Investment fund units	138	171
Other securities	3	4
Debentures and other fixed-income securities	*6,497*	*6,395*
Money market instruments	53	368
Bonds and debentures	6,444	6,026
Receivables	*11,440*	*10,642*
Schuldschein loans	4,042	3,654
Other money market transactions	1,666	2,365
Receivables from securities repurchase agreements	4,592	3,730
Other receivables	1,140	893
Total	*38,126*	*34,526*

Positive fair values from derivative financial instruments increased, with the majority attributable to interest-related derivatives.

The item contains EUR 138 million (previous year: EUR 353 million) in total collateral provided with the protection buyer’s right to resell or repledge.

Trading assets amounting to EUR 24,533 million (previous year: EUR 26,399 million) had a term of over twelve months as at the reporting date.

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

EUR million	31/12/2022	31/12/2021
Equity instruments	*411*	*484*
Equities	3	5
Investment fund units	174	277
Equity investments	210	170
Shares in affiliates	23	32
Debentures and other fixed-income securities	*2*	*2*
Silent partner contributions	2	2
Receivables	*315*	*547*
Loans and advances to customers	315	547
Total	*728*	*1,033*

Assets of EUR 294 million (previous year: EUR 532 million) had a term of over twelve months as at the reporting date.

Positive fair values from derivative hedging instruments

EUR million	31/12/2022	31/12/2021
Positive fair values from portfolio fair value hedges	340	1,115
Positive fair values from micro fair value hedges	142	301
Positive fair values from group fair value hedges	43	0
Total	*525*	*1,416*

Current interest rate trends caused positive fair values from derivative hedging instruments to decline considerably.

Positive fair values from derivative hedging instruments amounting to EUR 457 million (previous year: EUR 1,362 million) had a term of over twelve months as at the reporting date.

The “Positive fair values from derivative hedging instruments” were broken down by hedged items as follows:

EUR million	31/12/2022	31/12/2021
Assets		
Debentures and other fixed-income securities FVOCR	1	0
Derivative hedging instruments on group fair value hedges	43	0
Equity and liabilities		
Derivative hedging instruments on deposits from banks	0	6
Derivative hedging instruments on deposits from customers	43	97
Derivative hedging instruments on securitized liabilities	21	19
Derivative hedging instruments on subordinated liabilities	77	178
Derivative hedging instruments on portfolio fair value hedges	340	1,115
Total	*525*	*1,416*

37. Transfer of financial assets

Transferred financial assets that are not derecognized in their entirety

The transferred assets comprise mainly own assets that LBBW transferred or lent in the development loan business, and in securities lending or repurchase transactions. The receivables transferred within the scope of the development loan business may not be resold by LBBW in the interim. With securities lending or repurchase transactions, the right to use the securities expires with the transfer. The counterparties of the associated liabilities do not have exclusive access to these assets.

	Transferred assets continue to be recognized in full	
31/12/2022 EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Financial assets measured at fair value		
Financial assets measured at fair value through other comprehensive income	4,434	4,160
Financial assets designated at fair value	188	188
Financial assets mandatorily measured at fair value through profit or loss	595	528
Trading assets	595	528
Financial assets measured at amortized cost		
Financial assets measured at amortized cost	41,519	41,590
Loans and advances to banks	27,892	27,948
Loans and advances to customers	13,626	13,643

	Transferred assets continue to be recognized in full	
31/12/2021 EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Financial assets measured at fair value		
Financial assets measured at fair value through other comprehensive income	4,421	3,848
Financial assets designated at fair value	226	226
Financial assets mandatorily measured at fair value through profit or loss	976	967
Trading assets	976	967
Financial assets measured at amortized cost		
Financial assets measured at amortized cost	40,344	40,330
Loans and advances to banks	26,369	26,359
Loans and advances to customers	13,975	13,972

Financial liabilities

38. Financial liabilities measured at amortized cost

Deposits from banks

EUR million	31/12/2022	31/12/2021
Securities repurchase transactions	80	255
Transmitted loans	35,829	34,067
Schuldschein loans	2,553	2,621
Overnight and term money	40,014	45,495
Public-sector registered covered bonds issued	413	399
Current account liabilities	1,946	2,592
Mortgage-backed registered covered bonds issued	290	58
Other liabilities	2,957	2,773
Total	*84,082*	*88,259*

The volume of overnight and term deposits declined, essentially due to the repayment of deposits from the ECB in connection with participation in the tender program (TLTRO III). This was partially offset by higher overnight and term deposits from savings and commercial banks.

Accounts payable from participating in targeted longer-term refinancing operations (TLTRO III) still came to EUR 20.2 billion as at the end of the reporting period (previous year: EUR 27.6 billion, see Note 27). This included EUR 2.5 billion from the addition of a subsidiary.

Transmitted loans increased due to higher deposits from development loan banks. As well as the transmitted loans shown in the table, the item Other liabilities also includes transmitted loans of EUR 64 million (previous year: EUR 0 million).

As at the reporting date, the item included liabilities of EUR 44,162 million (previous year: EUR 63,295 million) with a remaining term to maturity of over twelve months.

Deposits from customers

EUR million	31/12/2022	31/12/2021
Current account liabilities	59,885	58,932
Overnight and term money	38,822	24,448
Schuldschein loans	3,956	2,673
Securities repurchase transactions	1,134	1,476
Public-sector registered covered bonds issued	2,736	1,712
Savings deposits	4,645	4,868
Mortgage-backed registered covered bonds issued	1,462	188
Other liabilities	3,108	2,724
Total	*115,748*	*97,022*

The rise in issued debentures was primarily due to the acquisition of Berlin Hyp with a EUR 2.9 billion portfolio increase. Higher interest rates made deposits more attractive and resulted in a significant increase in the volume of overnight and term deposits due to new market conditions, EUR 0.9 billion of which was due to the first-time consolidation of Berlin Hyp.

The sub-item Other liabilities included transmitted loans of EUR 179 million (previous year: EUR 43 million).

As at the reporting date, the item included liabilities of EUR 9,889 million (previous year: EUR 5,979 million) with a remaining term to maturity of over twelve months.

Securitized liabilities

EUR million	31/12/2022	31/12/2021
Issued debentures	*51,131*	*28,721*
Mortgage-backed covered bonds	21,333	7,184
Public-sector covered bonds	5,030	4,048
Other debentures	24,767	17,489
Other securitized liabilities	*17,529*	*16,148*
Total	*68,660*	*44,869*

The acquisition of Berlin Hyp and the related first-time recognition of holdings of EUR 20.6 billion increased securitized liabilities considerably, which was particularly evident in the rise in mortgage-backed covered bonds and other debentures. The New York branch further stepped up its short-term financing with commercial papers and certificates of deposits and more money market instruments were also issued in London and at the registered office in Stuttgart, resulting in a rise in money market transactions.

As at the reporting date, this item included securitized liabilities of EUR 45,308 million (previous year: EUR 22,551 million) with a remaining term to maturity of over twelve months.

Further information on issuing activities can be found in Note 42.

Subordinated capital

In the event of insolvency proceedings or liquidation, the reported “Subordinated capital” may not be repaid until all non-subordinated creditors have been satisfied.

EUR million	31/12/2022	31/12/2021
Typical silent partners' contributions	891	911
Subordinated liabilities	4,255	4,092
Capital generated from profit participation rights	21	21
Total	*5,167*	*5,024*

The first-time recognition of Berlin Hyp increased the carrying amount by EUR 229 million. No new subordinated liabilities were raised in the calendar year. This figure compared with repayments of EUR 10 million (nominal amount).

“Subordinated capital” of EUR 4,545 million (previous year: EUR 4,927 million) had a term of over twelve months as the reporting date.

Subordinated liabilities

The following subordinated liabilities (incl. subordinated liabilities designated at fair value) existed at the statement of financial position date, broken down according to product type.

	31/12/2022			31/12/2021		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated EUR bearer notes	2,251	31	2,282	2,251	29	2,280
Subordinated EUR registered securities	1,057	14	1,071	839	9	848
Subordinated foreign currency bearer bonds	1,291	36	1,327	1,452	36	1,488
Total	*4,599*	*81*	*4,680*	*4,542*	*74*	*4,616*

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 419 million (previous year: EUR 620 million). No subordinated liabilities “designated at fair value” were newly raised during the calendar year.

The interest expense on subordinated liabilities (incl. subordinated liabilities designated at fair value) was EUR – 150 million (previous year: EUR – 153 million).

Capital generated from profit participation rights

Pursuant to Article 64 CRR, amortization of the Tier 2 instruments shall occur on the basis of the number of days that have passed in the last five years of their term. At the end of 2022, no more profit participation rights could thus be counted as supplementary capital for regulatory purposes.

The terms of material profit-participation rights (incl. profit-participation rights designated at fair value) were as follows at the statement of financial position date:

31/12/2022 EUR million	Nominal amount	Interest rate in % p.a.	End of term
Registered participation rights			
Corporates	44	6.20 to 6.80	by 31/12/2022
Banks	0		
Public undertaking	0		
Total	*44*		

31/12/2021 EUR million	Nominal amount	Interest rate in % p.a.	End of term
Registered participation rights			
Corporates	44	6.20 to 6.80	by 31/12/2022
Banks	0		
Public undertaking	0		
Total	*44*		

The table above include registered participation rights “designated at fair value” with nominal capital in the amount of EUR 24 million (previous year: EUR 24 million).

Net interest income for capital generated from profit-participation rights for the financial year (including profit-participation rights designated at fair value) totaled EUR – 3 million (previous year: EUR – 6 million).

Typical silent partners' contributions

The silent partners' contributions do not meet the requirements of Article 52 CRR for additional Tier 1 instruments (AT 1). After the transitional provisions in Article 484 CRR expire, they will be considered in accordance with the applicable provisions, provided the conditions in place here for supplementary capital are met.

		Nominal amount	
Term[1]	Dividend payout as a percentage of the nominal amount	31/12/2022 EUR million	31/12/2021 EUR million
13/02/1994 – 31/12/2023 (terminated)	1.7	8.9	8.9
17/12/1993 – 31/12/2024 (terminated)	3.7	4.7	4.7
19/05/1999 – 31/12/2024	7.1	20.0	20.0
13/07/2001 – 31/12/2026[2]	1.6	15.0	15.0
01/10/1999 – 31/12/2029	8.03 – 8.20	49.0	49.0
10/03/2000 – 31/12/2030	8.05 – 8.25	10.0	10.0
02/07/2001 – 31/12/2031	8.5	20.0	20.0
Silent partners contributions with a fixed end of term		*127.6*	*127.6*

		Nominal amount	
Expiry of the fixed interest period	Dividend payout as a percentage of the nominal amount	31/12/2022 EUR million	31/12/2021 EUR million
31/12/2023	3.8	222.7	222.7
27/06/2027	2.2	200.0	200.0
No expiry of the fixed interest period[3]	4.6	300.0	300.0
Silent partners' contributions without a fixed end of term		*722.7*	*722.7*
Total		*850.3*	*850.3*

1 Repayment is made after the HGB annual financial statements are adopted at a date agreed in the contract. If the beginning of the term is given, the information refers to the first liability incurred in a group of contracts with similar conditions.
2 Annual interest rate adjustment.
3 Interest rate is fixed. Only certain changes in tax law affect the interest rate.

The interest expense for silent partners' contributions in the last financial year totaled EUR – 31 million (previous year: EUR – 35 million).

39. Financial liabilities designated at fair value

EUR million	31/12/2022	31/12/2021
Securitized liabilities	*1,963*	*3,141*
Other securitized liabilities	1,589	2,478
Junior bonds	375	663
Deposits	*1,621*	*1,754*
Schuldschein loans	567	753
Subordinated deposits	39	46
Money market transactions	108	124
Other	907	831
Total	*3,584*	*4,895*

In the event of insolvency proceedings or liquidation, the subordinated liabilities recognized may not be repaid until all non-subordinated creditors have been satisfied.

Planned maturities not offset by new business reduced securitized liabilities.

The item liabilities amounting to EUR 3,087 million (previous year: EUR 3,887 million) had a term of over twelve months as at the reporting date.

31/12/2022 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Securitized liabilities	– 79	15
Deposits	122	43
Total	*43*	*58*

31/12/2021 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Securitized liabilities	122	– 29
Deposits	498	30
Total	*620*	*1*

The method for separating the share of the change in fair value attributable to the change in the default risk is described in Note 23.

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

EUR million	31/12/2022	31/12/2021
Trading liabilities	28,975	21,343
Negative fair values from derivative hedging instruments	850	2,346
Total	*29,825*	*23,689*

Trading liabilities

EUR million	31/12/2022	31/12/2021
Negative fair values from derivatives	*21,083*	*13,895*
Delivery obligations from short sales of securities	*1,026*	*752*
Securitized liabilities	*6,050*	*6,134*
Deposits	*816*	*563*
Schuldschein loans	280	248
Liabilities from securities repurchase agreements	473	167
Money market transactions	59	147
Other	5	1
Total	*28,975*	*21,343*

Negative fair values from derivative financial instruments increased, with the majority attributable to interest-related derivatives.

“Trading liabilities” amounting to EUR 22,252 million (previous year: EUR 16,215 million) had a term of over twelve months as at the reporting date.

Negative fair values from derivative hedging instruments

EUR million	31/12/2022	31/12/2021
Negative fair values from portfolio fair value hedges	413	1,763
Negative fair values from micro fair value hedges	437	572
Negative fair values from group fair value hedges	0	12
Total	*850*	*2,346*

Negative fair values from derivative hedging instruments declined on account of rising interest rates.

“Negative fair values from derivative hedging instruments” amounting to EUR 655 million (previous year: EUR 2,202 million) had a term of over twelve months as at the reporting date.

The “Negative fair values from derivative hedging instruments” were broken down by hedged item as follows:

EUR million	31/12/2022	31/12/2021
Assets		
Derivative hedging instruments on loans and advances to customers	74	171
Derivative hedging instruments on debt instruments (FVOCR)	109	334
Derivative hedging instruments on debt instruments (AC)	22	67
Derivative hedging instruments on group fair value hedges	0	12
Equity and liabilities		
Derivative hedging instruments on deposits from banks	10	0
Derivative hedging instruments on deposits from customers	143	0
Derivative hedging instruments on securitized liabilities	59	0
Derivative hedging instruments on subordinated capital	19	– 0
Derivative hedging instruments on portfolio fair value hedges	413	1,763
Total	*850*	*2,346*

41. Maturity analysis

The following table divides the undiscounted financial liabilities into derivative and non-derivative transactions for the remaining contractual maturities. Given that the reporting is undiscounted and includes interest payments, the figures differentiate in part from the carrying amounts shown in the statement of financial position.

Financial liabilities according to contractually agreed maturity structures in accordance with IFRS 7.39 as at the balance sheet date are as follows:

31/12/2022 EUR million	up to 1 month	>1 to 3 months	>3 to 12 months	>1 year to 5 years	>5 years
Financial liabilities	69,182	27,508	44,638	59,856	38,968
Liabilities from derivatives	112	206	1,198	3,935	3,243
Total	*69,294*	*27,714*	*45,836*	*63,791*	*42,211*
Irrevocable loan commitments and guarantees[1]	65,664	153	1,312	5,522	1,896
Savings and demand deposits, securitization from interbank accounts	63,186				

1 Basis: All guarantees and revocable and irrevocable loan commitments included in the IFRS financial statements by the Accounting department. The values given are based on the assumption that all guarantees are used and all loan commitments are drawn.

31/12/2021 EUR million	up to 1 month	>1 to 3 months	>3 to 12 months	>1 year to 5 years	>5 years
Financial liabilities	55,391	22,295	24,937	60,243	31,292
Liabilities from derivatives	54	80	110	598	407
Total	*55,445*	*22,375*	*25,047*	*60,841*	*31,699*
Irrevocable loan commitments and guarantees[1]	62,588	64	1,082	5,180	1,637
Savings and demand deposits, securitization from interbank accounts	64,744				

1 Basis: for the LiqV relevant loan commitments and guarantees, excluding intra-Group commitments, since the funding risk associated with these commitments is already reflected in the consolidation of the inflow and outflow of funds, and not including undisbursed loans.

42. Issuing activities

EUR million	31/12/2022	31/12/2021
Securitized liabilities	68,660	44,869
Securitized liabilities designated at fair value	1,589	2,478
Securitized liabilities mandatorily measured at fair value through profit or loss	6,050	6,134
Total	*76,298*	*53,481*

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 3,023,752 million (previous year: EUR 1,656,028 million) were issued. Initial sales may fall substantially short of the issued nominal volume if the entire issue volume is not acquired by a counterparty. During the same period the volume of buybacks amounted to a nominal amount of EUR 1,852 million (previous year: EUR 1,645 million) and the volume of repayments to a nominal of EUR 2,134,083 million (previous year: EUR 1,219,710 million).

Other disclosures about financial instruments

43. Fair value and carrying amounts of financial instruments

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

Assets

	31/12/2022		31/12/2021	
EUR million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial assets measured at amortized cost				
Cash and cash equivalents	10,569	10,526	36,871	36,871
Financial assets measured at amortized cost	228,969	223,607	167,323	168,380
Loans and advances to banks	81,283	77,357	46,468	46,373
Loans and advances to customers	146,542	145,135	119,851	120,995
Debentures and other fixed-income securities	1,144	1,115	1,004	1,012

Equity and liabilities

	31/12/2022		31/12/2021	
EUR million	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities measured at amortized cost				
Financial liabilities measured at amortized cost	273,657	268,782	235,174	235,920
Deposits from banks	84,082	83,533	88,259	88,635
Deposits from customers	115,748	115,377	97,022	97,613
Securitized liabilities	68,660	65,213	44,869	44,017
Subordinated capital	5,167	4,660	5,024	5,655

44. 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 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	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Financial assets measured at fair value						
Financial assets measured at fair value through other comprehensive income	23,154	19,406	13,511	13,879	3	3
Equity instruments	43	58	0	0	3	3
Debentures and other fixed-income securities	23,111	19,348	10,363	10,453	0	0
Receivables	0	0	3,147	3,426	0	0
Financial assets designated at fair value	0	15	1,779	1,359	0	0
Debentures and other fixed-income securities	0	15	37	42	0	0
Receivables	0	0	1,742	1,317	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,225	1,161	37,335	35,155	819	660
Trading assets	1,220	1,153	36,447	32,970	459	404
Derivatives	0	0	19,558	16,921	28	28
Equity instruments	402	329	201	211	0	0
Debentures and other fixed-income securities	818	823	5,680	5,571	0	0
Receivables	1	0	11,008	10,266	432	376
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	5	8	363	770	360	256
Equity instruments	5	8	174	277	232	199
Debentures and other fixed-income securities	0	0	0	0	2	2
Receivables	0	0	189	492	126	55
Positive fair values from derivative hedging instruments	0	0	525	1,416	0	0
Non-current assets and disposal groups held for sale	0	0	0	0	1	0
Financial assets measured at amortized cost						
Cash and cash equivalents	165	189	10,360	36,682	0	0
Financial assets measured at amortized cost	0	0	73,910	47,712	149,697	120,668
Loans and advances to banks	0	0	55,652	24,294	21,705	22,079
Loans and advances to customers	0	0	17,143	22,406	127,992	98,590
Debentures and other fixed-income securities	0	0	1,115	1,012	0	0

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)	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial liabilities measured at fair value						
Financial liabilities designated at fair value	0	0	3,478	4,803	106	92
Securitized liabilities	0	0	1,882	3,049	81	92
Deposits	0	0	1,596	1,754	25	0
Financial liabilities mandatorily measured at fair value through profit or loss	969	185	28,741	23,391	115	113
Trading liabilities	969	185	27,891	21,044	115	113
Derivatives	0	0	20,969	13,781	115	113
Delivery obligations from short sales of securities	968	185	57	567	0	0
Securitized liabilities	0	0	6,050	6,134	0	0
Deposits	1	0	815	563	0	0
Negative fair values from derivative hedging instruments	0	0	850	2,346	0	0
Financial liabilities measured at amortized cost						
Financial liabilities measured at amortized cost	15,639	0	248,925	231,571	4,218	4,349
Deposits from banks	0	0	81,934	87,300	1,599	1,335
Deposits from customers	0	0	114,607	96,942	770	671
Securitized liabilities	15,639	0	47,724	41,674	1,850	2,343
Subordinated capital	0	0	4,660	5,655	0	0

Transfers between levels

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

For financial instruments measured using models, Risk Controlling identifies the model parameters necessary for the 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income	1,937	3,112	2,865	513
Debentures and other fixed-income securities	1,937	3,112	2,865	513
Financial assets mandatorily measured at fair value through profit or loss	103	260	187	206
Trading assets	103	260	187	206
Equity instruments	34	12	27	49
Debentures and other fixed-income securities	68	248	160	157

Equity and liabilities

EUR million	Reclassification from Level II to Level I	
	31/12/2022	31/12/2021
Financial liabilities measured at fair value		
Financial liabilities mandatorily measured at fair value through profit or loss	375	17
Trading liabilities	375	17
Delivery obligations from short sales of securities	375	17

In the year under review, LBBW carried out reclassifications from Level I to Level II, as there were no listed prices from active markets to hand for the corresponding financial instruments. Reclassifications in the opposite direction also took place as listed prices from active markets became available once again for these transactions.

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 gains/losses on Level III financial instruments are 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 tables below as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments held must be reported.

Assets

EUR million	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 or 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				
			Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables		
Carrying amount as at 1 January 2022	*3*	*0*	*28*	*376*	*199*	*2*	*55*	*0*	*662*
Gains and losses recognized in net consolidated profit/loss	0	0	– 13	– 24	7	0	7	– 0	– 24
Net interest income and current net income from equity instruments	0	0	– 1	6	0	0	– 0	0	5
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 12	– 30	7	0	7	0	– 28
Additions through acquisitions	0	0	0	146	35	0	2	0	183
Disposals through sales	0	0	0	– 62	– 14	0	0	– 16	– 91
Repayments/offsetting	0	0	0	– 110	0	0	– 40	0	– 151
Changes in the scope of consolidation	0	0	0	107	4	0	102	0	213
Reclassification to Level III	0	0	12	0	0	0	0	0	12
Transfers in accordance with IFRS 5	0	0	0	0	0	0	0	17	17
Carrying amount as at 31 December 2022	*3*	*0*	*28*	*432*	*232*	*2*	*126*	*1*	*823*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	– 13	– 28	6	0	7	0	– 28
Net interest income and current net income from equity instruments	0	0	– 1	0	0	0	0	0	– 0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 12	– 29	6	0	7	0	– 28

EUR million	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 or 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				
			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	0	– 10	5	19	0	– 1	0	12
Net interest income and current net income from equity instruments	0	0	0	3	0	0	1	0	4
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 11	2	19	0	– 2	0	8
Additions through acquisitions	0	0	0	113	32	0	0	0	145
Disposals through sales	0	0	0	– 10	– 12	– 3	0	– 2	– 27
Repayments/offsetting	0	0	– 10	– 410	0	0	– 0	0	– 421
Changes in the scope of consolidation	0	0	0	0	– 1	0	0	0	– 1
Reclassification to Level III	0	0	0	0	0	0	21	0	21
Reclassification from Level III	0	– 152	– 31	– 121	0	0	0	0	– 304
Carrying amount as at 31 December 2021	*3*	*0*	*28*	*376*	*199*	*2*	*55*	*0*	*662*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	– 6	1	19	0	– 2	0	12
Net interest income and current net income from equity instruments	0	0	1	– 1	0	0	0	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 7	2	19	0	– 2	0	12

Equity and liabilities

EUR million	Financial liabilities designated at fair value – Securitized liabilities	Financial liabilities designated at fair value – Deposits	Financial liabilities mandatorily measured at fair value through profit or loss – Trading liabilities – Derivatives	Total
Carrying amount as at 1 January 2022	*92*	*0*	*113*	*205*
Gains and losses recognized in net consolidated profit/loss	– 11	0	– 9	– 19
Net gains/losses from financial instruments measured at fair value through profit or loss	– 11	0	– 9	– 19
Reclassification to Level III	0	25	12	36
Reclassification from Level III	0	0	– 2	– 2
Carrying amount as at 31 December 2022	*81*	*25*	*115*	*221*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 11	0	– 9	– 19
Net gains/losses from financial instruments measured at fair value through profit or loss	– 11	0	– 9	– 19

EUR million	Financial liabilities designated at fair value – Securitized liabilities	Financial liabilities designated at fair value – Deposits	Financial liabilities mandatorily measured at fair value through profit or loss – Trading liabilities – Derivatives	Total
Carrying amount as at 1 January 2021	*259*	*131*	*145*	*535*
Gains and losses recognized in net consolidated profit/loss	– 9	0	10	1
Net interest income and current net income from equity instruments	– 1	0	1	0
Net gains/losses from financial instruments measured at fair value through profit or loss	– 8	0	9	1
Disposals through sales	– 39	0	0	– 39
Repayments/offsetting	– 20	– 15	– 29	– 63
Reclassification from Level III	– 99	– 117	– 13	– 229
Carrying amount as at 31 December 2021	*92*	*– 0*	*113*	*205*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 6	0	4	– 2
Net gains/losses from financial instruments measured at fair value through profit or loss	– 6	0	5	– 1

As parameters observable on the market in the 2022 financial year 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 non-observable 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 non-observable parameter is immaterial. A calculation of the interactions between these parameters has therefore been dispensed with.

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

EUR million	Positive changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	14.4	15.2	– 12.6	– 14.2
Trading assets	7.7	6.7	– 7.7	– 6.7
Derivatives	1.0	0.0	– 1.0	– 0.0
Receivables	6.7	6.7	– 6.7	– 6.7
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	6.7	8.5	– 5.0	– 7.5
Equity instruments	5.6	6.9	– 3.8	– 5.9
Receivables	1.1	1.6	– 1.1	– 1.6
Total	*14.4*	*15.2*	*– 12.6*	*– 14.2*

Equity and liabilities

EUR million	Positive changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value – Net gains/losses from financial instruments measured at fair value and revaluation reserve	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial liabilities measured at fair value				
Financial liabilities designated at fair value	0.2	0.0	– 0.1	0.0
Securitized liabilities	0.2	0.0	– 0.1	0.0
Financial liabilities mandatorily measured at fair value through profit or loss	2.1	0.7	– 2.3	– 0.6
Trading liabilities	2.1	0.7	– 2.3	– 0.6
Derivatives	2.1	0.7	– 2.3	– 0.6
Total	*2.3*	*0.7*	*– 2.5*	*– 0.6*

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 up and down 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

31/12/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
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
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)	55 – 529	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	n/a	n/a	n/a
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/– 5%
Receivables	Net present value method	Credit spread (bp)	138 – 256	relative – 30%/+ 30%

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
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
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	54% – 100%	relative – 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	51 – 258	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	– 0.35%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/– 5%
Receivables	Net present value method	Credit spread (bp)	209 – 217	relative – 30%/+ 30%

Equity and liabilities

31/12/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – 100%	relative – 20%/+ 10%
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)	53 – 162	relative – 30%/+ 30%

31/12/2021 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	54% – 100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	27 – 78	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, certain volatilities in option price models and correlations between interest rates, currency exchange 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. The market participants may have different opinions about the characteristics of the unobservable parameters used in these models. Hence, the transaction price may deviate from what is considered by LBBW to be the fair value.

LBBW recognizes day one profits for trading portfolios of derivatives.

The table below shows the changes in day one profits for the 2022 financial year in comparison to the end of 2021, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	2022	2021
Balance as at 1 January	*1*	*2*
Income recognized in the income statement in the reporting period (reversals)	– 0	– 1
Balance as at 31 December	*0*	*1*

45. Offsetting financial assets and liabilities

The featured transactions are usually closed on the basis of master agreements, that provide the conditional or unconditional rights to offset receivables, liabilities and collateral received or pledged. The collateral detailed is pledged mainly on the basis of repurchase agreements and liens, whereby collateral may only be offset in legally agreed cases (e.g. in insolvency). In the case of repurchase agreements, the receiver is obliged to return the transferred financial instruments at the end of the term. However, the receiver has the right to regularly sell or pledge the collateral to third parties.

The net amount of the individual financial instruments recognized in the statement of financial position is calculated according to the measures shown in the “Accounting and valuation methods” section. Collateral in the form of financial instruments and the cash collateral are stated at the fair value.

Assets

31/12/2022 EUR million	Gross amount of financial assets	Offsetting amount	Net amount of recognized financial assets	Amounts that are not subject to offsetting: Effect of master netting agreements	Collateral received: Financial instruments	Collateral received: Cash collateral	Net amount
Current account claims	71	– 71	1	0	0	0	1
Receivables from securities repurchase and lending agreements	27,039	– 7,022	20,017	– 610	– 19,384	– 15	8
Derivatives	124,817	– 106,194	18,623	– 9,693	– 152	– 3,304	5,473
Total	*151,927*	*– 113,287*	*38,640*	*– 10,303*	*– 19,536*	*– 3,319*	*5,482*

31/12/2021 EUR million	Gross amount of financial assets	Offsetting amount	Net amount of recognized financial assets	Amounts that are not subject to offsetting: Effect of master netting agreements	Collateral received: Financial instruments	Collateral received: Cash collateral	Net amount
Receivables from securities repurchase and lending agreements	25,521	– 5,282	20,239	– 286	– 19,947	– 4	1
Derivatives	46,829	– 30,451	16,379	– 8,120	– 32	– 3,460	4,767
Total	*72,350*	*– 35,733*	*36,618*	*– 8,406*	*– 19,979*	*– 3,464*	*4,768*

Cash collateral was recognized under the item deposits from banks in the amount of EUR 3,388 million (previous year: EUR 2,210 million) and under the item deposits from customers in the amount of EUR 450 million (previous year: EUR 1,254 million) as at the end of the reporting date.

Equity and liabilities

31/12/2022 EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Amounts that are not subject to offsetting: Effect of master netting agreements	Pledged collateral: Financial instruments	Pledged collateral: Cash collateral	Net amount
Current account liabilities	75	– 71	5	0	0	0	5
Liabilities from securities repurchase and lending agreements	8,709	– 7,022	1,687	– 610	– 1,073	0	3
Derivatives	124,794	– 106,194	18,600	– 9,693	– 58	– 2,240	6,609
Total	*133,578*	*– 113,287*	*20,291*	*– 10,303*	*– 1,131*	*– 2,240*	*6,617*

31/12/2021 EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Amounts that are not subject to offsetting: Effect of master netting agreements	Pledged collateral: Financial instruments	Pledged collateral: Cash collateral	Net amount
Current account liabilities	68	0	68	0	0	0	68
Liabilities from securities repurchase and lending agreements	7,180	– 5,282	1,897	– 286	– 1,610	0	1
Derivatives	43,159	– 30,451	12,708	– 8,120	– 76	– 3,262	1,251
Total	*50,407*	*– 35,733*	*14,674*	*– 8,406*	*– 1,686*	*– 3,262*	*1,320*

Cash collateral was recognized under the item loans and advances to banks in the amount of EUR 1,121 million (previous year: EUR 2,427 million) and under the item loans and advances to customers in the amount of EUR 860 million (previous year: EUR 835 million) as at the end of the reporting date.

46. Hedge accounting

The amount, timing and uncertainty of future cash flows

31/12/2022 EUR million	up to 3 months	3 months to 1 year	>1 year to < 5 years	>5 years
Fair value hedge				
Interest rate risks (PFVHA + MFVHA)[1]				
Nominal amount	22,454	46,089	113,615	99,295
Average hedged interest rate (MFVHA, in %)				
EUR	0.0	5.0	5.6	5.3
USD	7.6	7.1	7.6	6.8
Foreign currency risks (MFVHA + GFVHA)[1]				
Nominal amount	0	26	676	0
Average hedged rate (exchange rate)				
AUD	0.0	0.0	1.5	0.0
CZK	0.0	0.0	27.2	0.0
USD	0.0	1.4	1.2	0.0

1 PFVHA – portfolio fair value hedge accounting; MFVHA – micro fair value hedge accounting; GFVHA – group fair value hedge accounting.

31/12/2021 EUR million	up to 3 months	3 months to 1 year	>1 year to < 5 years	>5 years
Fair value hedge				
Interest rate risks (PFVHA + MFVHA)[1]				
Nominal amount	16,595	41,619	130,827	133,561
Average hedged interest rate (MFVHA, in %)				
EUR	4.3	0.0	5.4	5.5
USD	0.0	0.0	7.6	6.8
Foreign currency risks (MFVHA + GFVHA)[1]				
Nominal amount	0	0	492	204
Average hedged rate (exchange rate)				
AUD	0.0	0.0	0.0	1.5
CZK	0.0	0.0	27.2	0.0
USD	0.0	0.0	1.2	0.0

1 PFVHA – portfolio fair value hedge accounting; MFVHA – micro fair value hedge accounting; GFVHA – group fair value hedge accounting.

Effects of hedge accounting on results of operations, net assets and financial position

Hedging instruments designated by LBBW as hedge accounting have the following effects on the statement of financial position as at the reporting date:

31/12/2022 EUR million	Carrying amount of hedging transactions Assets	Carrying amount of hedging transactions Equity and liabilities	Nominal amount of hedging instruments	Balance sheet items under which the hedged items are recognized	Change in fair value to measure ineffectiveness in the reporting period
Fair Value Hedges					
Interest rate risks hedges	3,034	– 1,981	– 100,826	Various[1]	702
Micro fair value hedge accounting	381	– 72	5,166	Various[1]	108
Portfolio fair value hedge accounting	2,653	– 1,909	– 105,992	Various[1]	594
Foreign currency risks hedges	43	21	243	Various[1]	32
Micro fair value hedge accounting	0	21	– 226	Various[1]	– 23
Group fair value hedge accounting	43	0	469	Various[1]	55

1 Financial assets and liabilities mandatorily measured at fair value through profit or loss.

31/12/2021 EUR million	Carrying amount of hedging transactions Assets	Carrying amount of hedging transactions Equity and liabilities	Nominal amount of hedging instruments	Balance sheet items under which the hedged items are recognized	Change in fair value to measure ineffectiveness in the reporting period
Fair Value Hedges					
Interest rate risks hedges	1,410	2,331	– 68,973	Various[1]	182
Micro fair value hedge accounting	295	568	– 434	Various[1]	11
Portfolio fair value hedge accounting	1,115	1,763	– 68,539	Various[1]	170
Foreign currency risks hedges	6	16	– 279	Various[1]	– 28
Micro fair value hedge accounting	6	4	163	Various[1]	– 17
Group fair value hedge accounting	0	12	– 442	Various[1]	– 11

1 Financial assets and liabilities mandatorily measured at fair value through profit or loss.

The hedged items from fair value hedges designated as hedge accounting have the following effects on the statement of financial position as at the reporting date:

31/12/2022 EUR million	Carrying amount of hedged item Assets	Carrying amount of hedged item Equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item Equity and liabilities	Balance sheet items under which the hedged items are recognize	Change in fair value to measure ineffectiveness in the reporting period	Cumulative amount of the fair value of hedged items that are no longer adjusted to hedge gains and losses
Interest rate risks hedges	31,770	32,751	– 320	10	0	– 831	182
Micro fair value hedge accounting	4,270	2,701	– 320	10	Various[1]	– 106	118
Portfolio fair value hedge accounting	27,049	30,050	0	0	Various[1]	– 724	63
Foreign currency risks hedges	29	184	– 0	– 11	0	– 32	– 0
Micro fair value hedge accounting	29	184	– 0	– 11	Various[1]	23	– 0
Group fair value hedge accounting	0	0	0	0	Various[1]	– 55	0
Discontinued hedging relationships	0	0	– 32	0	0	0	0

1 Financial assets and liabilities measured at amortized cost; financial assets measured at fair value through other comprehensive income.

31/12/2021 EUR million	Carrying amount of hedged item Assets	Carrying amount of hedged item Equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item Equity and liabilities	Balance sheet items under which the hedged items are recognize	Change in fair value to measure ineffectiveness in the reporting period	Cumulative amount of the fair value of hedged items that are no longer adjusted to hedge gains and losses
Interest rate risks hedges	32,796	25,024	10	– 9	Various[1]	– 203	952
Micro fair value hedge accounting	1,396	1,271	10	– 9	Various[1]	– 20	206
Portfolio fair value hedge accounting	31,400	23,753	0	0	Various[1]	– 183	746
Foreign currency risks hedges	47	209	– 0	12	Various[1]	28	– 2
Micro fair value hedge accounting	47	209	– 0	12	Various[1]	17	– 2
Group fair value hedge accounting	0	0	0	0	Various[1]	11	0
Discontinued hedging relationships	0	0	– 3	0	Various[1]	0	0

1 Financial assets and liabilities measured at amortized cost; financial assets measured at fair value through other comprehensive income.

The hedge relationships from fair value hedges (PFVHA and MFVHA) mentioned above have the following effects on the income statement and other comprehensive income as at the reporting date:

31/12/202 EUR million	Ineffectiveness recognized in the income statement	Items in the income statement and in equity under which ineffectiveness is recognized
Interest rate hedges (MFVHA + GFVHA + PFVHA)	– 130	Net gains/losses from hedging transactions

31/12/2021 EUR million	Ineffectiveness recognized in the income statement	Items in the income statement and in equity under which ineffectiveness is recognized
Interest rate hedges (MFVHA + GFVHA + PFVHA)	– 15	Net gains/losses from hedging transactions

F. Other

47. Non-current assets and disposal groups held for sale

The carrying amount of non-current assets or groups of assets and debt (disposal groups), whose disposal is planned, is realized largely through the disposal business and not through continued use.

With regard to the cumulative fulfillment of the conditions stated below, the assets or disposal groups in question are classified as held for sale and shown separately from the other assets or debt in the statement of financial position. The criteria for classification as held for sale is that the assets or disposal groups can be disposed of in their present condition at prevailing conditions and that the disposal is highly likely. A disposal is highly probable if the plan to sell the asset is completed, an active program to find a buyer and to complete the plan has been initiated, the assets or the disposal group is actively offered at a price that is appropriate relative to the current fair value and the disposal is expected to occur within one year from the date of classification.

Assets classified as held for sale are measured at the lower value comprising carrying amount and fair value less the cost of disposal. The depreciation of the assets is suspended from the date they are classified as held for sale. Assets and liabilities held for sale and disposal groups are generally measured in accordance with IFRS 5. Assets that are subject to the exemptions specified in IFRS 5.5 are measured according to the provisions of the respective standard. Accordingly, the fair value measurement of the relevant assets of this statement of financial position item uses the same methods, parameters and approaches as all other assets of LBBW that are measured at fair value. Assets or disposal groups classified as held for sale are recognized separately in the statement of financial position item “Non-current assets held for sale and disposal groups and Liabilities from disposal groups”.

Gains/losses from the measurement and gains/losses from the disposal of these assets or disposal groups that are not included in a discontinued operation are contained in the income statement or in the valuation reserve in equity and are not separated. The total profit or loss from discontinued business divisions must be shown separately in the item “Profit or loss from discontinued operations”.

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:

- Three properties reported as property and equipment were sold in the first half of 2022. This affects the “Corporate Items” segment.
- Sales negotiations for an investment property were conducted. The contract has already been signed. This affects the “Corporate Items” segment.

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

EUR million	31/12/2022	31/12/2021
Assets		
Investment property	1	0
Property and equipment	0	1
Total	*1*	*1*

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

48. Intangible assets

Mainly software acquired or developed in-house and purchased customer lists are recognized under Intangible assets.

Purchased intangible assets are carried at amortized cost, i.e. less their cumulative write-downs and impairment. Internally developed software is capitalized at cost if the recognition criteria in accordance with IAS 38 are met. The capitalized costs mainly include staff costs and expenses incurred for external services during development. As previously, the internally developed or purchased software is amortized over three to ten years on a straight-line basis.

Amortization, write-downs and impairment losses on intangible assets are recognized under Administrative expenses in the income statement. Income from reversals of impairment losses on intangible assets is recognized under “Other operating income”.

Intangible assets are derecognized when sold. Gains and losses on disposal are the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount. The profit or loss on the disposal of the asset is recognized through profit or loss at the date of derecognition, and reported under “Other operating income/expenses”.

The changes in “Intangible assets” are shown in the following tables for 2022 and 2021:

EUR million	Purchased software	Goodwill	Advance payments and cost for development and preparation	Other intangible assets	Internally generated intangible assets	Total
Cost						
Balance as at 1 January 2022	*850*	*0*	*21*	*107*	*117*	*1,094*
Additions	16	10	16	0	5	47
Transfers	7	0	– 7	0	0	0
Disposals	– 19	0	0	0	– 0	– 19
Change from business combinations	94	0	18	0	0	112
Balance as at 31 December 2022	*947*	*10*	*47*	*107*	*122*	*1,233*
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2022	*– 801*	*0*	*0*	*– 53*	*– 82*	*– 936*
Scheduled amortization	– 26	0	0	– 6	– 17	– 48
Disposals	18	0	0	0	0	18
Change from business combinations	– 58	0	0	0	0	– 58
Balance as at 31 December 2022	*– 867*	*0*	*0*	*– 59*	*– 98*	*– 1,024*
Carrying amounts						
Balance as at 1 January 2022	49	0	21	54	35	158
Balance as at 31 December 2022	81	10	47	49	23	209

EUR million	Purchased software	Goodwill	Advance payments and cost for development and preparation	Other intangible assets	Internally generated intangible assets	Total
Cost						
Balance as at 1 January 2021	*831*	*0*	*20*	*97*	*114*	*1,062*
Additions	18	0	6	10	5	39
Transfers	4	0	– 5	0	1	0
Disposals	– 4	0	0	– 0	– 4	– 7
Balance as at 31 December 2021	*850*	*0*	*21*	*107*	*117*	*1,094*
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2021	*– 769*	*0*	*0*	*– 48*	*– 67*	*– 884*
Scheduled amortization	– 36	0	0	– 5	– 18	– 59
Disposals	4	0	0	0	4	7
Balance as at 31 December 2021	*– 801*	*0*	*0*	*– 53*	*– 82*	*– 936*
Carrying amounts						
Balance as at 1 January 2021	62	0	20	49	47	178
Balance as at 31 December 2021	49	0	21	54	35	158

LBBW Immobilien Investment Management GmbH (“LIIM”) acquired 100% of Acteum Investment GmbH (“Acteum”) in the reporting period. The transaction resulted in goodwill of EUR 10 million (see Note 8).

Intangible assets of EUR 142 million (previous year: EUR 105 million) had a remaining useful life of more than twelve months as at the reporting date.

49. Investment property

Property leased out to third parties for purposes of generating profit is reported separately in the balance sheet under “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 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 assumptions. 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 2022	*778*	*27*	*805*
Disposals	– 1	0	– 1
Reclassification to non-current assets or disposal groups held for sale	– 17	0	– 17
Currency translation differences	6	1	8
Changes in fair value from assets (through profit or loss)	– 3	– 2	– 5
Carrying amount as at 31 December 2022	*765*	*27*	*791*

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2021	*768*	*28*	*796*
Additions	0	1	1
Disposals	– 3	0	– 3
Currency translation differences	7	1	8
Changes in fair value from assets (through profit or loss)	6	– 3	3
Carrying amount as at 31 December 2021	*778*	*27*	*805*

“Investment property” is measured on the basis of externally unobservable parameters (Level III) and had a remaining useful life of more than twelve months as at the reporting date.

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	2022	2021
Carrying amount as at 1 January	*805*	*796*
Gains and losses recognized in net consolidated profit/loss	– 7	5
Other earnings items	– 7	5
Additions through acquisitions	0	1
Disposals through sales	– 1	– 3
Other changes	10	7
Transfers in accordance with IFRS 5	– 17	0
Carrying amount as at 31 December	*791*	*805*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 7	5
Other earnings items	– 7	5

The tables below show the significant unobservable parameters of the investment property. Corresponding statements on financial instruments (see Note 44) also apply.

31/12/2022 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	1.60% – 11.50%	
		Risk of loss of rent	2.00% – 5.00%	
		Basic maintenance costs	EUR 0.00 – EUR 19.00/ m^2	
		Administration costs (% of target rent)	0.10% – 2.60%	

31/12/2021 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	2.41% – 8.40%	
		Risk of loss of rent	2.00% – 5.00%	
		Basic maintenance costs	EUR 4.00 – EUR 19.00/ m^2	
		Administration costs (% of target rent)	0.10% – 3.40%	

50. Property and equipment

Property and equipment includes commercially used land and buildings, technical equipment and machinery, operating and office equipment, advance payments and assets under construction, leased assets and rights-of-use from leases.

Property and equipment is initially carried at cost and subsequently at amortized cost. Subsequent expenditure for property and equipment is capitalized if it is deemed to increase the future potential benefit. All other subsequent expenditure is recognized as an expense. Property and equipment is depreciated over its expected economic life, mainly on a straight line basis and sometimes on a diminishing basis. Determination of the economic life reflects expected physical wear and tear, technical obsolescence and legal and contractual constraints.

The determination of the (remaining) useful life and depreciation method is reviewed at a minimum at the end of each financial year. After scheduled depreciation, including the review of the depreciation method used, the underlying useful life and the residual value (recoverable amount of a comparable asset) of the asset in question, a check is performed at each statement of financial position date as a minimum to ascertain whether there are any indications of impairment. Where indications of impairment exist, the recoverable amount (the higher of the fair value minus sales costs or the value in use) is calculated, compared with the carrying amount and, if necessary, written down. If the recoverable amount has increased since the last impairment, impairment losses are reversed up to a maximum of amortized cost.

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”.

	Estimated useful life in years	
	31/12/2022	31/12/2021
Buildings	25 – 50	25 – 50
Technical equipment and machinery	5 – 10	5 – 10
Operating and office equipment	1 – 20	1 – 20
Purchased IT systems	3 – 7	3 – 7

Changes to the carrying amounts in the reporting year were as follows:

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under operating leases	Rights-of-use from leases	Total
Cost							
Balance as at 1 January 2022	*901*	*134*	*252*	*3*	*317*	*342*	*1,949*
Additions	2	1	25	19	6	28	81
Transfers	– 24	0	2	– 3	24	0	– 0
Disposals	– 1	– 3	– 18	0	– 2	– 67	– 91
Change from business combinations	113	0	16	0	0	8	137
Transfers to “Non-current assets and disposal groups held for sale”	– 1	0	0	0	– 1	0	– 3
Balance as at 31 December 2022	*991*	*132*	*277*	*20*	*344*	*311*	*2,073*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2022	*– 646*	*– 125*	*– 172*	*0*	*– 165*	*– 110*	*– 1,218*
Scheduled amortization	– 12	– 2	– 12	0	– 8	– 40	– 74
Transfers	10	0	0	0	– 10	0	0
Disposals	0	3	17	0	1	21	43
Change from business combinations	– 5	0	– 9	0	0	0	– 15
Transfers to “Non-current assets and disposal groups held for sale”	1	0	0	0	1	0	2
Balance as at 31 December 2022	*– 651*	*– 123*	*– 176*	*0*	*– 181*	*– 129*	*– 1,260*
Carrying amounts							
Balance as at 1 January 2022	256	9	79	3	152	232	731
Balance as at 31 December 2022	340	8	101	20	163	182	813

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under operating leases	Rights-of-use from leases	Total
Cost							
Balance as at 1 January 2021	*931*	*133*	*246*	*11*	*291*	*357*	*1,971*
Currency translation differences	0	0	1	– 0	– 0	0	1
Additions	0	1	8	3	10	8	30
Transfers	– 20	1	10	– 11	20	0	– 0
Disposals	– 6	– 1	– 14	0	– 2	– 23	– 46
Transfers to “Non-current assets and disposal groups held for sale”	– 3	0	0	0	– 3	0	– 6
Balance as at 31 December 2021	*901*	*134*	*252*	*3*	*317*	*342*	*1,949*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2021	*– 650*	*– 124*	*– 174*	*0*	*– 154*	*– 78*	*– 1,180*
Currency translation differences	– 0	0	– 1	0	0	– 0	– 1
Scheduled amortization	– 12	– 2	– 11	0	– 6	– 42	– 73
Transfers	8	0	0	0	– 8	0	0
Disposals	5	1	13	0	1	10	30
Transfers to “Non-current assets and disposal groups held for sale”	3	0	0	0	3	0	5
Balance as at 31 December 2021	*– 646*	*– 125*	*– 172*	*0*	*– 165*	*– 110*	*– 1,218*
Carrying amounts							
Balance as at 1 January 2021	281	9	72	11	137	279	790
Balance as at 31 December 2021	256	9	79	3	152	232	731

As at the reporting date, “property and equipment” in the amount of EUR 670 million (previous year: EUR 687 million) had a remaining useful life of more than twelve months.

More details on leases can be found in Note 51.

51. Leasing business

LBBW as lessor

Leases are recognized by the lessor in accordance with IFRS 16 on the basis of their classification as a finance or operating lease. This classification takes place at the beginning of a lease and is based on the overall assessment of which risks and rewards lie with the lessor. The underlying criteria are reviewed regularly. If a change to the overall assessment takes place, the lease is reclassified.

A lease is classified as a finance lease where essentially all risks and rewards incidental to ownership of an asset are transferred from the lessor to the lessee. Otherwise, the lease is an operating lease.

LBBW’s finance lease contracts include full amortization, partial amortization and hire purchase agreements. Depending on its form, a finance lease can be a cancelable agreement or an agreement with an option to sell. The lease payments must generally be made in advance.

In the case of operating lease transactions concluded at LBBW, beneficial ownership of the leased asset remains with the Group. The leased assets – mainly buildings and land – are recognized as assets and reported in the consolidated statement of financial position under Property and equipment or Investment property. The leased assets are recognized in accordance with IAS 16 at (amortized) acquisition or production cost or are measured at fair value in accordance with IAS 40. Both the lease income and received special payments and prepayments are recognized over the lease term. All the depreciation, write-downs and impairment losses and the income earned are reported under “Other operating income/expenses”.

With a finance lease, the leased asset is derecognized at the beginning of the lease term and a receivable due from the lessee equivalent to the net investment value is shown under the item “Loans and advances to customers or Loans and advances to banks”. Lease payments received are broken down into an interest component recognized in income and a repayment component. While income is recognized on an accrual basis as interest income and is reported in net interest income, the repayment part reduces the receivables carried on the statement of financial position.

The direct costs incurred by the lessor on the date on which the contract is concluded are assigned to the leasing contract. The internal interest rate underlying the lease term is determined in such a way that the initial direct costs are included automatically in the lease receivables.

The following maturity structure for future lease payments and reconciliation of the gross investment value to the present value of the leasing payments has been prepared for finance lease transactions which are shown under Loans and advances to customers:

EUR million	31/12/2022	31/12/2021
Future lease payments	*6,058*	*5,834*
Up to 1 year	2,034	2,064
More than 1 year to 2 years	1,480	1,419
More than 2 years to 3 years	1,098	965
More than 3 years to 4 years	710	671
More than 4 years to 5 years	388	401
More than 5 years	347	314
= Gross investment value	*6,058*	*5,834*
./. unguaranteed residual values	10	10
./. unrealized financial income	372	253
= Net investment value	*5,676*	*5,571*
Up to 1 year	1,876	1,798

From the standpoint of the lessor, gross investment in the lease is the aggregate of the leasing payments under a finance lease and any unguaranteed residual value accruing to the lessor. The lease payments are the fixed payments or payments linked to an index or (interest) rate (including residual value guarantees) that the lessee is required to pay during the term of the lease in exchange for the right to use an underlying asset over the lease term. The lease payments do not include conditional lease payments or payments for non-leasing components. The net investment value is the present value of the gross investment. The discount is based on the interest rate implicit in the lease from the lessor's perspective.

The financial income on the net investment value reported under interest income in the reporting year was EUR 238 million (previous year: EUR 231 million).

The carrying amounts of assets leased as part of operating lease transactions under property and equipment, which mainly constitute agreements concerning leasing of LBBW's own properties and buildings, were broken down as follows:

EUR million	Land	Buildings	Technical equipment and machinery	Other leased assets	Total
Cost					
Balance as at 1 January 2022	*30*	*195*	*4*	*88*	*317*
Additions	0	0	3	4	6
Transfers	5	19	0	0	24
Disposals	0	0	– 2	– 0	– 2
Transfers to "Non-current assets and disposal groups held for sale"	– 0	– 1	0	0	– 1
Balance as at 31 December 2022	*34*	*213*	*5*	*92*	*344*
Amortization and impairment losses/reversals of impairment losses					
Balance as at 1 January 2022	*– 4*	*– 156*	*– 1*	*– 4*	*– 165*
Scheduled amortization	0	– 3	– 1	– 4	– 8
Transfers	– 0	– 10	0	0	– 10
Disposals	0	0	1	0	1
Transfers to "Non-current assets and disposal groups held for sale"	0	1	0	0	1
Balance as at 31 December 2022	*– 4*	*– 168*	*– 1*	*– 8*	*– 181*
Carrying amounts					
Balance as at 1 January 2022	26	38	4	84	152
Balance as at 31 December 2022	31	45	4	84	163

EUR million	Land	Buildings	Technical equipment and machinery	Other leased assets	Total
Cost					
Balance as at 1 January 2021	*30*	*178*	*2*	*81*	*291*
Additions	0	0	2	7	10
Transfers	0	20	0	0	20
Disposals	– 0	– 1	– 1	0	– 2
Transfers to “Non-current assets and disposal groups held for sale”	– 0	– 3	0	0	– 3
Balance as at 31 December 2021	*30*	*195*	*4*	*88*	*317*
Amortization and impairment losses/reversals of impairment losses					
Balance as at 1 January 2021	*– 4*	*– 149*	*– 0*	*– 2*	*– 154*
Scheduled amortization	0	– 3	– 1	– 3	– 6
Transfers	0	– 8	0	0	– 8
Disposals	0	1	0	0	1
Transfers to “Non-current assets and disposal groups held for sale”	0	3	0	0	3
Balance as at 31 December 2021	*– 4*	*– 156*	*– 1*	*– 4*	*– 165*
Carrying amounts					
Balance as at 1 January 2021	26	30	2	79	137
Balance as at 31 December 2021	26	38	4	84	152

The carrying amounts of the investment property that is rented within the scope of operating lease agreements amounted to EUR 771 million (previous year: EUR 786 million). Changes to the carrying amounts are shown in Note 49.

In the year under review, lease income from operating leases was generated from fixed lease payments in the amount of EUR 69 million (previous year: EUR 64 million) and from variable lease payments that are not dependent on an index or (interest) rate in the amount of EUR 4 million (previous year: EUR 4 million).

The general impairment provisions under IAS 36 and IFRS 9 are applied to leases.

The following payments are expected from the leases:

EUR million	31/12/2022	31/12/2021
Up to 1 year	52	47
More than 1 year to 2 years	44	38
More than 2 years to 3 years	36	33
More than 3 years to 4 years	30	31
More than 4 years to 5 years	27	26
More than 5 years	119	94
Future lease payments from operating leases	*309*	*269*

LBBW as the lessee

Under leases concluded by LBBW as the lessee, a right of use measured at cost is recognized on the day the lease begins. The costs comprise the lease liability, advance consideration paid, initial direct costs and expected restoration obligations less leasing incentive payments.

Lease liabilities are recognized on the basis of the present value of the future lease payments. Lease payments are determined from fixed and variable components representing agreed payments that are subject to fluctuation and are virtually fixed (e.g. index-linked payments). The interest rate underlying the lease is used for discounting. If this is not available, an incremental borrowing rate is used. The term of the lease is calculated as the non-terminable basic leasing period, taking into account renewal and termination options. In assessing the likelihood of options being exercised, relevant facts and circumstances are taken into account which may represent an economic incentive for the lessee. This is reassessed in the event of significant events or changes in circumstances.

In subsequent measurement, the right of use is measured using the cost model and adjusted for cumulative write-downs and impairment losses. The period of amortization is calculated according to the useful life of the right of use and is the same as the term of the contract.

In subsequent periods, the lease liability is increased by a constant interest effect through profit or loss and repaid in accordance with the lease payments made through other comprehensive income. In the event of reassessments or contract amendments, rights of use and lease liabilities are adjusted accordingly in subsequent measurement.

The right of use asset is tested for impairment as part of an annual impairment test within the meaning of IAS 36.

Leases with low-value underlying assets are implemented in simplified terms.

Rights-of-use from leases reported under Property and equipment developed as follows in the year under review:

EUR million	Rights-of-use from land and buildings	Rights-of-use from vehicles	Rights-of-use from other operating and office equipment	Total
Cost				
Balance as at 1 January 2022	*316*	*14*	*13*	*343*
Additions	23	4	1	28
Disposals	– 65	– 2	– 1	– 67
Other changes	6	1	1	8
Balance as at 31 December 2022	*280*	*17*	*14*	*311*
Amortization and impairment losses/reversals of impairment losses				
Balance as at 1 January 2022	*– 99*	*– 8*	*– 4*	*– 111*
Scheduled amortization	– 35	– 4	– 2	– 40
Disposals	19	2	1	21
Balance as at 31 December 2022	*– 114*	*– 9*	*– 6*	*– 129*
Carrying amounts				
Balance as at 1 January 2022	217	6	9	232
Balance as at 31 December 2022	166	7	9	182

EUR million	Rights-of-use from land and buildings	Rights-of-use from vehicles	Rights-of-use from other operating and office equipment	Total
Cost				
Balance as at 1 January 2021	*333*	*12*	*13*	*357*
Additions	4	4	0	9
Disposals	– 22	– 2	– 0	– 23
Balance as at 31 December 2021	*316*	*14*	*13*	*343*
Amortization and impairment losses/reversals of impairment losses				
Balance as at 1 January 2021	*– 70*	*– 6*	*– 3*	*– 78*
Scheduled amortization	– 37	– 4	– 2	– 43
Disposals	9	2	0	10
Balance as at 31 December 2021	*– 99*	*– 8*	*– 4*	*– 111*
Carrying amounts				
Balance as at 1 January 2021	263	6	10	279
Balance as at 31 December 2021	217	6	9	232

Changes to the rights-of-use from investment property are shown in Note 49. These came to EUR 27 million as at the reporting date (previous year: EUR 27 million).

The maturity structure for the future undiscounted lease payments and the lease liabilities included in “Other liabilities” as at the reporting date was as follows:

EUR million	31/12/2022	31/12/2021
Up to 1 year	35	44
More than 1 year to 5 years	112	105
More than 5 years	93	141
Total undiscounted future lease payments	*240*	*290*
Up to 1 year	33	43
More than 1 year to 5 years	106	100
More than 5 years	87	137
Carrying amount of lease liabilities	*225*	*279*

The lease liabilities did not take into account potential future lease payments from existing leases in the amount of EUR 75 million (previous year: EUR 49 million) from renewal options and EUR 7 million (previous year: EUR 6 million) from termination options.

In the year under review, EUR – 2 million (previous year: EUR – 2 million) was incurred in interest expenses for lease liabilities, essentially due to leases for land and buildings.

Expenses relating to leases of low-value assets came to EUR – 3 million (previous year: EUR – 3 million).

52. Income taxes

LBBW operates in several tax jurisdictions. The tax items shown in the financial statements are calculated taking into account the respective taxation laws and the relevant administrative interpretations. Due to their complexity, their interpretation by taxpayers may differ from that of the local tax authorities. As different interpretations of taxation laws as a result of company audits can lead to subsequent tax payments for past years, these are included in the analysis on the basis of the management’s assessment.

Current income tax liabilities and assets are calculated at current tax rates and carried at the expected payment or refund amount.

Deferred income tax assets and liabilities are recognized in respect of temporary differences. Taxable and deductible temporary differences are calculated as the difference between the IFRS carrying amount of an asset or liability and its local tax base. The tax base is determined based on the tax regulations of the country in which the taxation occurs. Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset is realized or the liability is settled. The effect of tax rate changes on deferred taxes is recognized in the tax result during the period in which the changes were approved by legislative bodies.

Current and deferred income tax assets and liabilities are offset under the requirements of IAS 12.71 and IAS 12.74.

Deferred tax liabilities are carried for temporary differences that will result in a tax expense when settled. Deferred tax assets are recognized if tax relief is expected and likely to be utilized when temporary differences are reversed. Deferred tax assets on temporary differences in equity are recognized in total comprehensive income in the subitem Valuation reserve or Retained earnings, depending on the underlying situation.

A deferred tax asset is recognized for tax loss carryforwards and interest carryforwards if it is probable that the carryforward will be used in a future period by reference to budget accounts. The tax planning is derived from current corporate planning approved by the Board of Managing Directors, which regularly covers a planning period of five years. The tax planning takes into account historical insights into profitability and taxable income. Deferred tax assets arising from temporary differences and loss carryforwards are reviewed for impairment at each statement of financial position date.

Income tax assets

EUR million	31/12/2022	31/12/2021
Current income tax assets	71	104
Domestic	55	80
Abroad	16	23
Deferred income tax assets	967	1,029
Total	*1,038*	*1,132*

Of the current income tax assets, EUR 71 million (previous year: EUR 104 million) is due within one year.

Income tax liabilities

EUR million	31/12/2022	31/12/2021
Current income tax liabilities	190	346
of which provisions for income tax	188	344
of which income tax liabilities to tax authorities	3	2
Deferred income tax liabilities	22	24
Total	*212*	*370*

Of the current income tax liabilities, EUR 190 million (previous year: EUR 346 million) is due within one year.

53. Other assets and other liabilities

Other assets include assets which, considered separately, are not significant for the disclosure of statement of financial position assets and cannot be allocated to any other statement of financial position item. This also includes inventories, which shows activities related to the real estate business of LBBW Immobilien Management GmbH. These include mainly specific land and similar rights with finished and/or unfinished buildings as well as project finance earmarked for sale in the course of ordinary business activities.

In accordance with IAS 2.9, inventories are measured at the lower of costs of inventories and net realizable value. The costs of purchase and production are calculated in accordance with IAS 2.10 et seqq.; the net realizable value is calculated pursuant to IAS 2.28 et seqq. The purchase and production costs of inventories that cannot be exchanged and of goods and products or services created and separated for special projects is calculated through allocation of their individual cost of purchase or production. The acquisition costs include the directly allocable costs of acquisitions and provision, the production costs include all directly allocable costs plus production and material costs. The expected, individually realizable sales proceeds less estimated completion costs and additional costs incurred until the sale are recognized as the net realizable value. The results of these operating activities are recognized under the “Other operating income/expenses” item, which also includes the changes in value.

The capitalization of borrowing costs on the basis of IAS 23 is conditional upon the property being a qualifying asset. These interest costs are largely incurred in connection with commercial project development, which can be attributed to the acquisition of land or the construction of buildings during the production period. Individual interest rates of between 1.04% p.a. and 3.61% p.a. (previous year: 1.04% and 2.45% p.a.) were applied.

Other liabilities include accruals and obligations which, considered separately, are not significant for the disclosure of statement of financial position liabilities and cannot be allocated to any other statement of financial position item.

Assets and liabilities in these items are measured at amortized cost.

Other assets

Scheduled and unscheduled impairments are reported under the item “Other operating income/expenses”.

EUR million	31/12/2022	31/12/2021
Inventories	420	500
Receivables from tax authorities	37	41
Other miscellaneous assets	3,824	2,161
Total	*4,281*	*2,703*

The increase in other assets is partially the result of the initial consolidation of Berlin Hyp’s assets (EUR 0.5 billion). The rest of the rise was essentially due to the increase in LBBW (Bank)’s margin holdings as collateral to provided in advance in connection with derivative transactions.

“Other assets” included assets amounting to EUR 439 million (previous year: EUR 389 million) with a remaining useful life of more than twelve months.

“Inventories” were broken down as follows:

EUR million	31/12/2022	31/12/2021
Land and land rights, with unfinished buildings	112	120
Work in progress and development measures	92	84
Land and land rights, without buildings	166	183
Other inventories	50	113
Total	*420*	*500*

The carrying amount of “Inventories” recognized at fair value less costs to sell was EUR 41 million (previous year: EUR 44 million).

The carrying amount of “Inventories” pledged as collateral for liabilities amounted to EUR 119 million (previous year: EUR 200 million).

Borrowing costs of EUR 5 million (previous year: EUR 6 million) were capitalized.

LBBW recognizes precious metal portfolios, among other things, under “Other inventories”.

Other liabilities

EUR million	31/12/2022	31/12/2021
Liabilities from		
Other taxes	44	57
Employment	12	11
Trade payables	75	87
Non-controlling interests	11	16
Leasing	225	279
Advances received	54	56
Other miscellaneous liabilities	2,373	1,422
Total	*2,794*	*1,928*

Other liabilities with maturities of more than twelve months amounted to EUR 336 million (previous year: EUR 297 million) as at the reporting date.

For a detailed description of leasing business, see Note 51.

54. Provisions

EUR million	31/12/2022	31/12/2021
Provisions for pensions	870	1,268
Provisions for litigation and recourse risk	192	197
Provisions for lending business	327	247
Other personnel-related provisions	190	150
Other provisions	245	219
Total	*1,825*	*2,080*

As at the reporting date, “Provisions” of EUR 1,233 million (previous year: EUR 1,445 million) had a remaining term to maturity of over twelve months.

Provisions for pensions and other post-employment benefits

General information

Provisions for pensions and similar obligations primarily consist of provisions for the obligation to pay company pensions, on the occurrence of biometric risks (old age, invalidity, death) based on pension commitments awarded. The nature and amount of the pension payable to employees and beneficiaries entitled to pension benefits are governed by the applicable pension rules (including total commitments or works or company agreements), which depend largely on the date that employment commenced.

A high number of pension arrangements at LBBW were recognized as defined benefit plans until 31 December 2022. These are closed for new policies. In addition, further entitlements or claims exist against LBBW’s supplementary pension fund (Zusatzversorgungskasse – ZVK) and the benevolent fund (Unterstützungskasse LBBW e.V); both facilities are closed for new policies. All the aforementioned pension commitments are defined benefit plans within the meaning of IAS 19.

Furthermore there are pension benefits for employees from predecessor institutions which are recognized as defined contribution plans within the meaning of IAS 19, taken over and continued. These are also closed for new policies. To finance this, the relevant Group company contributes set amounts to external pension funds with individual participation by employees.

For most of LBBW’s existing pension obligations, plan assets within the meaning of IAS 19 are created after benefit entitlements are transferred to a non-insurance-based pension fund under German law as a legally independent entity.

In the 2022 financial year, two LBBW subsidiaries transferred most of their existing pension obligations to a non-insurance-based pension fund, creating plan assets within the meaning of IAS 19 of EUR 51 million.

This comprises a Basiskonto (retirement account financed by the employer) for employer contributions and an Aufbaukonto (retirement account to which contributions are made by the employee) for contributions from voluntary salary conversion by all employees. The contributions are paid into a contractual trust arrangement (CTA). The obligation vis-à-vis the employees is guided by the performance of the investment. As a minimum, the paid-in amounts are guaranteed (so-called guaranteed minimum performance). These are also defined benefit plans within the meaning of IAS 19.

Some current and former employees are also entitled to aid (medical support). This was entered as defined benefit plans and the corresponding provisions pursuant to IAS 19 were created for employees that are still entitled to aid after entering retirement.

There are no provisioning requirements for the deferred compensation option that is also offered, as this is entered as a defined benefit plan within the meaning of IAS 19.

Commitments outside of Germany

The employees of Landesbank Baden-Württemberg’s London Branch were offered a direct final salary pension commitment that is based on the number of years in service, which is closed for new policies and was replaced by a defined contribution plan within the meaning of IAS 19 for new employees. The pension plan’s pension obligations are backed by plan assets managed by a pension trust. The pension plan as well as the pension trust are subject to UK regulations, according to which the Bank and the trustees responsible for the trust have to develop a funding strategy and plan contributions to the trust. The Bank bears the risks from the pension plan, including investment and biometric risks (longevity risk, in particular).

The Bank and the trustees review the investment strategy every three years and adjust it if necessary. If there is a shortfall in cover, a contribution plan is agreed to reach the desired degree of cover. Some of the plan assets are covered by the expected payment obligations with matching maturities (asset-liability matching).

For reasons of immateriality, further disclosures are not differentiated for the foreign plans.

Valuation and recognition in the statement of financial position

According to the provisions of IAS 19, the total obligations for the defined benefit plans are calculated annually by an independent actuary. In this process, the present value of the defined benefit obligation is calculated at each reporting date using the projected unit credit method. This calculation takes into consideration not only the pensions and entitlements known at the statement of financial position date, but also the future expected rates of increase of pensionable salaries and pensions, the expected benefit cases (age, invalidity, death), the expected payment arrangements as well as fluctuation rates. In addition to the benefits trend, it is assumed in the measurement of the pension obligations that the active employees' benefit trend will be slightly higher than the average trend up to their 50th year, on account of career development. Earnings and pension trends are based on market inflation. The probabilities of death, invalidity and probabilities of marriage are found in the mortality tables compiled by Prof. Klaus Heubeck. The age used for the start of retirement is 64 years.

The present value of the pension obligations is based on a calculatory interest rate derived from the alternative Willis Towers Watson’s RATE:Link methodology. The data basis for determining the interest rate is the AA- rated corporate bonds compiled in Bloomberg for the eurozone by at least half of the rating agencies. Using actuarial methods, a yield curve is derived from this data, and from this a calculatory interest rate of similar maturity to the obligations is established. The premises described above are reviewed annually and adjusted if necessary.

Deviations from the expected development of the pension obligations as well as changes to the calculation parameters (primarily employee turnover rate, salary increase, pension increase or discount rate) lead to so-called actuarial gains or losses. These are recognized directly in Retained earnings or Other comprehensive income in their full amount in the year they arise, resulting in corresponding changes in equity.

The amount to be recorded as an asset or liability is calculated from the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets (if any) at the balance sheet date. The past service cost arises due to changes in the defined benefit plan that impact on the pension entitlements accrued. Interest expense is the share of the increase in the present value of the defined benefit obligation, or the existing plan assets of the pension provisions, that arise because the benefits are closer to settlement. The staff costs equate to the present value of the annual increase in the pension entitlements accrued plus unrecognized past service costs.

The income expected from the plan assets is offset against the interest expense, so that only net interest expense is recognized. The calculatory interest rate is used for calculating net interest income. Service cost and net interest income are reported under Administrative expenses.

Risks and management

In the case of defined benefit plans not transferred to the pension fund under German law, the relevant Group company is obligated to grant benefits pledged to former employees and their dependents. The associated risks are borne by the Group company in question. For the portion of defined benefit plans transferred to the pension fund under German law, beneficiaries are directly entitled to the pension fund. LBBW continues to bear subsidiary liability.

Material risks are statement of financial position, liquidity and investment risks. In accordance with IAS 19, statement of financial position risks arise especially in relation to the impact of pension obligations and pension plan assets on equity, as the difference between expected and actual pension obligations and plan assets is recognized under “Other comprehensive income” and leads to changes in equity. The basis and amount of statement of financial position risk determine the aforementioned actuarial gains or losses. They can therefore provide relief or be a burden. The main factor in relation to statement of financial position risks are the calculatory interest rate, the yield of the plan assets, as well as the other economic and demographic measurement factors. A further risk after transferring the pension obligations is LBBW’s additional funding contribution to the pension fund if the minimum actuarial reserve is not met.

The calculatory interest rate plays a key role in determining the scope of obligations, not least on account of its volatility. The rise in interest rates last year resulted in a higher calculatory interest rate and therefore to a decline in the present value of pension obligations. Furthermore, portfolio and market developments that deviate from the measurement assumptions impact on the obligation amount and therefore on the corresponding statement of financial position items. Actual salary and pension increases that are higher or lower than assumed are reflected accordingly in losses or gains. With the general contribution and limit systems, the performance of the entitlements and claims in the event of external providers, such as BVV or the statutory pension scheme, impact on the level of provision to be made by the Group company, which can have a relatively strong impact on the pension obligations, especially with lasting trend changes.

Besides the economic risks stated, so-called biometric risks also exist. Since a large proportion of the pension obligations is attributable to lifelong benefit entitlements, the risk of longevity in particular must be stated. Deviations in the actual mortality rates observed from the mortality tables also result in gains or losses.

Sensitivity analyses were carried out for the material parameters. In addition to the calculatory interest rate, the most influential parameters examined were the impact of the salary, pension and career trend, as well as the staff turnover and probability of annuitization. The mortality, salary and pension trend impact on the obligations arising from the capital accounts (Basiskonto and Aufbaukonto) and the fluctuation have comparatively little impact, since pension entitlements for active employees do not grow dynamically with the salaries retroactively based on the number of years spent working at the company. This will gradually reduce the statement of financial position risk for the Group companies over time. This does not generally impact the obligations from the LBBW VorsorgeFonds Plus due to offsetting.

Meeting pension obligations entails the payment of pensions and therefore a capital outflow. Save for the calculatory interest rate, which does not impact on the amount of benefit payments, the statement of financial position risk factors described above also affect the liquidity requirements. Plan assets that are produced from the pension payments are available for the obligations of LBBW's pension fund, benevolent fund and supplementary pension fund as well as the obligations of the LBBW VorsorgeFonds Plus. LBBW (Bank) also has plan assets as part of a contractual trust arrangement (CTA). There are no plan assets for additional pension obligations and so the benefit payments must be met from the assets of the Group companies. If sufficient cover is not available, the sponsoring undertakings are required to make additional contributions. The plan assets are subject to investment risk that is countered by careful asset management.

The mandatory protection against the insolvency of LBBW pension obligations applies to commitments given before the elimination of the guarantor's liability in 2005, via the pension insurance association. All pension commitments dating from before this date are insolvency-protected through the guarantor's liability and maintenance obligation.

Quantitative detailed disclosures

The LBBW Group has several pension plans but these are not shown separately for reasons of clarity. Two of these plans have notable surpluses of assets over liabilities for the first time, which are reported separately under Other assets in the statement of financial position. The present value of the defined benefit obligations is broken down into the following components:

EUR million	2022	2021
Balance as at 1 January	*4,050*	*4,072*
Changes recognized in the income statement[1]	*116*	*100*
Interest expense/income	48	23
Current service cost including the release of pension liabilities	67	62
Past service cost	0	15
Changes recognized in Other comprehensive income[1]	*– 1,200*	*– 7*
Actuarial gains/losses from changes to the demographic assumptions	– 6	39
Actuarial gains/losses from changes to the financial assumptions	– 1,189	– 88
Experience-based actuarial gains/losses	– 3	39
Changes in exchange rates	– 2	3
Other changes	*64*	*– 114*
Pension benefits paid	– 120	– 117
Business combinations/disposals	184	3
Balance as at 31 December	*3,030*	*4,050*

1 Expenses/losses are shown as positive, income/profits as negative.

The present value of the defined pension obligations was classified as follows by the type of beneficiary:

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Present value of the pension obligations for active employers	1,100	1,585
Present value of the pension obligations for candidates	397	576
Present value of the pension obligations for retirees	1,533	1,889
Total	*3,030*	*4,050*

This present value was broken down as follows by type of benefit:

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Present value of the accrued but non-vested pension obligations	236	317
Present value of the vested pension obligations	2,794	3,733
Total	*3,030*	*4,050*

The present value of the defined benefit plans arose from the following commitments or benefits:

EUR million	01/01 – 31/12/2022	01/01 – 31/12/2021
Present value of the pension obligations based on conditional benefits	170	3
Present value of the pension obligations based on future salary increases	250	334
Present value of the pension obligations based on other benefits	2,611	3,712
Total	*3,030*	*4,050*

Obligations under defined benefit plans were calculated using the following actuarial assumptions:

in %	31/12/2022	31/12/2021
Fluctuation	4.00	4.00
Discount rate	3.85	1.13
Expected change in income	2.85	2.35
Expected change in pensions[1]	2.70	2.20
Career dynamics	0.50	0.50
Retirement probability[2]	50.00 / 20.00	50.00 / 20.00

1 Additional adjustments were made for inflation up to the reporting date based on the CPI.
2 Different retirement probabilities are used for different types of obligations.

Life expectancy, marriage probability and disability were calculated using the current 2018G Heubeck mortality tables. Commencement of retirement is determined using the retirement age in accordance with actuarial assumptions.

The following overview shows the sensitivity of the pension obligation as at the statement of financial position date with regard to each isolated change to important assumptions. A change in the individual parameters of 0.5 percentage points would have had the following impact on the pension obligation at the end of the year under review, if all other assumptions remained constant:

31/12/2022 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in discount rate	– 190	212
Change in expected income development	60	– 55
Change in expected pension growth	64	– 59
Change in career dynamics	3	– 3
Change in fluctuation	– 0	0
Change in probability of annuitization	0	– 0

31/12/2021 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in discount rate	– 315	359
Change in expected income development	98	– 87
Change in expected pension growth	96	– 86
Change in career dynamics	4	– 3
Change in fluctuation	– 1	1
Change in probability of annuitization	1	– 1

A one-year increase in life expectancy would lead to a EUR 99 million (previous year: EUR 143 million) increase in the defined benefits.

When calculating the sensitivities, each parameter was stressed, all other things remaining equal. A correlation between the valuation assumptions was therefore not taken into account.

The fair value of the plan assets consisted of the following at year-end:

EUR million	31/12/2022	31/12/2021
Time deposits and other cash and cash equivalents	*326*	*101*
Level I measurement	322	96
Level II measurement	3	5
Securities	*1,531*	*2,226*
Securities – equity instruments	*242*	*283*
Equity instruments from financial institutions	*26*	*27*
Level I measurement	26	27
Equity instruments from other financial corporations	*42*	*46*
Level I measurement	32	34
Level II measurement	10	12
Equity instruments from other non-financial corporations	*174*	*210*
Level I measurement	174	210
Securities – debt instruments	*1,289*	*1,944*
Public sector debt instruments	*212*	*334*
Level I measurement	210	318
Level II measurement	2	16
Debt instruments from financial institutions	*213*	*197*
Level I measurement	211	197
Level II measurement	1	0
Debt instruments from other financial corporations	*344*	*561*
Level I measurement	332	546
Level II measurement	12	15
Debt instruments from other non-financial corporations	*521*	*851*
Level I measurement	499	851
Level II measurement	22	0
Real estate	*0*	*1*
Derivatives	*80*	*212*
Level I measurement	*80*	*212*
Interest-related derivatives	80	212
Investment funds	*237*	*243*
Level I measurement	237	243
Plan assets	*2,174*	*2,783*

The plan assets listed above do not include any transferable financial instruments from LBBW or from real estate used by LBBW.

The fair value of the plan assets changed as follows during the financial year:

EUR million	2022	2021
Balance as at 1 January	*2,783*	*2,405*
Changes recognized in the income statement	*31*	*14*
Interest income/expense	31	14
Changes recognized in Other comprehensive income	*– 721*	*264*
Income/expense from the plan assets (less the income included in net interest income)	– 719	262
Changes in exchange rates	– 2	2
Other changes	*81*	*100*
Employer contributions	180	155
Pension benefits paid	– 98	– 54
Settlements	– 1	0
Balance as at 31 December	*2,174*	*2,783*

Estimated contributions to plan assets to be paid by LBBW for the coming financial year amount to approximately EUR 8 million (previous year: EUR 7 million).

The present value of defined benefit obligations and the fair value of plan assets can be reconciled with the assets and liabilities as reported in the statement of financial position as follows:

EUR million	31/12/2022	31/12/2021
Present value of defined benefit obligations	3,030	4,050
of which present value of defined benefit obligations from unfunded plans	376	458
of which present value of defined benefit obligations from wholly or partially funded plans	2,654	3,592
Fair value of plan assets	– 2,174	– 2,783
of which other assets from surplus of pension obligations	– 14	– 1
Obligations not covered by plan assets	870	1,268
Total	*870*	*1,268*

This decline was essentially the result of the remeasurement of the pension obligations due to the increase in the discount rate.

The weighted average maturity of the defined benefit obligation is 14.1 years (previous year: 17.1 years).

The following table shows the maturity analysis of the benefit payments in the current financial year:

EUR million	31/12/2022	31/12/2021
Maturity analysis		
Up to 1 year	133	122
More than 1 year to 5 years	577	527
More than 5 years to 10 years	846	769
More than 10 years to 15 years	918	826
More than 15 years	3,828	3,251

Other provisions

General information

Provisions are recognized for uncertain obligations to third parties and anticipated losses from onerous contracts. The best estimate is the amount required to settle the present obligation at the statement of financial position date and which is most likely to occur.

The other personnel-related provisions include provisions for staff anniversaries, provisions for early retirement and partial retirement and performance-related remuneration. According to the provisions governing long service awards, an anniversary bonus is awarded to employees who have been with the Company for 10, 25, 40 and 50 years, the amount of which is guided by company or collective bargaining agreements. The corresponding anniversary provisions are calculated and set aside. Provisions are also created for concluded partial retirement agreements. The legally required capital preservation of accrued benefits in the case of partial retirement is covered by a two-sided trustee agreement. The appropriated assets held in the custodian accounts is mostly invested in the money market and offset against the corresponding provisions. LBBW offers its employees in the Bank and some subsidiaries a long-term account, the so-called LBBW FlexiWertkonto. It offers employees the opportunity to pay in part of their remuneration in the FlexiWertkonto, which they can use again in the form of time (withdrawal time). A two-sided trustee agreement was drawn up to secure these accrued retirement benefits as prescribed by law. Provisions are created for obligations arising from these accounts and offset against the accrued retirement benefits.

Furthermore, there are provisions for off-balance-sheet credit risks and “Other provisions”, which include provisions for restructuring. Provisions for litigation and recourse risks are also included. Please see the risk report for further details of the legal risks.

As a rule, the same risks apply to all other provisions as for the post-retirement obligations, albeit to a much lesser extent owing to the shorter obligation period.

Quantitative detailed disclosures

The following table shows changes in other provisions in the year under review:

EUR million	Other personnel-related provisions	Provisions for litigation and recourse risk	Other provisions	Total
Balance as at 1 January 2022	*150*	*197*	*219*	*565*
Additions	103	47	64	215
Reversals	– 14	– 45	– 10	– 69
Utilization	– 72	– 7	– 58	– 137
Discounting of non-current provisions	– 2	– 1	– 2	– 5
Compounding of non-current provisions	– 0	– 0	– 1	– 1
Change from basis of consolidation	23	2	37	63
Other changes	2	– 1	– 3	– 2
Balance as at 31 December 2022	*190*	*192*	*245*	*628*

LBBW was faced with various legal proceedings, court actions and other potential legal risks (for example, resulting from Supreme Court rulings) arising in the ordinary course of business. Provisions were recognized for the risks involved in the management and the Group's legal advisors deem payments to be made by LBBW likely and the amounts involved can be estimated with sufficient reliability. There are other legal disputes where the Board of Managing Directors, after consultation with its legal advisors, holds the view that a payment by the Bank is unlikely (recognition as a contingent liability if necessary) or that the final settlement of these disputes does not affect the present consolidated financial statements in any material way.

In total, "Other provisions "with a term of over twelve months in the amount of EUR 490 million were discounted. Average maturities for "Other provisions" range from one year to 11 years.

Allowances for losses on loans and securities for financial guarantees and off-balance-sheet transactions recognized in accordance with IFRS 9 are included in provisions for or lending business (for information on calculating allowances for losses on loans see Note 22).

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

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Total
Balance as at 1 January 2022	*15*	*92*	*141*	*247*
Changes	153	– 30	– 54	70
Transfer to Stage 1	25	– 25	– 0	0
Transfer to Stage 2	– 4	4	– 0	0
Additions	144	13	21	178
Reversals	– 12	– 21	– 74	– 108
Additions	21	3	12	35
Disposals	– 1	– 3	– 22	– 26
Other changes	0	– 0	0	1
Balance as at 31 December 2022	*187*	*62*	*77*	*327*

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Total
Balance as at 1 January 2021	*11*	*155*	*111*	*277*
Changes	0	– 58	32	– 26
Transfer to Stage 1	7	– 7	0	0
Transfer to Stage 2	– 3	3	0	0
Transfer to Stage 3	– 0	– 5	5	0
Additions	6	16	77	99
Reversals	– 9	– 65	– 50	– 125
Additions	5	2	17	24
Disposals	– 1	– 8	– 19	– 29
Other changes	0	0	– 0	1
Balance as at 31 December 2021	*15*	*92*	*141*	*247*

55. Equity

The share capital is the capital paid in by the owners of Landesbank Baden-Württemberg pursuant to Section 5 of the Landesbank Baden-Württemberg Act (Gesetz über die Landesbank Baden-Württemberg) in conjunction with Section 3 of the articles of association of Landesbank Baden-Württemberg. The following entities are holders of the share capital of LBBW:

- Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) with 40.53%,
- State of Baden-Württemberg (state) with 24.99%,
- State Capital of Stuttgart (city) with 18.93%,
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW) with 15.55%.

The capital reserve includes the amount in excess of the (theoretical) nominal value that is achieved when issuing units (offering premium).

In addition to transfers from the net consolidated profit/loss, retained earnings include the Group's share in the unappropriated profit/loss of the consolidated subsidiaries to the extent that these profits were generated since their affiliation to the Group. In addition, retained earnings include the effects of actuarial gains/losses and the associated deferred taxes in connection with the recognition of provisions for pensions. This item also includes realized gains and losses from its own credit rating (own credit spread), the associated deferred taxes and realized gains and losses from equity instruments voluntarily recognized at fair value through other comprehensive income.

The breakdown of "Other comprehensive income" is shown in the statement of changes in equity and the statement of comprehensive income.

The "Additional equity components" item includes capital issued by LBBW from an AT1 bond recognized as equity[1] in accordance with IAS 32.16.

EUR million	31/12/2022	31/12/2021
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,665	1,211
Other comprehensive income	– 237	65
Net consolidated profit/loss	1,517	418
Shareholders' equity	*14,669*	*13,417*
Additional equity components	745	745
Equity attributable to non-controlling interests	28	35
Total	*15,442*	*14,197*

1 To be categorized as equity, the capital must be available indefinitely and coupon payments made at the full discretion of the issuer. The AT1 bond issued by LBBW meets these requirements.

The change in equity reflected higher net consolidated profit/loss following the acquisition of Berlin Hyp (see Note 8).

Retained earnings included cumulative actuarial gains/losses after tax of EUR – 780 million (previous year: EUR – 1,114 million). Profit and loss carryforwards from prior periods were also recognized under Retained earnings.

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR 40 million (previous year: EUR 1 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 increased considerably compared to previous year as a result of widening spreads on capital markets for financials. As a result of market fluctuation provoked by crises, especially in the second half of the year, cumulative measurement gains/losses on financial assets measured at fair value through other comprehensive income had a negative impact on equity.

Equity includes taxes recognized in other comprehensive income of EUR 364 million (previous year: EUR 457 million).

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

56. Capital management

The objective of this process is to ensure adequate capital and liquidity, both during normal business operations and under stress conditions, and thus to guarantee the permanent resilience of the LBBW Group. Normal business operations focus on achieving the company targets while making adequate provisions for stress resistance under stress conditions.

Annual medium-term planning comprises the economic and regulatory considerations, brings these together and acts as a link between the strategic framework and integrated bank management throughout the year. The planning period covers five years and is based on expected economic development, with particular consideration given to the current geopolitical/economic situation and to business activity planned in this environment.

The planning thus lays the groundwork for monitoring the targets set at all management levels. Within the management areas and dimensions, deviations from targets are subsequently analyzed, forecasts and target/actual deviations reported and, where necessary, measures to achieve the targets are agreed, implemented and monitored throughout the year. This is carried out by those responsible/the committees within the steering groups.

In addition, compliance with the internal targets and thus with minimum regulatory requirements is also ensured in the case of adverse economic developments. Both the time horizon of medium-term planning and a shock occurrence of stress events are considered here. The members of the Group's Board of Managing Directors with responsibility for managing risks are supported in their decision-making by corporate bodies and a comprehensive risk and subject-specific reporting system. The overall risk report and the report to the Asset Liability Committee (ALCo) thus form the reporting system relevant to risk within the context of the requirements of MaRisk.

The monitoring body, the Risk Committee, comprises the board members with responsibility for real estate and project finance, capital markets business and asset management/international business, risk management, compliance and finance and operations, as well as divisional managers from Risk Control, Group Compliance, Finance Controlling, Treasury and Risk Management and key Front Office areas. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in risk monitoring, risk methodology and risk strategy for the Group as a whole. The monthly overall risk report and other reports prepared on specific issues as required form the basis for this.

The managing body, ALCo, also has an advisory role and works on preparing decisions for the Group's Board of Managing Directors. The focus of the ALCo is on strategic resource management for the Group as a whole. It supports the Board of Managing Directors, among other things in structuring the balance sheet, managing capital and liquidity as well as in funding and managing market price risks. The committee comprises the board members with responsibility for capital markets business and asset management/international business, risk management, compliance and finance and operations, as well as the divisional managers from Risk Control, Financial Controlling and Treasury.

The Regulatory/Accounting Committee evaluates at an early stage the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes and takes the measures required. The committee comprises, among other areas, the board members with responsibility for capital markets business and asset management/international business, risk management and compliance and finance and operations, the head of information technology and divisional managers from the Legal division, Risk Control, Group Compliance, Finance, Finance Controlling, Group Auditing, Treasury and Risk Management.

Economic capital

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).

The internal monitoring of this risk-bearing capacity (RBC) using binding targets and tolerance levels ensures LBBW Group has adequate economic capital both in times of normal business operations as well as under stress conditions. The current focus here is on potential negative developments in connection with current inflation trends and the geopolitical situation, especially in terms of worsening energy and raw material shortages, as as other plausible scenarios. Risks within the framework of the LBBW Group's risk-bearing capacity are described before possible measures to limit risks (so-called gross presentation).

See the risk report in the combined management report for details.

Regulatory capital

LBBW Group's capital ratios are calculated according to the provisions of Article 92 CRR in conjunction with Article 11 CRR. Accordingly, the ratios to be fulfilled at all times are:

- Common equity Tier 1 capital ratio (basis: CET 1 capital) of 4.5%, plus relevant capital buffer
- Tier 1 ratio (basis: common equity Tier 1 capital and additional Tier 1 capital) of 6.0%
- Total capital ratio (basis: common equity Tier 1 and additional Tier 1 capital, as well as supplementary capital) of 8.0%

The ECB is conducting the Supervisory Review and Evaluation Process (SREP). Based on this process, the ECB determined that, beyond the minimum requirements under Article 92 CRR, LBBW is required to maintain a SREP premium of 1.88% in 2022. This premium was reduced to 1.83% from 7 September 2022 after the NPL calculation was resubmitted in accordance with the ECB's requirements. The practical expedient that states that AT1 and T2 capital can be used in some cases to meet this requirement still applies. Furthermore, a bank-specific countercyclical capital buffer must be held. This capital buffer can be imposed by countries in the European Economic Area and by third-party states for the major risk exposures in their country. In addition to this, the Bank has to meet the requirements of the Pillar II Capital Guidance (P2G) as additional capital guidance.

The ratios result from the relevant capital components in relation to the total exposure amount, expressed in percent. The total exposure amount is calculated as the risk weighted exposure amounts for the credit and dilution risk, the counterparty risk from the trading book business, market price risk (position, foreign currency and commodity position risks), the risks of credit valuation adjustments for OTC derivatives and operational risk. These ratios required by the supervisory authorities were maintained at all times during the 2022 financial year.

The own funds derive from the sum of Tier 1 and Tier 2 capital.

Tier 1 capital consists of common equity Tier 1 capital and additional Tier 1 capital, whereby the common equity Tier 1 capital comprises the paid-in capital, associated premiums (capital reserves), retained earnings and cumulative “Other comprehensive income”.

The additional Tier 1 capital comprises the AT 1 bond issued in 2019.

Supplementary capital comprises long-term securitized subordinated liabilities as well as long-term subordinated loans and profit participation rights that meet the requirements of Article 63 CRR and the associated premiums. Silent partners' contributions that meet the conditions for consideration as supplementary capital are also counted as part of supplementary capital. The supplementary capital instruments are subject to a day specific reduction in the last five years of their term. In addition, the value adjustment surplus resulting from the reconciliation of expected losses and impairment losses on receivables categorized in accordance with IRB may also be taken into account.

Intangible assets, deferred tax claims from loss carryforwards dependent on future profitability, assets from defined benefit pension funds and the value adjustment deficit for receivables that were calculated pursuant to the IRB approach, must be deducted from the common equity Tier 1 capital. In addition, the gains or losses from own liabilities measured at fair value due to changes in the credit ratings of LBBW Group, gains and losses from derivative liabilities recognized at fair value resulting from the Bank's own credit risk, as well as value adjustments due to the requirements for a prudent valuation must be deducted when calculating the own funds. Securitization exposures that could be allocated to risk weighted assets at the risk weighting of 1250% and non-performing risk exposures not offset by corresponding allowances for losses on loans and securities are also deductible. Additional deductible items include irrevocable payment obligations towards the deposit guarantee system of the German Savings Bank Association (Deutscher Sparkassen- and Giroverband – DSGV) and towards the Single Resolution Board's (SRB) resolution fund.

As part of market-smoothing operations, supplementary capital components securitized in securities may be repurchased within the applicable limits. Some directly or indirectly held supplementary capital instruments that have been repurchased must be deducted from the supplementary capital. The fixed ceiling was complied with at all times in 2022.

LBBW applies the internal ratings-based approach (basic IRB approach) approved by the German Federal Financial Supervisory Authority (BaFin) for calculating capital backing for counterparty risks arising from the main exposure classes. Equity requirements for receivables for which permission has not been received to use a rating procedure are calculated in accordance with the credit risk standardized approach (CRSA).

The own funds in accordance with CRR are calculated based on the IFRS financial statements of the entities included in the regulatory scope of consolidation.

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 31 December 2022:

EUR million	31/12/2022	31/12/2021
Own funds	*18,754*	*18,090*
Tier 1 capital	14,272	13,456
of which common equity Tier 1 capital (CET 1)	13,528	12,473
of which additional Tier 1 capital (AT 1)	744	983
Supplementary capital (Tier 2)	4,482	4,634
Total amount at risk	93,157	84,416
Total capital ratio (in %)	20.1	21.4
Tier 1 capital ratio (in %)	15.3	15.9
Common equity Tier 1 (CET 1) capital ratio (in %)	14.5	14.8

EUR million	31/12/2022	31/12/2021
Tier 1 capital	*14,272*	*13,456*
Paid-in capital instruments	3,484	3,484
Premium	8,240	8,240
Additional Tier 1 capital (AT 1)	744	983
Retained profits, cumulative result and other reserves	2,493	1,363
Deductibles from CET 1 capital in accordance with CRR, taking into account transitional provisions	– 689	– 614

Explanation of the changes in 2022 versus 2021

The above figures for 2022 include figures for Berlin Hyp for the first time. The common equity Tier I (CET 1) of the LBBW Group increased as against the previous year. This is primarily the result of badwill generated from the purchase of Berlin Hyp. In addition, including the annual profit from 2021 and doing so in advance for 2022 had a positive effect on CET 1, as did the actuarial gains. Revaluation reserves for securities and the rise in various deductions moved in the opposite direction. Unlike in the previous year, this year LBBW included year-end gains for the prior financial year in advance.

Additional tier 1 capital (AT1) declined due to the expiry of transitional provisions for silent partners' contributions. Supplementary capital (T2) also decreased despite including the silent partners' contributions as supplementary capital. This was due chiefly to the premature redemption of a bond of SGD 300 million as well as the amortization of Tier 2 capital components. Other factors included the development of USD and AUD exchange rates and the effects of first-time adoption per IFRS 9 to be deducted from supplementary capital as. By contrast, changes in the value adjustment surplus increased supplementary capital.

The changes impacting on CET 1 capital have an effect on all capital ratios. A change in AT 1 capital influences the Tier 1 capital ratio and the total capital ratio. A change in supplementary capital is reflected only in the total capital ratio.

The total amount at risk, especially the credit risk, also rose against the figure for the end of the previous year due to the inclusion of values for Berlin Hyp. The synthetic securitization transactions Lion II and III and improved ratings across all exposure classes had the opposite effect.

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".

57. Off-balance-sheet transactions

Contingent liabilities

EUR million	31/12/2022	31/12/2021
Sureties and guarantee agreements	9,549	8,214
Other contingent liabilities	230	195
Total	*9,779*	*8,409*

Contingent liabilities are dominated by 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 lending business".

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.

The following liability relationships exist in addition to the contingent liabilities shown in the above table:

- Pursuant to Section 5 (10) of the bylaws of the German Deposit Protection Fund, LBBW undertook to indemnify Bundesverband Deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as a result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.
- For letters of comfort issued please see the list of shareholdings (Note 59).
- Liabilities from the guarantee obligation: LBBW (Bank) is liable indefinitely for the liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main, and of former LBS Landesbausparkassen Baden-Württemberg, Stuttgart and Karlsruhe created up to 18 July 2001. This also applies externally to the liabilities of the former Landesbank Schleswig-Holstein Girozentrale, Kiel that arose during the period in which it held an interest in the former Landesbank Schleswig-Holstein Girozentrale, Kiel, until 18 July 2001.

Other obligations

EUR million	31/12/2022	31/12/2021
Irrevocable loan commitments	41,416	36,137
Total	*41,416*	*36,137*

The item consists exclusively of the unutilized amount of the commitment granted that the Bank cannot revoke. If a guarantee is drawn on, there is a risk for LBBW that its claim (for recourse) against the guarantee holder or borrower less the collateral is not valuable (see Note 22 for information on allowances for losses on loans and securities).

Further transactions not included in the statement of financial position and other financial obligations

EUR million	31/12/2022	31/12/2021
Payment obligations and joint liability	457	802
Obligations from investment projects started	59	104
Revocable loan commitments	24,447	23,304
Miscellaneous	139	154
Total	*25,102*	*24,365*

The following liability relationships exist in addition to the other financial obligations shown in the above table:

Payment obligations and joint liability consist of additional funding obligations to central counterparties in the amount of EUR 453 million (previous year: EUR 697 million). In addition to the items shown in the table, obligations of EUR 218 million (previous year: EUR 233 million) arise each year from rental and lease agreements.

Contingent claims

EUR million	31/12/2022	31/12/2021
Legal disputes	0	7
Total	*0*	*7*

Fiduciary transactions

The trust activities which are not carried in the statement of financial position involve the following types of assets and liabilities and break down as follows:

EUR million	31/12/2022	31/12/2021
Loans and advances to banks	798	944
Loans and advances to customers	120	59
Financial investments	0	2
Total assets	15	23
Total trust assets[1]	*933*	*1,027*
Deposits from banks	932	1,025
Deposits from customers	0	2
Other liabilities	1	1
Total trust liabilities[1]	*933*	*1,027*

1 Including receivables and liabilities on behalf of others for the account of a third party (administrative loans).

58. Related party disclosures

Related party transactions are concluded by LBBW in the ordinary course of business.

These include the shareholders of LBBW (see Note 55), controlled subsidiaries that are however not consolidated for reasons of materiality, non-consolidated structured entities, associates, joint ventures, persons in key positions and their relatives, as well as companies controlled by these individuals. Persons in key positions include the members of the Board of Managing Directors and of the Supervisory Board of LBBW (Bank), including relatives. Other related parties/companies also include equity investments by the shareholders and companies on which persons in key positions and their families can exert a dominant or material influence.

Information on the compensation of and transactions with individuals in key positions is shown in Note 61.

The related party transactions were concluded at arm's length terms in the ordinary course of business. These included loans, overnight and term money, derivatives and securities transactions, among others.

The following table shows the extent of the related party transactions:

31/12/2022 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	529	4	1	60	1	847
Financial assets measured at fair value through other comprehensive income	517	0	23	175	0	0
Financial assets designated at fair value	18	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	469	0	23	186	0	226
Total assets	*1,532*	*4*	*46*	*422*	*1*	*1,074*
Financial liabilities measured at amortized cost	522	7	32	161	6	14,246
Financial liabilities mandatorily measured at fair value through profit or loss	119	0	0	37	0	212
Provisions	0	0	0	0	3	0
Other liabilities	0	0	0	33	0	0
Total equity and liabilities	*641*	*7*	*33*	*230*	*9*	*14,459*
Off-balance-sheet transactions	*330*	*1*	*10*	*72*	*3*	*1,355*

31/12/2021 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	495	4	1	94	1	823
Financial assets measured at fair value through other comprehensive income	699	0	16	171	0	0
Financial assets designated at fair value	22	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,567	0	3	115	0	352
Total assets	*2,783*	*4*	*20*	*380*	*1*	*1,175*
Financial liabilities measured at amortized cost	616	12	55	84	8	12,962
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	29	0	153
Provisions	0	0	0	0	3	0
Total equity and liabilities	*616*	*12*	*55*	*113*	*11*	*13,115*
Off-balance-sheet transactions	*327*	*1*	*10*	*72*	*3*	*1,219*

Related party transactions resulted in material effects in net interest income of EUR 246 million (previous year: EUR 301 million).

LBBW did not exercise the exemption in accordance with IAS 24.25.

59. List of shareholdings and information on subsidiaries, associates and joint ventures

The share of the associates and joint ventures in the aggregate assets and liabilities, as well as revenues and profits/losses for the period are presented in Note 9.

These consolidated financial statements apply the exemption pursuant to Section 264 (3) HGB and Section 264b HGB for the annual financial statements as at 31 December 2022 of the following fully consolidated companies.

- Berlin Lützowstraße GmbH & Co. KG, Stuttgart
- Dritte Industriehof Objekt-GmbH, Stuttgart
- Eberhardstraße Stuttgart GmbH & Co. KG, Stuttgart
- Employrion Immobilien GmbH & Co. KG, Weil
- Entwicklungsgesellschaft Grunewaldstraße 61—62 mbH & Co. KG, Stuttgart
- Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG, Stuttgart
- Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG, Weil
- Erste Industriehof Objekt-GmbH, Stuttgart
- EuroCityCenterWest GmbH & Co. KG, Stuttgart
- FOM/LEG Generalübernehmer GmbH & Co. KG, Stuttgart
- Fünfte Industriehof Objekt-GmbH, Stuttgart
- Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG, Berlin
- IMBW Capital & Consulting GmbH, Stuttgart
- KI Campus 1 GmbH & Co. KG, Stuttgart
- KI Campus 2 GmbH & Co. KG, Stuttgart
- LBBW Immobilien Asset Management GmbH, Stuttgart
- LBBW Immobilien Capital Fischertor GmbH & Co. KG, Munich
- LBBW Immobilien Development GmbH, Stuttgart
- LBBW Immobilien Holding GmbH, Stuttgart
- LBBW Immobilien Management Gewerbe GmbH, Stuttgart
- LBBW Immobilien Süd GmbH & Co. KG, Munich
- LBBW Service GmbH, Stuttgart
- LEG Projektgesellschaft 2 GmbH & Co. KG, Stuttgart
- Mainz Marina A + B GmbH & Co. KG, Stuttgart
- Nymphenburger Straße München GmbH & Co. KG, Stuttgart
- Schlossgartenbau Objekt-GmbH, Stuttgart
- Turtle Portfolio GmbH & Co. KG, Frankfurt am Main
- Turtle Vermögensverwaltungs-GmbH & Co. KG, Frankfurt am Main
- Ungererstraße München GmbH & Co. KG, Stuttgart
- Vierte Industriehof Objekt-GmbH, Stuttgart
- Zweite Industriehof Objekt-GmbH, Stuttgart

The following overview shows the full list of shareholdings of LBBW in accordance with Section 313 (2) HGB in the consolidated financial statements and Section 285 (11) HGB in the annual financial statements of Landesbank Baden-Württemberg including the statements pursuant to Section 285 (11a) HGB as at the reporting date. The list of shareholdings shows the companies for which a letter of comfort has been issued.

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
I. Companies included in the consolidated financial statements							
1. Subsidiaries							
a. Fully-consolidated subsidiaries (authority over the voting rights)							
1	Acteum Investment GmbH[1, 6, 27]	Dusseldorf	100.00		EUR	1,022.20	919.90
2	ALVG Anlagenvermietung GmbH[1, 6, 7, 27]	Stuttgart	100.00		EUR	19,000.00	0.00
3	Austria Beteiligungsgesellschaft mbH[27]	Stuttgart	66.70		EUR	36,498.40	901.50
4	Berlin Hyp AG[5, 7, 13]	Berlin	100.00		EUR	935,903.20	0.00
5	Berlin Lützowstraße GmbH & Co. KG[1, 27]	Stuttgart	60.00		EUR	11,739.10	16,411.00
6	Centro Alemán de Industria y Comercio de México S.de R.L.de C.V.[2, 27]	Mexico City, Mexico	100.00		MXN	– 10,338.00	– 266.10
7	Dritte Industriehof Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	701.90	0.00
8	Eberhardstraße Stuttgart GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 4,262.80	– 580.80
9	Employrion Komplementär GmbH[1, 9, 27]	Weil	100.00		EUR	34.90	0.60
10	Entwicklungsgesellschaft Grunewaldstraße 61 - 62 mbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 3,368.50	47.00
11	Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 2,208.80	– 6.50
12	Erste IMBW Capital & Consulting Komplementär GmbH[1, 27]	Weil	100.00		EUR	29.80	0.90
13	Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG[1, 27]	Weil	100.00		EUR	– 10.30	0.00
14	Erste Industriehof Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	475.00	0.00
15	EuroCityCenterWest GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	1,814.70	1,355.40
16	EuroCityCenterWest Verwaltungs-GmbH[1, 27]	Stuttgart	100.00		EUR	33.90	– 0.50
17	FLANTIR PROPERTIES LIMITED i.L.[1, 27]	Nicosia, Cyprus	100.00		RUB	7,096.50	– 90.60
18	FOM / LEG Generalübernehmer GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 9,882.90	– 2,005.40
19	Fünfte Industriehof Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	575.00	0.00
20	German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft[5, 27]	Stuttgart	100.00		EUR	7,720.60	0.00
21	German Centre for Industry and Trade Pte. Ltd.[1, 27]	Singapore, Singapore	100.00		SGD	21,531.00	2,057.60
22	IMBW Capital & Consulting GmbH[1, 6, 27]	Stuttgart	100.00		EUR	250.00	0.00
23	Immobilienvermittlung BW GmbH[27]	Stuttgart	100.00		EUR	3,201.40	433.80
24	Industriehof-Aktiengesellschaft[1, 6, 27]	Stuttgart	93.60		EUR	23,281.60	0.00
25	KI Campus 1 GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 26.10	27.10
26	KI Campus 2 GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 26.10	27.10
27	Kiesel Finance Management GmbH[1, 27]	Baienfurt	90.00		EUR	48.40	2.10
28	Kommunalbau Rheinland-Pfalz GmbH[1, 27]	Stuttgart	100.00		EUR	2,433.60	399.00
29	LBBW Asset Management Investmentgesellschaft mbH[3, 7, 27]	Stuttgart	100.00		EUR	55,677.30	23,646.60
30	LBBW Corporate Real Estate Management GmbH[27]	Stuttgart	100.00		EUR	2,614.30	– 651.80
31	LBBW Immobilien Asset Management GmbH[1, 6, 27]	Stuttgart	100.00		EUR	1,305.00	0.00
32	LBBW Immobilien Capital Fischertor GmbH & Co. KG[1, 27]	Munich	100.00		EUR	– 5,230.70	– 14.90
33	LBBW Immobilien Capital GmbH[1, 27]	Stuttgart	100.00		EUR	– 2,176.00	0.00
34	LBBW Immobilien Development GmbH[1, 4, 6, 27]	Stuttgart	94.90		EUR	15,394.90	0.00
35	LBBW Immobilien Development Komplementär GmbH[1, 27]	Stuttgart	100.00		EUR	– 741.40	– 4.20
36	LBBW Immobilien Investment Management GmbH[1, 27]	Stuttgart	100.00		EUR	– 2.80	– 5.60
37	LBBW Immobilien Kommunalentwicklung GmbH[1, 4, 6, 7, 27]	Stuttgart	81.60		EUR	2,016.50	0.00
38	LBBW Immobilien Management Gewerbe GmbH[1, 6, 27]	Stuttgart	94.90		EUR	3,304.00	0.00
39	LBBW Immobilien Management GmbH[1, 6, 27]	Stuttgart	100.00		EUR	375,715.70	0.00
40	LBBW Immobilien Romania S.R.L.[1, 25]	Bucharest, Romania	100.00		RON	34,552.60	– 648.30

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
41	LBBW Immobilien Süd GmbH & Co. KG[1, 27]	Munich	100.00		EUR	– 29,460.50	4,140.10
42	LBBW Immobilien-Holding GmbH[5, 27]	Stuttgart	100.00		EUR	402,050.50	0.00
43	LBBW Leasing GmbH i.L.[27]	Mannheim	100.00		EUR	24,958.20	– 25.00
44	LBBW México[2, 27]	Mexico City, Mexico	100.00		USD	5,614.20	3,025.50
45	LBBW Service GmbH[5, 27]	Stuttgart	100.00		EUR	224.70	0.00
46	LBBW US Real Estate Investment LLC[26]	Wilmington, USA	100.00		USD	55,223.20	4,175.00
47	LBBW Venture Capital Gesellschaft mit beschränkter Haftung[27]	Stuttgart	100.00		EUR	44,003.10	– 6,558.80
48	LEG Projektgesellschaft 2 GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	2,947.10	1,094.40
49	LEG Verwaltungsgesellschaft 2 mbH[1, 27]	Stuttgart	100.00		EUR	26.40	– 0.40
50	LIAM Horizont Stuttgart GmbH[1, 27]	Stuttgart	100.00		EUR	30.20	– 0.20
51	LOOP GmbH[1, 27]	Stuttgart	100.00		EUR	198.20	– 60.80
52	Löwentor Stuttgart Komplementär GmbH[1, 27]	Stuttgart	100.00		EUR	29.80	1.00
53	Löwentor Stuttgart Projekt GmbH & Co. KG[1, 27]	Stuttgart	70.00		EUR	8,092.30	– 197.30
54	LRP Capital GmbH[1, 27]	Stuttgart	100.00		EUR	3,240.30	– 88.30
55	Mainz Marina A + B GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 68.60	– 69.40
56	MMV Bank GmbH[7, 27]	Koblenz	100.00		EUR	51,339.80	10,134.10
57	MMV Leasing Gesellschaft mit beschränkter Haftung[1, 6, 7, 27]	Koblenz	100.00		EUR	21,000.00	0.00
58	MMV Versicherungsdienst GmbH[1, 6, 27]	Koblenz	100.00		EUR	27.00	0.00
59	MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH[1, 6, 7, 27]	Koblenz	100.00		EUR	26.00	0.00
60	Nymphenburger Straße München GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	800.90	352.50
61	Nymphenburger Straße München Komplementär GmbH[1, 27]	Stuttgart	100.00		EUR	18.00	– 1.10
62	Projekt 20 Verwaltungs GmbH[1, 27]	Munich	100.00		EUR	45.40	1.20
63	Projektgesellschaft SMK 69 mbH[1, 27]	Eschborn	60.00		EUR	– 3,030.40	– 2,466.90
64	Revaler Straße Grundbesitz GmbH[1, 27]	Stuttgart	100.00		EUR	– 759.20	110.60
65	Schlossgartenbau Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	18,560.60	0.00
66	Schlossgartenbau-Aktiengesellschaft[1, 6, 27]	Stuttgart	92.70		EUR	6,592.40	0.00
67	SG Management GmbH[1, 27]	Stuttgart	100.00		EUR	12,454.80	– 563.40
68	Signaris GmbH[1, 27]	Stuttgart	94.90		EUR	2,204.00	– 1,425.00
69	SLN Maschinen-Leasing Verwaltungs-GmbH[1, 27]	Stuttgart	100.00		EUR	1,908.50	320.50
70	SLP Mobilien-Leasing Verwaltungs GmbH[1, 27]	Mannheim	100.00		EUR	389.40	42.80
71	Süd Beteiligungen GmbH[27]	Stuttgart	100.00		EUR	138,229.90	783.80
72	Süd KB Sachsen GmbH[1, 27]	Leipzig	100.00		EUR	10,875.50	1,049.70
73	Süd KB Unternehmensbeteiligungsgesellschaft mbH[1, 27]	Stuttgart	100.00		EUR	43,714.60	– 1,009.30
74	Süd-Kapitalbeteiligungs-Gesellschaft mbH[1, 6, 27]	Stuttgart	100.00		EUR	61,181.90	0.00
75	SüdFactoring GmbH[3, 5, 7, 27]	Stuttgart	100.00		EUR	70,000.00	0.00
76	SüdLeasing Agrar GmbH[1, 7, 27]	Mannheim	100.00		EUR	3,666.50	354.90
77	SüdLeasing GmbH[5, 7, 27]	Stuttgart	100.00		EUR	33,837.90	195.60
78	targens GmbH[27]	Stuttgart	100.00		EUR	6,375.50	3,144.50
79	Turtle 1. Verwaltungs-GmbH[1, 27]	Frankfurt am Main	100.00		EUR	– 26.00	1.80
80	Turtle Portfolio GmbH & Co. KG[1, 27]	Frankfurt am Main	100.00		EUR	– 23,847.20	412.10
81	Turtle Vermögensverwaltungs-GmbH & Co. KG[1, 27]	Frankfurt am Main	100.00		EUR	– 19,737.80	428.40
82	Ungererstraße München GmbH & Co. KG[1, 27]	Stuttgart	100.00		EUR	– 550.60	– 446.70
83	Vierte Industriehof Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	1,176.80	0.00
84	zob Esslingen Grundbesitz GmbH[1, 4, 27]	Stuttgart	100.00		EUR	1,965.40	247.60
85	Zweite IMBW Capital & Consulting Komplementär GmbH[1, 27]	Stuttgart	100.00		EUR	25.40	1.10
86	Zweite Industriehof Objekt-GmbH[1, 6, 27]	Stuttgart	100.00		EUR	19,825.70	0.00
87	Zweite LBBW US Real Estate GmbH[27]	Leipzig	100.00		EUR	56,539.50	1,943.70

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
b. Fully consolidated subsidiaries (authority over contractual agreements)							
88	Employrion Immobilien GmbH & Co. KG[1, 27]	Weil	35.00	50.00	EUR	8.00	0.00
89	Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG[1, 25]	Berlin	39.90	50.00	EUR	– 8,925.70	– 170.40
90	Weinberg Capital Designated Activity Company[9, 27]	Dublin, Ireland			EUR	39.00	– 10.00
91	Weinberg Funding Ltd.[9, 27]	St. Helier, Jersey, United Kingdom			EUR	3.60	0.00
2. Joint ventures accounted for using the equity method							
92	ARGE ParkQuartier Berg[1, 27]	Stuttgart	50.00		EUR	– 1,194.30	– 11.90
93	Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG)[1, 27]	Bad Kreuznach	50.00		EUR	737.50	– 204.00
94	GIZS GmbH & Co. KG[27]	Frankfurt am Main	33.30		EUR	13,570.90	– 2,376.30
95	OVG MK6 Komplementär GmbH i. L.[1, 27]	Berlin	50.00		EUR	111.90	2.10
96	Parcul Banatului SRL[1, 25]	Bucharest, Romania	50.00		RON	60.70	– 134.20
3. Associates accounted for using the equity method							
97	Altstadt-Palais Immobilien GmbH & Co. KG[1, 25]	Weil	40.00	50.00	EUR	– 61.20	– 4.10
98	BWK GmbH Unternehmensbeteiligungsgesellschaft[27]	Stuttgart	40.00		EUR	227,900.70	20,982.00
99	BWK Holding GmbH Unternehmensbeteiligungsgesellschaft[27]	Stuttgart	40.00		EUR	14,252.00	1,987.90
100	EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG[1, 27]	Heidelberg	33.30		EUR	6,463.60	104.00
101	Hypo Vorarlberg Bank AG[1, 7, 27]	Bregenz, Austria	23.10		EUR	1,217,329.20	67,755.60
II. Companies not included in the consolidated financial statements due to being of minor influence							
1. Subsidiaries							
a. Subsidiaries not included (authority over the voting rights)							
102	Berlin Hyp Immobilien GmbH[1, 27]	Berlin	100.00		EUR	122.30	– 27.40
103	Berlin Lützowstraße Komplementär GmbH[1, 27]	Stuttgart	100.00		EUR	10.70	– 4.20
104	DEBTVISION GmbH[1, 27]	Stuttgart	100.00		EUR	2,951.70	– 1,275.50
105	German Centre for Industry and Trade Beijing Co., Ltd.[27]	Beijing, China	100.00		CNY	5,232.90	– 441.20
106	Heurika Mobilien-Leasing GmbH[1, 27]	Mannheim	100.00		EUR	247.30	– 4.00
107	Karin Mobilien-Leasing GmbH i.L.[1, 27]	Mannheim	100.00		EUR	884.30	0.00
108	Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH[1, 9, 25]	Berlin	100.00		EUR	31.70	1.50
109	Laurus Grundstücksverwaltungsgesellschaft mbH i.L.[27]	Stuttgart	100.00		EUR	1,293.80	– 8.50
110	LBBW (Schweiz) AG[27]	Zurich, Switzerland	100.00		CHF	8,543.00	– 342.10
111	LBBW Gastro Event GmbH[5, 27]	Stuttgart	100.00		EUR	130.00	0.00
112	LBBW Pensionsmanagement GmbH[5, 27]	Stuttgart	100.00		EUR	25.00	0.00
113	LBBW REPRESENTAÇÃO LTDA.[2, 27]	Sao Paulo, Brazil	100.00		BRL	185.80	4.20
114	LEG Osiris 4 GmbH[1, 27]	Stuttgart	100.00		EUR	24.40	– 1.00
115	LGZ-Anlagen-Gesellschaft mit beschränkter Haftung i.L.[27]	Mainz	100.00		EUR	2,836.10	– 7.60
116	LLC German Centre for Industry and Trade[27]	Moscow, Russia	100.00		RUB	1,924.30	– 202.50
117	MLP Verwaltungs GmbH i.L.[1, 27]	Mannheim	100.00		EUR	106.30	0.00
118	MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung[1, 6, 24]	Koblenz	100.00		EUR	26.40	0.00

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
119	Pollux Vierte Beteiligungsgesellschaft mbH[27]	Stuttgart	100.00		EUR	2,294.90	– 140.10
120	SL Bayern Verwaltungs GmbH i.L.[1, 27]	Mannheim	100.00		EUR	65.00	0.00
121	SL Bremen Verwaltungs GmbH[1, 27]	Mannheim	100.00		EUR	1,248.00	146.00
122	SL BW Verwaltungs GmbH i.L.[1, 27]	Mannheim	100.00		EUR	39.60	0.00
123	SL Düsseldorf Verwaltungs GmbH[1, 27]	Mannheim	100.00		EUR	594.90	– 3.30
124	SL Operating Services GmbH i.L.[1, 27]	Mannheim	100.00		EUR	80.40	0.00
125	SL RheinMainSaar Verwaltungs GmbH[1, 27]	Mannheim	100.00		EUR	56.30	– 0.60
126	SL Schleswig-Holstein Verwaltungs GmbH i.L.[1, 27]	Mannheim	100.00		EUR	91.60	0.00
127	SL Ventus GmbH & Co. KG i.L.[1, 27]	Mannheim	100.00		EUR	462.10	– 3.90
128	Städtische Pfandleihe Stuttgart GmbH[27]	Stuttgart	100.00		EUR	3,865.80	287.00
129	Süd Mobilien-Leasing GmbH i.L.[1, 27]	Stuttgart	100.00		EUR	28.30	0.00
130	Süd Verwaltung Schweiz GmbH i.L.[27]	Zurich, Switzerland	100.00		CHF	155.00	25.10
131	SüdLeasing Finance GmbH[1, 27]	Stuttgart	100.00		EUR	22.90	– 0.30
132	SüdLeasing Finance-Holding GmbH i.L.[1, 27]	Stuttgart	100.00		EUR	174.60	0.00
133	targens Suisse SA i.L.[1, 27]	Appenzell, Switzerland	100.00		CHF	89.70	– 417.70
134	Yankee Properties II LLC[9]	Wilmington, USA		100.00	n/s	n/s	n/s
135	Yankee Properties LLC[21]	New York, USA	100.00		USD	609.20	– 24.70
136	Zenon Mobilien-Leasing GmbH i.L.[1, 27]	Mannheim	100.00		EUR	36.60	0.00
137	Zorilla Mobilien-Leasing GmbH i.L.[1, 27]	Mannheim	100.00		EUR	33.80	0.00
138	Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH[1, 25]	Munich	100.00		EUR	45.40	1.50
	b. Subsidiaries not included (authority over contractual agreements)						
139	Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A i.L.[16]	Luxembourg, Luxembourg	100.00		EUR	5,897.90	– 248.70
140	LBBW AM-Start[9, 17]	Stuttgart			EUR	61,291.30	4,034.90
141	LBBW Internet der Zukunft[9]	Stuttgart			n/s	n/s	n/s
142	Sparkasse Vorderpfalz Select Deutschland N[9]	Stuttgart			n/s	n/s	n/s
143	Weinberg Capital LLC[9]	Wilmington, USA			n/s	n/s	n/s
	2. Joint ventures not accounted for using the equity method						
144	German Centre for Industry and Trade India Holding-GmbH i.L.[1, 27]	Munich	50.00		EUR	11.50	– 18.60
145	GIZS Verwaltungs-GmbH[27]	Frankfurt am Main	33.30		EUR	48.90	8.50
146	Projektgesellschaft Hangweide GbR[1, 9]	Stuttgart		33.30	n/s	n/s	n/s
147	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG[1, 27]	Tübingen	75.00		EUR	1,629.30	3,619.40
	3. Associates not accounted for using the equity method						
148	21st Real Estate GmbH[1, 27]	Berlin	24.50		EUR	775.20	– 1,870.90
149	AGVS Holding GmbH[1, 27]	Villingen-Schwenningen	45.00		EUR	22,275.70	1,090.10
150	Deharde GmbH[1, 7, 27]	Varel	39.50		EUR	978.50	– 1,907.40
151	EURAMCO Immobilien GmbH[1, 27]	Aschheim-Dornach	49.00		EUR	5.90	– 0.70
152	FABMATICS Holding GmbH[1, 27]	Dresden	50.00		EUR	10,017.00	1,553.10
153	Fischer Panda GmbH[1, 27]	Paderborn	49.00		EUR	13,519.60	3,604.40
154	Grundstücks- Vermögens- und Verwaltungs-GbR Stuttgart/Leinfelden-Echterdingen[1, 25]	Stuttgart	29.10		EUR	213.70	– 66.40
155	Grundstücks-, Vermögens- und Verwaltungs-GbR Wolfstor 2, Esslingen i.L.[1, 25]	Stuttgart	31.00		EUR	115.00	– 2.20

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
156	Grundstücks-, Vermögens- und Verwaltungs-GbR Ludwigsburg "Am Schloßpark" i.L.[1, 25]	Stuttgart	44.60		EUR	143.80	– 59.80
157	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart/Fellbach i.L.[1, 25]	Stuttgart	42.60		EUR	161.00	5.10
158	Janoschka AG[1, 27]	Kippenheim	39.80		EUR	23,884.50	4,959.40
159	Kiesel Finance GmbH & Co. KG[1, 9, 27]	Baienfurt		75.00	EUR	1,156.50	0.00
160	KKL Holding GmbH[1, 27]	Dusseldorf	48.30	47.20	EUR	22,083.60	2,010.20
161	Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	20.00		EUR	1,022.60	0.00
162	Mittelständische Beteiligungsgesellschaft Sachsen mbH[27]	Dresden	25.30		EUR	49,447.10	1.00
163	OnSite ImmoAgent GmbH[1, 27]	Berlin	49.00		EUR	756.50	– 321.70
164	Siedlungswerk GmbH Wohnungs- und Städtebau[7, 27]	Stuttgart	25.00	25.00	EUR	300,825.60	39,387.20
165	SL Mobilien-Leasing GmbH & Co. ENERCON KG[1, 9, 27]	Mannheim		80.00	EUR	18,123.10	– 2.30
166	SLN Maschinen Leasing GmbH & Co. OHG[1, 9, 27]	Stuttgart		75.00	EUR	– 3,084.10	1,211.60
167	SLP Mobilien-Leasing GmbH & Co. OHG[1, 9, 27]	Mannheim		75.00	EUR	706.80	89.90
168	Sovereign Speed Holding GmbH[1, 27]	Hamburg	35.00		EUR	15,049.00	3,092.30
169	Xavin GmbH[1, 25]	Stuttgart	29.30		EUR	– 144.00	– 329.60
	III. Equity investments within the meaning of Section 271 (1) HGB[8]						
170	1701 JFK Boulevard Philadelphia L.P. i.L.[1, 19]	Wilmington, USA	0.00		USD	103,452.10	2,335.90
171	3YOURMIND GmbH[1, 27]	Berlin	4.70		EUR	3,709.60	– 2,989.70
172	ABE Clearing S.A.S. à capital variable[27]	Paris, France	2.10		EUR	42,641.40	6,108.00
173	Abingworth Bioventures III L. P.[1, 27]	London, Great Britain	0.40		USD	2,674.00	0.00
174	Achte Real Estate Poolgesellschaft mbH & Co. Wohnungs-KG i.L.[1, 27]	Berlin	0.40		EUR	10,180.30	575.80
175	Acousia Therapeutics GmbH[1, 27]	Tübingen	12.30		EUR	627.40	– 2,857.40
176	ActiTrexx GmbH[1, 27]	Mainz	19.40		EUR	1,818.90	– 430.40
177	ADLATUS Robotics GmbH[1, 27]	Ulm	0.70		EUR	– 909.80	– 1,659.90
178	African Export-Import Bank[26]	Cairo, Egypt	0.00		USD	3,714,591.90	362,941.60
179	AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung[27]	Frankfurt am Main	3.30		EUR	273,601.10	14,936.00
180	ALPHA CEE II L.P. i.L.[1, 27]	Grand Cayman, Cayman Islands	2.40		EUR	43,010.00	6,078.00
181	amcure GmbH[1, 27]	Eggenstein-Leopoldshafen	18.30		EUR	– 3,378.20	– 911.50
182	Biametrics GmbH i.I.[1, 22]	Tübingen	17.50		EUR	– 508.60	– 1,218.80
183	BrickVest Ltd. i.I.[1, 22]	London, Great Britain	13.80	13.80	GBP	2,169.90	– 2,199.00
184	Bürgschaftsbank Sachsen GmbH[27]	Dresden	28.00	18.40	EUR	44,436.50	176.60
185	CCP Systems AG i.I.[1, 20]	Stuttgart	1.00		EUR	9,182.80	– 10,654.40
186	Cedalo GmbH[1, 27]	Freiburg im Breisgau	17.00		EUR	535.70	– 96.60
187	CME Group Inc.[28]	Wilmington, USA	0.00		USD	25,676,412.70	2,471,089.90
188	Code Intelligence GmbH[1, 27]	Bonn	15.50		EUR	442.80	– 2,077.90
189	Computomics GmbH[1, 27]	Tübingen	0.90		EUR	1,366.70	– 20.60
190	CorTec GmbH[1, 27]	Freiburg	5.70		EUR	– 1,099.60	– 5,670.70
191	crealytics GmbH[1, 27]	Berlin	9.90		EUR	10,018.00	1,904.90
192	CVC European Equity Partners IV (A). L. P.[1, 27]	Grand Cayman, Cayman Islands	0.30		EUR	1,452.30	462.90

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
193	Depository Trust & Clearing Corporation[28]	New York, USA	0.00	0.00	USD	2,886,642.30	273,546.10
194	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung[7, 27]	Stuttgart	8.10		EUR	219,461.90	12,557.10
195	Doughty Hanson & Co. IV Partnership 2[1, 27]	Surrey, Great Britain	4.00		EUR	14,478.90	– 317.40
196	Dritte SHS Technologiefonds GmbH & Co. KG i.L.[1, 27]	Tübingen	4.90		EUR	27,497.30	1,674.40
197	Erste IFD geschlossener Immobilienfonds für Deutschland GmbH & Co. KG i.L.[1, 24]	Hamburg	0.20		EUR	1,662.10	0.00
198	EXCIVA GmbH[1, 27]	Heidelberg	15.80		EUR	3,715.70	– 3,131.90
199	FL FINANZ-LEASING GmbH[27]	Wiesbaden	17.00		EUR	– 597.20	– 101.00
200	Fludicon GmbH i.I.[1, 20]	Darmstadt	7.90		EUR	516.90	– 2,184.40
201	GbR VÖB-ImmobilienAnalyse[11]	Bonn	25.00	20.00	n/s	n/s	n/s
202	GLB GmbH & Co. OHG[10, 25]	Frankfurt am Main	30.10		EUR	2,776.80	– 61.40
203	GLB-Verwaltungs-GmbH[10, 25]	Frankfurt am Main	30.00		EUR	59.60	2.00
204	Grundstücks- Vermögens- und Verwaltungs-GbR Leonberg/ Ditzingen i.L.[1, 25]	Stuttgart	0.40		EUR	460.00	– 7.80
205	Grundstücks-, Vermögens- und Verwaltungs-GbR Esslingen-Stuttgart i.L.[1, 25]	Stuttgart	13.60		EUR	166.20	– 2.10
206	Grundstücks-, Vermögens- und Verwaltungs-GbR Sillenbucher Markt i.L.[1, 25]	Stuttgart	0.00		EUR	848.00	144.90
207	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart-Mitte II i.L.[1, 24]	Stuttgart	0.10		EUR	484.60	– 0.30
208	Grundstücks-Vermögens- und Verwaltungs-GbR, Leinfelden-Echterdingen/Stuttgart-Möhringen i.L.[1, 25]	Stuttgart	0.10		EUR	352.60	– 20.90
209	HANSA TREUHAND Dritter Beteiligungsfonds GmbH & Co. KG i.L.[1, 27]	Hamburg	0.00		EUR	645.50	– 1.40
210	HANSA TREUHAND Zweiter Beteiligungsfonds GmbH & Co. KG i.I.[1, 12]	Hamburg	0.20		EUR	– 1,784.70	– 528.00
211	Heidelberg Innovation BioScience Venture II GmbH & Co. KG i.L.[1, 27]	Heidelberg	3.80		EUR	845.70	– 905.30
212	Icon Brickell LLC[1]	Miami, USA	13.30		n/s	n/s	n/s
213	Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	4.80		EUR	153.40	0.00
214	Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	15.30		EUR	1,299.90	0.00
215	Kreditgarantiegemeinschaft des Gartenbaues Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	4.50		EUR	138.30	0.00
216	Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	9.10		EUR	1,021.90	0.00
217	Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH[27]	Stuttgart	9.80		EUR	1,001.10	0.00
218	Kunststiftung Baden-Württemberg gGmbH[27]	Stuttgart	2.10	0.60	EUR	11,378.70	808.80
219	Maehler & Kaege AG i. I.[1, 18]	Ingelheim	7.50	9.30	EUR	– 2,041.60	67.10
220	Marco Polo Network Operations (Ireland Limited)[1, 27]	Cork, Ireland	1.70		USD	5,235.40	– 27,777.00
221	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung[27]	Stuttgart	9.90	8.30	EUR	92,210.50	8,858.70
222	MFP Munich Film Partners New Century GmbH & Co. HAM Productions KG i.L.[1, 24]	Grünwald	0.50		EUR	3,779.70	141.20
223	PARAMOUNT GROUP, INC.[1, 28]	Lutherville, USA	3.20	3.50	USD	4,174,896.40	– 19,074.10
224	Phenex Pharmaceuticals AG[1, 27]	Heidelberg	8.90		EUR	9,886.00	32,727.40
225	Poldergesellschaft Neumühlen-Westkai mbH[1, 25]	Hamburg	16.70		EUR	192.80	0.00

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
226	PropTech1 Fund I GmbH & Co. KG[1, 27]	Berlin	7.00		EUR	22,079.70	– 2,325.50
227	Reha-Klinik Aukammtal GmbH & Co Betriebs-KG i.I.[1]	Wiesbaden	5.50		n/s	n/s	n/s
228	RSU GmbH & Co. KG[27]	Munich	18.80		EUR	10,678.40	985.30
229	RWSO-Grundstücksgesellschaft TBS der Württembergischen Sparkassenorganisation[27]	Stuttgart	10.00	8.50	EUR	5,391.20	367.40
230	Schiffahrts-Gesellschaft "HS ALCINA" mbH & Co. KG i.L.[1, 15]	Hamburg	0.00		EUR	351.20	– 3,497.00
231	Schiffahrts-Gesellschaft "HS MEDEA" mbH & Co. KG i.L.[1, 23]	Hamburg	0.20		EUR	648.40	– 9.50
232	Schiffahrts-Gesellschaft "HS MOZART" mbH & Co. KG i.I.[1, 21]	Hamburg	0.20		EUR	– 7,619.60	0.00
233	Schiffahrts-Gesellschaft "HS ONORE" mbH & Co. KG i.I.[1, 21]	Hamburg	0.00		EUR	16,149.90	– 2,644.00
234	SE.M.LABS GmbH i.I.[1, 22]	Stuttgart	0.80		EUR	– 474.90	– 331.60
235	SI-BW Beteiligungsgesellschaft mbH & Co. KG[27]	Stuttgart	4.00	4.00	EUR	42,532.20	– 14.50
236	stimOS GmbH[1, 27]	Constance	1.00		EUR	– 618.10	– 502.30
237	Synapticon GmbH[1, 27]	Schönaich	0.40		EUR	3,794.60	– 5,032.10
238	tado GmbH[1, 25]	Munich	1.10		EUR	1,386.70	– 10,627.10
239	Technologiegründerfonds Sachsen Plus GmbH & Co. KG[1, 27]	Leipzig	7.10	7.10	EUR	23,600.10	43.50
240	Technologiegründerfonds Sachsen Seed GmbH & Co. KG[1, 27]	Leipzig	3.30		EUR	4,064.00	– 399.70
241	Technologiegründerfonds Sachsen Start up GmbH & Co. KG[1, 27]	Leipzig	10.80		EUR	9,332.60	1,744.00
242	Teralytics Holding AG[1]	Zurich, Switzerland	6.10		n/s	n/s	n/s
243	VCM Golding Mezzanine GmbH & Co. KG[1, 27]	Munich	3.90		EUR	2,776.80	– 252.70
244	Visa Inc.[14]	San Francisco, USA	0.00		USD	35,225,377.20	11,536,875.60
245	VRP Venture Capital Rheinland-Pfalz GmbH & Co. KG i.L.[1, 27]	Mainz	16.70		EUR	894.60	– 13.20
246	VRP Venture Capital Rheinland-Pfalz Nr. 2 GmbH & Co. KG i.L.[1, 27]	Mainz	16.70		EUR	649.00	– 16.10
247	Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG[1, 27]	Leipzig	12.70	13.70	EUR	13,045.70	– 301.70
248	Wirtschaftsförderung Region Stuttgart GmbH[1, 27]	Stuttgart	16.10		EUR	3,047.00	– 3,879.40
249	Zweiundfünfzigste IFH geschlossener Immobilienfonds für Holland GmbH & Co. KG i.I.[1, 19]	Hamburg	1.10		EUR	25,654.00	– 14,921.30

1 Held indirectly.
2 Including shares held indirectly.
3 A letter of comfort exists.
4 A letter of comfort exists on the part of a Group subsidiary.
5 A profit transfer and/or control agreement has been concluded with the company.
6 A profit transfer and/or control agreement has been concluded with another company.
7 Equity investment in a large corporation (Kapitalgesellschaft) with a share of over 5% in voting rights (Section 340a (4) no. 2 HGB).
8 Financial instruments pursuant to IFRS.
9 No shareholdings within the meaning of section 285 no. 11 HGB.
10 Classification as equity investment, as no relevant decisions are made any longer and liquidation is expected.
11 Classification as equity investment, as the company does not generate any commercial activities.
12 The information is based on the last available annual financial statements as at 25/07/2017.
13 The information is based on the last available annual financial statements as at 30/06/2022. Short financial year from 01/01/2022 to 30/06/2022.
14 The information is based on the last available annual financial statements as at 30/09/2021. Consolidated financial statements.
15 The information is based on the last available annual financial statements as at 30/11/2018.
16 The information is based on the last available annual financial statements as at 31/07/2014.
17 The information is based on the last available annual financial statements as at 31/10/2021.
18 The information is based on the last available annual financial statements as at 31/12/2004.
19 The information is based on the last available annual financial statements as at 31/12/2012.
20 The information is based on the last available annual financial statements as at 31/12/2014.
21 The information is based on the last available annual financial statements as at 31/12/2015.
22 The information is based on the last available annual financial statements as at 31/12/2017.
23 The information is based on the last available annual financial statements as at 31/12/2018. Short financial year from 01/12/2018 to 31/12/2018.
24 The information is based on the last available annual financial statements as at 31/12/2019.
25 The information is based on the last available annual financial statements as at 31/12/2020.
26 The information is based on the last available annual financial statements as at 31/12/2021 in accordance with IFRS.
27 The information is based on the last available annual financial statements as at 31/12/2021.
28 The information is based on the last available annual financial statements as at 31/12/2021. Consolidated financial statements.
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60. Employees

On average, the number of employees (heads) is as follows:

	2022			2021		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Full-time	4,617	2,535	7,152	4,569	2,486	7,055
Part-time	348	2,577	2,925	329	2,572	2,901
Trainees[1]	144	117	261	140	152	293
Total[2]	*5,109*	*5,229*	*10,338*	*5,038*	*5,210*	*10,248*

1 Including students at universities of cooperative education.
2 Berlin Hyp's employee headcount is not included in the average calculation for the year as a whole until 1 July 2022.

61. Executive and supervisory bodies and positions held

Members of the executive and supervisory bodies

Board of Managing Directors

Chairman

Rainer Neske
Central Divisions

Members

Anastasios Agathagelidis
Risk Management and Compliance

Andreas Götz
Private and Business Customers/Savings Banks

Karl Manfred Lochner
Corporate Customers

Stefanie Münz
Finance and Operations

Dr. Christian Ricken
Capital Markets Business and Asset Management/International Business

Thorsten Schönenberger
Real Estate and Project Finance

Supervisory Board

Chairman

Christian Brand

Former chairman of the Board of Management of L-Bank

Deputy Chairman

Dr. Danyal Bayaz
Minister of Finance of the State of Baden-Wurttemberg

Members

Jörg Armborst
Employee Representative of Landesbank Baden-Württemberg

Jens Baumgarten
Employee Representative of Landesbank Baden-Württemberg

Wolfgang Dietz
Lord Mayor of the town of Weil am Rhein

Christian Hirsch
(since 22/02/2023)
Employee Representative of Landesbank Baden-Württemberg

Bernhard Ilg
Lord Mayor (retired)

Gabriele Kellermann
Deputy Chairman of the Board of Managing Directors at BBBank eG

Marc Oliver Kiefer
(since 22/02/2023)
Employee Representative of Landesbank Baden-Württemberg

Bettina Kies-Hartmann
Employee Representative of Landesbank Baden-Württemberg

Sabine Lehmann
(until 31/12/2022)
Employee Representative of Landesbank Baden-Württemberg

Dr. Frank Nopper
Lord Mayor of the state capital of Stuttgart

Dr. Fritz Oesterle
Attorney at law

Martin Peters
Managing Partner;
Chairman of the Executive Board Eberspächer Group GmbH & Co. KG

Christian Rogg
(until 31/12/2022)
Employee Representative of Landesbank Baden-Württemberg

B. Jutta Schneider
Executive Vice President
T&I Chief Transformation Officer SAP SE

Peter Schneider
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

Wiebke Sommer
Employee Representative of Landesbank Baden-Württemberg

Dr. Florian Stegmann
State secretary at the Baden-Württemberg State Ministry, Head of the State Chancellery

Thomas Strobl
(since 21/02/2022)
Minister of the Interior, Digitalisation and Local Government for the State of Baden-Wurttemberg

Dr. Jutta Stuible-Treder
Attorney at law, German Public Auditor, Tax consultant

Burkhard Wittmacher
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

Norbert Zipf
Employee Representative of Landesbank Baden-Württemberg

Remuneration of and defined benefit pension commitments to members of the committees

	Board of Managing Directors		Supervisory Board	
EUR million	**2022**	**2021**	**2022**	**2021**
Remuneration				
Salaries, remuneration and short-term benefits[1]	6.9	6.5	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations)[2]	9.8	8.3	0.0	0.0
Remuneration for former members and their dependents				
Salaries, remuneration and short-term benefits	12.8	13.9	0.0	0.0
Post-employment benefits (total obligations from defined benefit obligations)[2]	137.8	178.1	0.0	0.0

1 Including attendance allowance.
2 Provisions for pensions including assistance provisions.

As at 31 December 2022, loans granted to and contingent liabilities assumed in favor of members of the Board of Managing Directors and members of the Supervisory Board came to EUR 4 million (previous year: EUR 4 million) of which EUR 3 million (previous year: EUR 3 million) were accounted for by members of the Board of Managing Directors and EUR 1 million (previous year: EUR 1 million) by members of the Supervisory Board.

The loans were extended with an interest rate of between 1.23% and 16.17% and have a remaining term extending from a few months to 18 years. The banking transaction were concluded with all of the cited persons at arm’s length terms and collateral requirements.

As in the previous year, no advances were made to the Board of Managing Directors or the Supervisory Board in the 2022 financial year.

Positions held

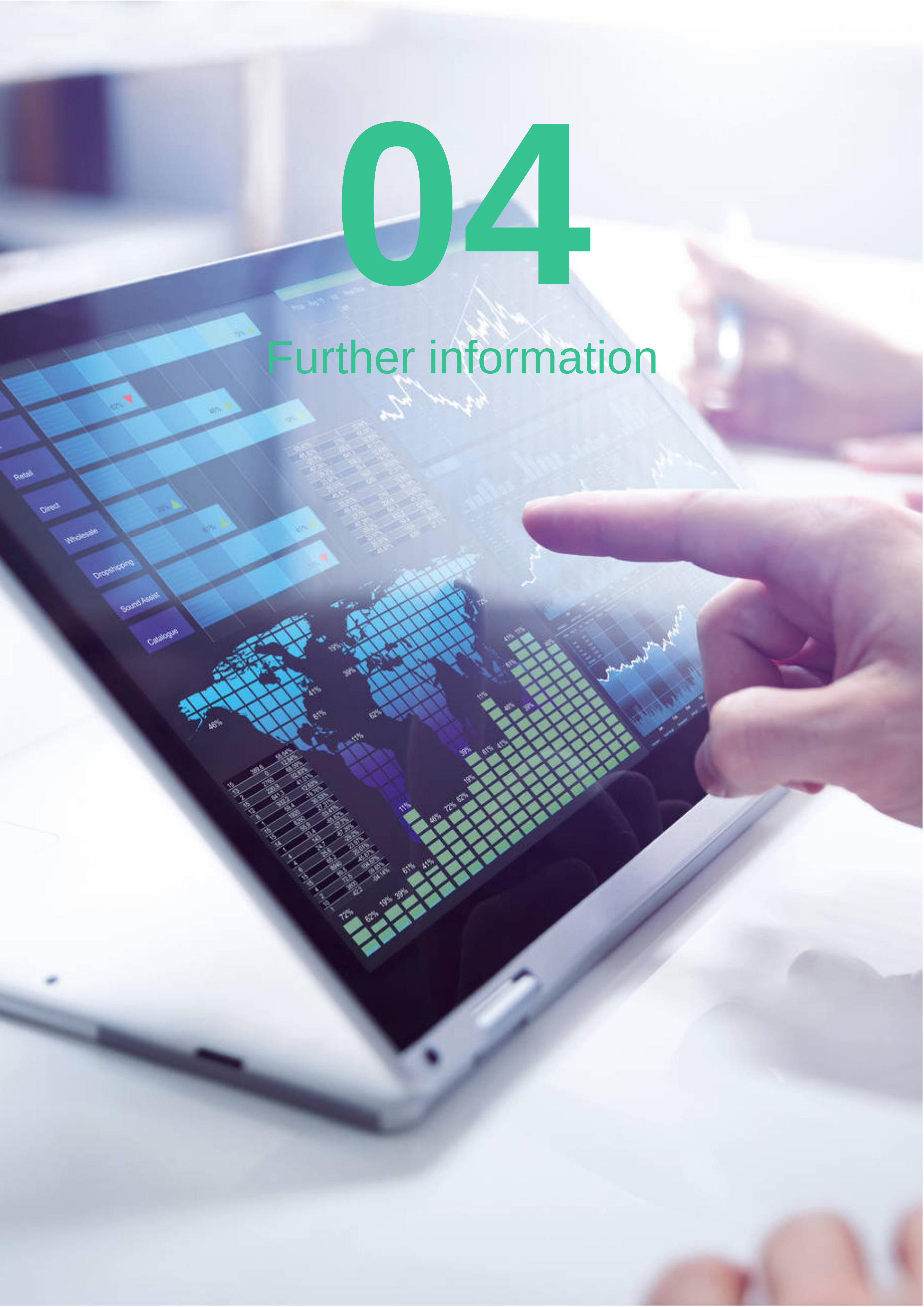
Offices held by legal representatives of LBBW and members of the AidA[1] Board of Managing Directors on statutory supervisory boards and similar supervisory bodies of large companies and banks, as well as offices held by employees of LBBW on statutory supervisory boards of large companies and banks are listed below:

Company	Position	Incumbent
AVAG Holding SE, Augsburg	Supervisory Board	Karl Manfred Lochner
Berlin Hyp AG, Berlin	Chairman of the Supervisory Board	Thorsten Schönenberger member since 01/07/2022; Deputy Chairman of the Supervisory Board since 04/07/2022
	Deputy Chairwoman of the Supervisory Board	Andrea Schlenzig
	Supervisory Board	Dr. Christian Ricken since 01/07/2022
	Supervisory Board	Anastasios Agathagelidis since 01/07/2022
	Supervisory Board	Stefanie Münz since 01/07/2022
	Supervisory Board	Thomas Weiß since 01/07/2022
	Supervisory Board	Jana Papst
	Supervisory Board	Thomas Meister
Deutscher Sparkassenverlag GmbH, Stuttgart	Supervisory Board	Andreas Götz
Eurex Clearing Aktiengesellschaft, Frankfurt am Main	Supervisory Board	Dr. Thilo Roßberg
EUWAX AG, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken
HAMBORNER REIT AG, Duisburg	Supervisory Board	Maria Teresa Dreo-Tempsch
HERRENKNECHT AKTIENGESELLSCHAFT, Schwanau	Supervisory Board	Karl Manfred Lochner since 21/12/2022
KIC InnoEnergy SE, Eindhoven	Supervisory Board	Axel Weisheit
Kreditanstalt für Wiederaufbau, Frankfurt am Main	Administrative Board	Rainer Neske
Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe	Administrative Board	Claudia Diem
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken
	Supervisory Board	Cara Friederike Schulze
	Supervisory Board	Andreas Götz since 14/02/2022
LRI Invest S.A., Munsbach, Luxembourg	Supervisory Board	Dr. Dirk Franz
Mainzer Stadtwerke AG, Mainz	Supervisory Board	Hannsgeorg Schönig
MMV Bank GmbH, Koblenz	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis
	Supervisory Board	Peter Hähner
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board	Karl Manfred Lochner
	Deputy Chairman of the Advisory Board	Anastasios Agathagelidis
	Advisory Board	Peter Hähner
Siedlungswerk GmbH Wohnungs- und Städtebau, Stuttgart	Deputy Chairman of the Supervisory Board	Thorsten Schönenberger
	Supervisory Board	Andreas Götz
	Supervisory Board	Thomas Christian Schulz
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis
	Supervisory Board	Norwin Graf Leutrum von Ertingen
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis
	Supervisory Board	Norwin Graf Leutrum von Ertingen
VPV Lebensversicherungs-Aktiengesellschaft, Stuttgart	Supervisory Board	Claudia Diem
Württembergische Versicherung Aktiengesellschaft, Stuttgart	Supervisory Board	Claudia Diem

1 Institution within the institution.

04

Further information



Responsibility statement

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the combined 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.

Stuttgart, Karlsruhe, Mannheim and Mainz, 28 February 2023

The Board of Managing Directors

RAINER NESKE

Chairman

ANASTASIOS AGATHAGELIDIS

ANDREAS GÖTZ

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

Independent auditor's report

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

Report on the audit of the consolidated financial statements and of the combined management report

Audit Opinions

We have audited the consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, and its subsidiaries (the Group) which comprise the statement of financial position as at 31 December 2022, and the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from 1 January to 31 December 2022, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the combined non-financial statement contained in the "Combined non-financial statement" section of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2022 and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the combined non-financial statement contained in the "Combined non-financial statement" section of the combined management report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

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

In the following we present the key audit matters we have determined in the course of our audit:

1. Determination of the fair values of trading transactions and loans using measurement models and techniques (IFRS 13 measurement hierarchy level 2 and level 3)
2. Determination of allowances for credit losses
3. Purchase price allocation in Berlin Hyp acquisition

Our presentation of these key audit matters has been structured as follows:

a) Description (including reference to corresponding information in the consolidated financial statements)

b) Auditor's response

1. Determination of the fair values of trading transactions and loans using measurement models and techniques (IFRS 13 measurement hierarchy level 2 and level 3)

a) For some of the trading transactions and loans measured at fair value pursuant to IFRS 13 by Landesbank Baden-Württemberg and recognized under the items of the statement of financial position "Financial assets measured at fair value through other comprehensive income" (EUR 36.7 billion), "Financial assets designated at fair value" (EUR 1.8 billion), "Financial assets mandatorily measured at fair value through profit or loss" (EUR 39.4 billion), "Financial liabilities designated at fair value" (EUR 3.6 billion) and "Financial liabilities mandatorily measured at fair value through profit or loss" (EUR 29.8 billion), no market prices are observable on the main market determined by Landesbank Baden-Württemberg. If prices quoted in active markets are not available, measurement methods, prices for similar assets or liabilities on active markets, prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for measurement models are based on inputs observable on the markets, if available.

In the case of model-based measurements, there are increased risks from valuation uncertainties (e.g. due to the use of inappropriate measurement models or inappropriate characteristics of input factors) and from larger acceptable ranges of the judgments and assumptions needed in measuring these trading transactions and loans. For this reason, we identified the determination of fair values using measurement models to be a key audit matter. The statements on accounting and measurement of trading transactions and loans is contained in the notes to the consolidated financial statements in section 23 "Determining fair value", section 43 "Fair value of financial instruments" and section 44 "Fair value hierarchy".

b) As part of our audit, we analyzed the trading transactions and loans measured at fair value using models. For this purpose, we assessed the appropriateness and effectiveness of the internal controls relevant for measuring these trading transactions and loans, especially by satisfying ourselves of the appropriateness and effectiveness of the audit-relevant controls relating to the Independent Price Verification (IPV) and the model validation. Calling in our internal valuation specialists, who are part of the audit team, we assessed the suitability of the used measurement models in compliance with the requirements of IFRS 13 for products selected according to risk-based criteria.

As at the reporting date, on a sample basis, our internal valuation specialists performed an additional separate, independent remeasurement and/or plausibility check of the trading transactions and loans categorized into level 2 and level 3 of the IFRS 13 measurement hierarchy and recognized at fair value and compared them with the measurement carried out by Landesbank Baden-Württemberg.

2. Determination of allowances for credit losses

a) As at 31 December 2022, in its consolidated financial statements under “Financial assets measured at amortized cost” Landesbank Baden-Württemberg reported loans and advances to banks and customers totaling EUR 227.8 billion, corresponding to 70% of total assets. Of these loans and advances, existing allowances for credit losses totaling EUR 1,433.1 million have already been deducted. The allowances for credit losses contain both stage 3 specific valuation allowances of EUR 603.7 million and stage 1 and stage 2 valuation allowances calculated on a parameter basis of EUR 829.4 million. There are also contingent liabilities and other obligations of EUR 51.2 billion as well as revocable loan commitments of EUR 24.4 billion for which credit business-related provisions of EUR 326.9 million have been set up. In 2022, the allowances for credit losses (including credit business-related provisions) include net additions to loss allowance adjustments totaling EUR 206.0 million.

For impaired financial instruments (stage 3), potential allowances for credit losses are calculated using the method stipulated by the Bank from the difference of the current carrying amount of the loan or advance and the expected future incoming payments derived from at least two scenarios which are discounted on the basis of the original effective interest rate of the loan or advance. For assets that are not significant, the estimate for the allowances for credit losses is the same as for stage 2 allowances for credit losses based on parameters. Relevant provisions may need to be set up for transactions not shown on the face of the statement of financial position that are either subject to the risk of utilization by doubtful debtors (guarantees, warranties) or that are expected to be impaired due to payment obligations (irrevocable loan commitments).

In addition, for risk allowances for stage 1 and stage 2 financial instruments the Bank determines the expected credit losses using statistically calculated default probabilities and loss given default as well as the expected exposure at default.

Landesbank Baden-Württemberg takes account of loss allowance adjustments in allowances for credit losses and in credit business-related provisions in order to take appropriate account of its expectations in relation to the economic development.

The lending business is a core business activity at Landesbank Baden-Württemberg. For both the individual and the model-based measurement of loans and advances and the calculation of the probable settlement amount of provisions, there is an increased risk that the level of potentially necessary allowances for credit losses is not appropriate. Judgments of the executive directors of the Bank are made, for example, with regard to modeling the measurement models, to the estimates of assumptions and input factors such as expected future incoming payments and with regard to the valuation of collateral or of expected defaults. As the recoverability of financial assets measured at amortized cost and, correspondingly, the appropriate calculation of allowances for credit losses is subject to uncertainty, this matter was particularly important in our audit.

The statements on the determination of allowances for credit losses are contained in the notes to the consolidated financial statements in section 22 “Allowances for losses on loans and securities”.

b) In the context of our risk-based audit approach, we audited both the relevant internal control system and also performed substantive audit procedures based on our risk assessment. The tests of design and implementation and of operating effectiveness covered the processes of identifying indications of an impairment (risk early recognition – monitoring, intensified support, restructuring or liquidation), of assessing customer credit ratings, of measuring collateral and of determining impairments based on cash flows (calculation of stage 3 specific value adjustment). In addition, we implemented a test of design and implementation and of operating effectiveness of the processes for calculating the allowances for credit losses for stage 1 and stage 2 financial instruments and the allowances for credit losses for stage 3 financial instruments calculated on a parameter basis.

On the basis of risk-based perspectives and representatively selected samples, we also examined and assessed the appropriate identification of indications of an impairment and the measurement of loans and advances that needed to be tested for impairment according to an evaluation of Landesbank Baden-Württemberg, including the appropriateness of the estimated values. For measuring loans and advances, we inspected the underlying assumptions, particularly the amount and time of the expected future payments, including the returns from existing collateral and the discounting of the payments in the respective scenarios, including the scenario weighting.

In addition, we verified both the calculated allowances for credit losses for stage 1 and stage 2 financial instruments and the parameter-based calculation of allowance for credit losses for stage 3 financial instruments on the basis of a randomly selected sample and assessed the derivation of the loss allowance adjustments established and the appropriateness of the amount of allowances on the basis of evidence.

In addition, we checked the disclosures in the notes to the consolidated financial statements for completeness and accuracy.

3. Purchase price allocation in Berlin Hyp acquisition

a) The other operating income/expenses of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany (hereafter referred to as "LBBW"), for the financial year from 1 January to 31 December 2022 totals EUR 1,061 million and includes the negative difference arising from the acquisition of Berlin Hyp AG, Berlin/Germany (hereafter referred to as "Berlin Hyp"), of EUR 972 million. On 26 January 2022, LBBW signed a contract with Landesbank Berlin Holding AG, Berlin/Germany, to acquire 100% of the shares in Berlin Hyp. The shares were transferred after the contractual and supervisory preconditions had been fulfilled on 1 July 2022. The acquisition of the shares is a business combination, which means that LBBW was required to perform a purchase price allocation. In performing the purchase price allocation, LBBW was supported by an audit firm acting as an expert. As outcome of the purchase price allocation the Bank determined a negative difference between the consideration transferred and the net assets of the acquired business.

The fair value was determined according to the IFRS 13 fair value hierarchy. If prices quoted were not observable for all assets and liabilities to be measured at fair value or if no prices quoted in active markets were available, market prices for sufficiently comparable assets or liabilities or measurement models were used. The values determined through measurement models are based on input factors and, if available, on inputs observable on markets.

For model-based valuations, there are increased risks from valuation uncertainties or larger acceptable ranges resulting from the judgments and assumptions needed. For this reason, we identified the determination of the fair values for the purchase price allocation in the Berlin Hyp acquisition to be a key audit matter.

The statements on the purchase price allocation for Berlin Hyp are contained in the notes to the consolidated financial statements in section 8 "8. Business combinations during the current reporting period".

b) We obtained an understanding of the process for performing the purchase price allocation by the Bank and the expert commissioned by the Bank, retracing the process during the course of the project. It comprised in particular the identification of all assets and liabilities to be measured both already recognized and not yet recognized, the selection of the measurement methodology in each case as well as the material measurement parameters for determining the fair value, the determination of the consideration and the derivation of the accounting difference between the fair value of equity and the consideration. We assured ourselves of the professional competence, the independence and the regulatory environment of the expert commissioned by the Bank, and critically assessed its reporting.

We examined the identification analyses prepared by the Bank's expert for all assets and liabilities for plausibility and conformity with the knowledge we obtained in the audit by calling in our internal valuation specialists. We evaluated the appropriateness of the methods, assumptions and data used for measuring assets and liabilities. We took samples to examine the determination of the fair values for individual assets and liabilities, using the Bank's parameters and own measurement parameters. In the case of any deviation between the values determined by us and by the Bank, we assessed whether the values determined by the Bank were within acceptable ranges.

We checked the company planning prepared by the executive board of Berlin Hyp for plausibility and critically assessed the determination of cost of capital. We examined the calculation of the accounting difference between the fair value of equity and of the consideration and critically assessed the analysis prepared by the Bank on the origin of such difference.

Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the combined non-financial report pursuant to Sections 289b to 289e in conjunction with 315b and 315c HGB contained in the “Combined non-financial statement” section of the combined management report,
- the executive directors’ confirmation pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, regarding the consolidated financial statements and the group management report, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor’s report thereon.

The supervisory board is responsible for the report of the supervisory board. Otherwise, the executive directors are responsible for the other information.

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

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

- is materially inconsistent with the consolidated financial statements, with the audited content of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and of the Combined Management Report Prepared for Publication Pursuant to Section 317 (3a) HGB

Audit Opinion

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance whether the electronic reproductions of the consolidated financial statements and of the combined management report (hereinafter referred to as “ESEF documents”) prepared for publication, contained in the file, which has the SHA-256 value 843d18ef001632863d8b27e21b6f95ed3a21608c79004860dbc4e360a36a24dc, meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB (“ESEF format”). In accordance with the German legal requirements, this audit only covers the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format, and therefore covers neither the information contained in these electronic reproductions nor any other information contained in the file identified above.

In our opinion, the electronic reproductions of the consolidated financial statements and of the combined management report prepared for publication contained in the file identified above meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 January to 31 December 2022 contained in the “Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report” above, we do not express any assurance opinion on the information contained within these electronic reproductions or on any other information contained in the file identified above.

Basis for the Audit Opinion

We conducted our audit of the electronic reproductions of the consolidated financial statements and of the combined management report contained in the file identified above in accordance with Section 317 (3a) HGB and on the basis of the IDW Auditing Standard: Audit of the Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB (IDW AuS 410 (06.2022)). Our responsibilities in this context are further described in the “Group Auditor’s Responsibilities for the Audit of the ESEF Documents” section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents

The executive directors of the parent are responsible for the preparation of the ESEF documents based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements for the electronic reporting format pursuant to Section 328 (1) HGB.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Documents

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

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the reporting date as to the technical specification of this file.
- evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited combined management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 8 April 2022. We were engaged by the supervisory board on 22 June 2022. We have been the group auditor of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as with the audited ESEF documents. The consolidated financial statements and the combined management report converted into the ESEF format – including the versions to be submitted for inclusion in the Company Register – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the audited ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Herbert Apweiler.

Stuttgart/Germany, 3 March 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:	Signed:
Klaus Löffler Wirtschaftsprüfer (German Public Auditor)	Herbert Apweiler Wirtschaftsprüfer (German Public Auditor)

Limited assurance report of the Independent Practitioner regarding the combined non-financial report of the Group for the financial year from January 1 to December 31, 2022

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

Our Engagement

We have performed a limited assurance engagement on the consolidated non-financial statement of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, (hereafter referred to as "the Company") for the financial year from January 1 to December 31, 2022, which is included in the combined management report on the parent and the group (hereafter referred to as "combined management report"), and which is combined with the non-financial statement of the Company (hereafter referred to as "combined non-financial report").

Our assurance engagement does not cover the following external sources of documentation or expert opinions stated in the combined non-financial report:

- Sustainability reports of LBBW
- Non-financial statements of Berlin Hyp
- Brochures on climate pathways
- LBBW website including subpages
- Berlin Hyp website including subpages
- BW Bank website including subpages
- Expert opinion by MACS Energy & Water
- Database extracts by RepRisk
- BMWi (German Federal Ministry for Economic Affairs and Climate Action), December 2021: Energieeffizienz in Zahlen – Entwicklungen und Trends in Deutschland 2021 (literally translated: Figures of energy efficiency – developments and trends in Germany in 2021)
- EMAS and ISO 14001 certification
- Proof of external and internal audits for environment management system certification

Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the combined non-financial report in accordance with Sections 289c to 289e German Commercial Code (HGB), Section 315c in conjunction with Sections 289c to 289e HGB and Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council of June 18, 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereafter referred to as "EU Taxonomy Regulation") and the delegated acts adopted thereon, as well as with their own interpretation of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon, as is presented in section "Disclosures in accordance with Art. 8 Taxonomy Regulation" of the combined non-financial report.

These responsibilities of the executive directors of the Company include the selection and application of appropriate methods regarding the combined non-financial report and the use of assumptions and estimates for individual non-financial disclosures of the Group which are reasonable under the given circumstances. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of a non-financial report that is free from material misstatement due to fraud (i.e., fraudulent non-financial reporting) or error.

Some of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon are still subject to considerable interpretation uncertainty and have not yet been officially clarified. Therefore, the executive directors have laid down their own interpretation of the EU Taxonomy Regulation and of the delegated acts adopted thereon in section "Disclosures in accordance with Art. 8 Taxonomy Regulation" of the combined non-financial report. They are responsible for the reasonableness of this interpretation. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation is prone to uncertainty.

The preciseness and completeness of environmental data of the combined non-financial report is subject to inherent restrictions resulting from the manner in which the data was collected and calculated and from assumptions made.

Independence and Quality Assurance of the Audit Firm

We have complied with the German professional requirements on independence and other professional rules of conduct.

Our firm applies the national statutory rules and professional announcements – particularly of the "Professional Charter for German Public Auditors and German Sworn Auditors" (BS WP/vBP) and of the IDW Quality Assurance Standard: Requirements for Quality Management in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW) – and does therefore maintain a comprehensive quality assurance system comprising documented regulations and measures in respect of compliance with professional rules of conduct, professional standards, as well as relevant statutory and other legal requirements.

Responsibilities of the Practitioner

Our responsibility is to express a conclusion on the combined non-financial report based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", adopted by the IAASB. This Standard requires that we plan and perform the assurance engagement so that we can conclude with limited assurance whether matters have come to our attention to cause us to believe that the combined non-financial report of the Company, with the exception of the external sources of documentation or expert opinions stated therein, has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB, Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the executive directors' interpretation presented in section "Disclosures in accordance with Art. 8 Taxonomy Regulation" of the combined non-financial report.

The procedures performed in a limited assurance engagement are less in extent than in a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgment.

Within the scope of our limited assurance engagement, which we performed between October 2022 and February 2023, we selected and performed, among others, the following procedures and other work in our professional judgment:

- Obtaining an understanding of the structure of the sustainability organization and of the stakeholder engagement
- Inquiries of the executive directors and relevant employees involved in the preparation of the combined non-financial report about the process of preparation including the arrangements and measures taken to prepare the combined non-financial report, as well as about the disclosures contained in the combined non-financial report
- Identification of risks of material misstatements in the combined non-financial report
- Analytical evaluation of the disclosures contained in the combined non-financial report
- Comparison of the disclosures with the corresponding data in the consolidated financial statements and the combined management report
- Evaluation of the presentation of the disclosures on sustainability performance

The determination of the disclosures pursuant to Article 8 of the EU Taxonomy Regulation requires the executive directors to make interpretations of indefinite legal concepts. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation, and hence our related examination, is prone to uncertainty.

Practitioner’s Conclusion

Based on the work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial report of the Company for the financial year from January 1 to December 31, 2022 has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB, Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the executive directors’ interpretation presented in section “Disclosures in accordance with Art. 8 Taxonomy Regulation” of the combined non-financial report.

We do not express a conclusion on the external sources of documentation or expert opinions stated in the combined non-financial report and in the section “Our Engagement” of this document.

Restriction of Use

We issue this report as stipulated in the engagement letter agreed with the Company (including the “General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)” as of January 1, 2017 promulgated by the Institut der Wirtschaftsprüfer (IDW)). We draw attention to the fact that the assurance engagement was performed for the purposes of the Company and the report is solely designed for informing the Company about the findings of the assurance engagement. Therefore, it may not be suitable for another than the aforementioned purpose. Hence, this report should not be used by third parties as a basis for any (asset) decision.

We are liable solely to the Company. However, we do not accept or assume liability to third parties. Our conclusion was not modified in this respect.

Stuttgart/Germany, March 3, 2023

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

signed Klaus Löffler
Wirtschaftsprüfer
(German Public Auditor)

signed Herbert Apweiler
Wirtschaftsprüfer
(German Public Auditor)

Note regarding forward-looking statements

This Annual 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.

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

FURTHER INFORMATION ON LANDESBANK BADEN-WÜRTTEMBERG

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Concept & Realization:
Landesbank Baden-Württemberg

The Annual Report is also available in German. The German version of this Annual Report is the authoritative version and only the German version of the Combined Management Report and the Consolidated Financial Statements was audited by the auditors.

Breaking new ground

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