Annual report 2020

Breaking new ground

Key figures of the LBBW Group

Income Statement (EUR million)	01/01/ – 31/12/2020	01/01/ – 31/12/2019[1]
Net interest income	1,771	1,676
Net fee and commission income	538	558
Net gains/losses on remeasurement and disposal	– 362	172
of which allowances for losses on loans and securities	– 544	– 151
Other operating income/expenses	198	148
Total operating income/expenses	*2,146*	*2,553*
Administrative expenses	– 1,743	– 1,810
Expenses for bank levy and deposit guarantee system	– 118	– 102
Net income/expenses from restructuring	– 32	– 31
Consolidated profit/loss before tax	*252*	*610*
Income taxes	– 80	– 167
Net consolidated profit/loss	*172*	*443*
Key figures in %	*01/01/ – 31/12/2020*	*01/01/ – 31/12/2019[1]*
Return on equity (RoE)	1.9	4.6
Cost/income ratio (CIR)	70.4	71.9
Balance sheet figures (EUR billion)	*31/12/2020*	*31/12/2019[1]*
Total assets	276.4	256.7
Equity	14.0	13.8
Ratios in accordance with CRR/CRD IV (after full implementation)	*31/12/2020*	*31/12/2019*
Risk-weighted assets (EUR billion)	82.3	80.5
Common equity tier 1 (CET 1) capital ratio (in %)	14.8	14.6
Total capital ratio (in %)	22.8	22.9
Employees	*31/12/2020*	*31/12/2019*
Group	10,121	10,005

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

Rating (23 February 2021)

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

Key figures of the LBBW Group

01

Foreword and Reports

Foreword by the Board of Managing Directors

Dear Readers,

The 2020 financial year was an exceptional year. The coronavirus pandemic is a global challenge of historic proportions. In this exceptional situation, LBBW impressively demonstrated its ability to perform and provided maximum support to its customers. The bank also made good progress in its strategic cornerstones. This outstanding performance is thanks to our employees, who have demonstrated great passion working for LBBW and for our customers under tough conditions at home and at work.

In operating business, our well-balanced universal bank model with four strong pillars proved its value yet again. In business with corporate customers, we increased financing margins and expanded cross selling. As well as stronger corporate finance business, there was also very high demand for risk hedging. Another key area – especially at the start of the pandemic – was supplying our customers with liquidity. Real estate financing enjoyed very strong new business. In Capital Markets Business, we saw high demand for hedging and investment products. Our business with private customers was stable overall.

Along with good operating income performance, we also reduced our costs through strict management and further improved our cost/income ratio. We also considerably expanded additions to allowances for losses on loans and advances. These include a considerable provision for potential loan defaults related to the pandemic. A significant individual case also had a negative impact. Nonetheless, the bank generated consolidated profit before tax of EUR 252 million. This shows that LBBW also copes well with exceptional strains. With a common equity Tier 1 (CET 1) capital ratio of 14.8%, our capitalization is still very robust.

In light of the severe consequences of the pandemic, starting in the summer we took a close look at whether we need to amend our strategy. Our thorough analysis found that the strategic cornerstones we defined in 2017 (business focus, agility, sustainability and digitalization) are more relevant than ever. Our intensive efforts regarding digitalization and agile working methods paid off during the lockdown and we were able to get many employees working from home very quickly. In addition, we continued to hone our profile as a sustainable bank, for example by assisting our customers with various green finance transactions and setting up an advisory unit specializing in sustainability. Thanks to investing in reforestation projects in Africa and South America, the bank itself will be carbon neutral from this year onwards.

We firmly believe that the megatrends digitalization and sustainability will continue to grow in importance. This confirms our view that the bank's fundamental focus is the right one. Nevertheless, we make changes where these are necessary. For example, we will continue to refine our risk policy and cost management. At the same time, we aim to specifically tap growth potential, including in asset and wealth management.

We expect a challenging environment this year, which will likely continue to be marked by uncertainty in the face of the pandemic. We believe we are well equipped to handle this thanks to our stable, diversified business model and our financial strength. Given this, our net profit before tax should be higher than in the previous year.

Finally, we would like to thank our customers, business partners and owners for their trust and excellent cooperation. Especially at times of exceptional circumstances such as during the coronavirus pandemic, this is particularly valuable to us.

Sincerely,

The Board of Managing Directors

RAINER NESKE
Chairman

ANASTASIOS AGATHAGELIDIS

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

ANDREAS GÖTZ
Chief representative

01

Foreword and Reports

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 2020. 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.

With its balanced business model, LBBW performed well in the particularly challenging environment presented by the global coronavirus pandemic in 2020 and demonstrated its strength. Despite the challenges arising from the crisis, it made excellent progress with the strategic agenda, with its four cornerstones of business focus, digitalization, sustainability and agility, and expanded this to include focuses on capital and process efficiency.

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, as well as one extraordinary meeting. Following the annual general meeting on 18 May 2020, the inaugural meeting of the newly appointed body was also held after the annual general meeting appointed the new members of the Landesbank Baden-Württemberg Supervisory Board as scheduled. On the basis of a proposal by the annual general meeting, the Supervisory Board appointed the signatory as Chair of the Supervisory Board and the finance minister Edith Sitzmann as deputy chair. Members were also appointed to the four Supervisory Board committees and the respective committee chairpersons and deputies were appointed.

In all the ordinary 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.

In our first ordinary meeting of the year on 21 February 2020, we discussed the preliminary results for the 2019 financial year and other current issues. At the meeting, we also took note of the result of the 2020 risk taker selection.

The focus of the 30 March 2020 meeting was the 2019 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 2019 prepared by the Board of Managing Directors and approved the 2019 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 2020 financial year. We also discussed LBBW's automotive portfolio and the written policies. We also agreed on total variable remuneration for the bank for the 2019 financial year and set the variable remuneration for the Board of Managing Directors for the 2019 financial year.

On 15 July 2020, we took a close look at the impact the coronavirus pandemic has had on the bank's business performance and strategy. Furthermore, the Board of Managing Directors briefed us on the development of asset and wealth management and on other current issues.

At the extraordinary meeting on 25 May 2020, we discussed the sale of LBBW's shares in HSBC Trinkaus & Burkhardt AG and agreed to this.

We discussed LBBW's strategy update at the meeting on 2 October 2020, giving consideration here to the COVID-19 pandemic. We approved the new schedule of responsibilities for the Board of Managing Directors as part of personnel changes from January 2021. In addition, we took note of the remuneration structure report for the 2019 financial year and the 2020 remuneration control report. Assessing the annual evaluation of the Board of Managing Directors and Supervisory Board and the status of an audit by the regulatory authorities were also on the agenda at this meeting. We also discussed the change to how the company pension scheme operates.

On 14 December 2020, we approved the business plan for the 2021 financial year and took note of the medium-term planning. The meeting also looked at the 2021 business strategy. In addition, we discussed amendments to the bylaws and the update of the restructuring plan required by the regulatory authorities at regular intervals.

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 14 and 15 of this Annual Report.

The Executive Committee held five ordinary and two extraordinary meetings in the reporting period. Its deliberations centered on preparing the meetings of the Supervisory Board, especially personnel matters and legal issues. The Executive Committee also discussed the evaluation of the Board of Managing Directors and the Supervisory Board in 2020 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, discussed - specifically in the two extraordinary meetings - long-term succession planning for the Board of Managing Directors and reviewed the Board of Managing Directors' principles for the appointment of senior management. The Executive Committee also agreed to the change in how the company pension scheme operates for active members of the Board of Managing Directors, as well as for former members and their surviving dependents.

The Compensation Control Committee fulfilled its statutory responsibilities in a total of four meetings. 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 2020. 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 new statutory auditor. 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 nonfinancial 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 and discussed the creation of an Audit Universe at the bank. In all meetings, the management of the Group Auditing departments 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, granting its approval where this was required in individual cases. 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. 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 and the current status of implementation in relation to the requirements of BCBS 239. The Risk Committee also regularly discussed other current topics and business areas. These include development of core sectors based on the business strategy, country exposures, long-term company financing and airplane financing and the airports, airlines and tourism portfolio. The Board of Managing Directors kept us informed on the current state of the coronavirus pandemic and the impact of this on business performance at all times. The development of the bank’s LCR portfolio and rating procedures and risk drivers were also considered.

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

All members of the Supervisory Board attended the meetings of the Supervisory Board and the committees in 2020, 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 measures, in particular for the newly appointed Supervisory Board members, the Supervisory Board received training on the future of the real estate market and real estate valuation on 21 February 2020 and on sustainable finance on 15 July 2020.

Annual and consolidated financial statements

The statutory auditor Deloitte audited the annual financial statements and the consolidated financial statements of LBBW for 2020 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 19 March 2021, 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 25 March 2021, 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 2020 and approved the consolidated financial statements for 2020.

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 Board of Managing Directors and the Supervisory Board

There were various changes to the Supervisory Board of LBBW as a result of the scheduled reorganization of the body. As proposed by the owners, Ms. Gabriele Kellermann, member of the Board of Managing Directors at BBBank eG, and Dr. Florian Stegmann, state secretary at the Baden-Württemberg State Ministry and Head of the State Chancellery, were appointed as new members of Landesbank Baden-Württemberg's Supervisory Board.

The seven employee representatives were elected by bank employees on 10 March 2020 and confirmed by the annual general meeting. Mr. Jörg Armborst, Mr. Jens Baumgarten and Ms. Wiebke Sommer have been new members of the Landesbank Baden-Württemberg Supervisory Board since 18 May 2020.

Mr. Michael Horn, Deputy Chairman of the LBBW Board of Managing Directors, retired from the Board on 30 April 2020. On 1 July 2020, Mr. Andreas Götz initially replaced him as chief representative assuming responsibility for his department. In 2020, we also resolved to extend Mr. Rainer Neske's contract as Chairman of the Board of Managing Directors and appointed Mr. Anastasios Agathagelidis and Ms. Stefanie Münz as members of the Board of Managing Directors with effect from 1 January 2021. Mr. Agathagelidis will replace Mr. Volker Wirth in risk management, risk controlling and compliance following the latter's retirement on 31 December 2020. Ms. Münz is responsible for finances, strategy and operations on the Board of Managing Directors.

On behalf of the members of the Supervisory Board I would like to thank the Board of Managing Directors as well as the staff for their great personal dedication and performance in the challenging 2020 financial year. My special thanks go to Mr. Michael Horn, whose almost 19 years on Landesbank Baden-Württemberg's Board of Managing Directors, over 15 of which were spent as Deputy Chairman, played a vital role in making LBBW a highly respected customer bank. I would also like to expressly thank Mr. Volker Wirth, who helped the bank made significant progress in his role as a highly regarded, excellent risk manager.

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 Chairperson

EDITH SITZMANN MDL
Minister of Finance of the State of Baden-Wurttemberg

Members

JÖRG ARMBORST
(FROM 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

JENS BAUMGARTEN
(FROM 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

UTA-MICAELA DÜRIG
(UNTIL 18 MAY 2020)
Corporate and foundation consultant

WALTER FRÖSCHLE
(UNTIL 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Lord Mayor (retired)

CHRISTIAN HIRSCH
(UNTIL 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

GABRIELE KELLERMANN
(FROM 18 MAY 2020)
Member of Board of Managing Directors at BBBank eG

MARC OLIVER KIEFER
(UNTIL 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
(UNTIL 6 JANUARY 2021)
Lord Mayor (retired)

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law

MARTIN PETERS
Managing Partner of the Eberspächer group of companies

PROF. WOLFGANG REINHART MDL
Chairman of parliamentary group,
Attorney at law

CHRISTIAN ROGG
Employee Representative of Landesbank Baden-Württemberg

CLAUS SCHMIEDEL
(UNTIL 18 MAY 2020)
CEO of Critalog GmbH

B. JUTTA SCHNEIDER
Executive Vice President Global Services Delivery, SAP SE & Co. KG

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

WIEBKE SOMMER
(FROM 18 MAY 2020)
Employee Representative of Landesbank Baden-Württemberg

DR. FLORIAN STEGMANN
(FROM 18 MAY 2020)
State secretary at the Baden-Württemberg State Ministry, Head of the State Chancellery

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 Chairperson

EDITH SITZMANN MDL
Minister of Finance of the State of Baden-Wurttemberg

Members

FRITZ KUHN
(UNTIL 6 JANUARY 2021)
Lord Mayor (retired)

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 Chairperson

EDITH SITZMANN MDL
Minister of Finance of the State of Baden-Wurttemberg

Members

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(UNTIL 6 JANUARY 2021)
Lord Mayor (retired)

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Executive Vice President Global Services Delivery, SAP SE & Co. KG

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

PROF. WOLFGANG REINHART MDL
Chairman of parliamentary group, Attorney at law

Members

UTA-MICAELA DÜRIG
(UNTIL 18 MAY 2020)
Corporate and foundation consultant

HELMUT HIMMELSBACH
Lord Mayor (retired)

GABRIELE KELLERMANN
(FROM 18 MAY 2020)
Member of Board of Managing Directors at BBBank eG

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

B. JUTTA SCHNEIDER
Executive Vice President Global Services Delivery, SAP SE & Co. KG

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

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Lord Mayor of the town of Weil am Rhein

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(UNTIL 18 MAY 2020)
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Attorney at law

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Employee Representative of Landesbank Baden-Württemberg

CLAUS SCHMIEDEL
(UNTIL 18 MAY 2020)
CEO of Critalog GmbH

B. JUTTA SCHNEIDER
Executive Vice President Global Services Delivery, SAP SE & Co. KG

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 16 December 2019.

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 institutions under public law. 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 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 in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act.

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 by e-mail or by mail 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 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 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).

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 names of the chairs and members of the committees are given in the Report of the Supervisory Board. 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. In addition, the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) is authorized to check that the consolidated financial statements comply with the applicable accounting standards (enforcement). 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 2020 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 2020, 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 2020, 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.

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.

The retirement benefits are essentially designed as defined-contribution benefits. Some members of the Board of Managing Directors have an arrangement taking the form of a final salary scheme, the amount of which is calculated according to the length of their service on the Board of Managing Directors.

Remuneration 2020

In 2020, 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 2020 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 4.9 million for their activities as Members of the Board of Managing Directors. The other benefits amounted to EUR 0.1 million. In addition, variable performance-based remuneration totaling EUR 1.5 million was paid out (inflow). This amount includes percentages of deferred variable remuneration from previous years.

In 2020, EUR 962,035 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 2020, pension obligations according to IFRS for serving members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 12.1 million.

Supervisory Board

Principles of remuneration for Supervisory Board members

The annual general meeting on 22 July 2011 decided on the remuneration of Supervisory Board members as follows:

- The members of the Supervisory Board receive a fixed remuneration of EUR 25,000 for the respective financial year. The Chairman of the Supervisory Board receives twice and the Deputy Chairman one and a half times the fixed remuneration of a Supervisory Board member.
- Supervisory Board members who hold a seat on a committee receive further fixed remuneration of EUR 10,000 per committee. The Chairman of a committee receives twice and the Deputy Chairman one and a half times the further fixed remuneration.
- 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 Supervisory Board members are reimbursed for the value-added tax incurred that they have to pay as a result of their activity as a member of the Supervisory Board or a committee.

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 2020

For the 2020 financial year, a total of EUR 0.96 million was paid in salaries and EUR 0.07 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 statement in the management report or a non-financial report separate to the management report for LBBW (Bank) and for the LBBW Group. The non-financial statement for the 2020 financial year will be published as a separate report for the first time. The combined, separate non-financial report pursuant to Sections 289 b and 315 b HGB for the 2020 financial year for LBBW (Bank) and the LBBW Group will be available in German at https://www.lbbw.de/nichtfinanziellerbericht20 no later than 30 April 2021.

LBBW revised the annual report in the 2020 financial year. This also affected the management report. To improve the clarity and transparency of the management report, information was not provided without additional information relevant to decisions.

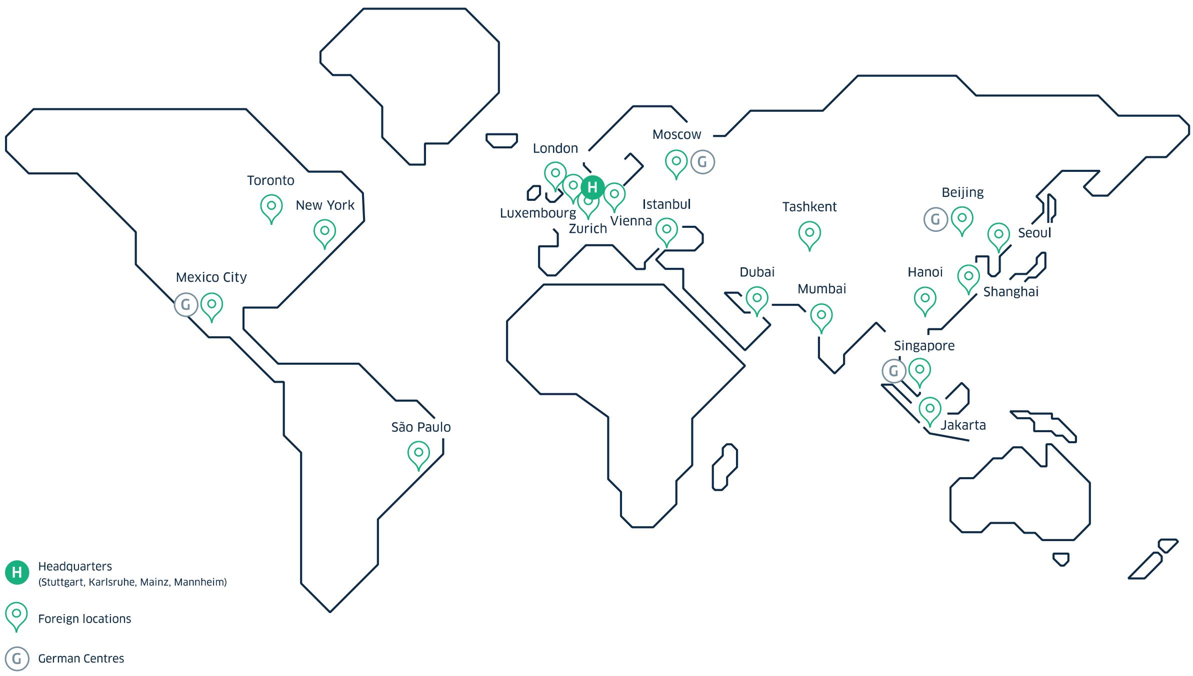
Structure and business model

The Landesbank Baden-Württemberg (LBBW) Group predominantly comprises the single entity Landesbank Baden-Württemberg, which is referred to below as LBBW (Bank). LBBW (Bank) is the parent company of the LBBW Group.

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 Savings Bank Association of Baden-Württemberg (Sparkassenverband Baden-Württemberg) with 40.53%, the state capital Stuttgart with 18.93% and the State of Baden-Württemberg with 40.53% 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 as reflected by its segments of Corporate Customers, Real Estate/Project Finance, Capital Markets Business and Private Customers/Savings Banks. The LBBW Group operates locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and selectively takes advantage of growth opportunities in selected economic areas such as North-Rhine Westphalia, Bavaria and the greater Hamburg area.

The LBBW Group's private customer business and private 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. 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.



LBBW, a mittelstand-minded universal bank, allows 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 with its four strategic cornerstones. LBBW defines its four strategic cornerstones as follows:

- Business focus: A focus on customer business takes center stage. LBBW aims for profitable and capital-efficient growth by taking advantage of selective growth opportunities, for example in corporate customers business and asset management. In addition, it focuses on boosting internal efficiency and continually reducing costs.

- Digitalization: LBBW's digital vision encompasses three objectives: Strengthening customer relationships by digitalizing key customer business procedures, boosting efficiency in the long term by digitalizing processes and selectively generating new contributions to earnings by way of digital business models.

- Sustainability: LBBW aims to expand its portfolio of sustainability-related products and services and to help its customers navigate the way to establishing sustainable business models. One central step is transformation of the lending portfolio by better integrating sustainability criteria into the lending process.

  LBBW's approach to sustainability also covers sustainable personnel management. The sustainability efforts are rounded off by a talent management program that is geared toward LBBW's strategic goals for the in-house development of candidates at all levels.

- Agility: Quick, unbureaucratic decision-making channels, a focused customer- and solution-oriented approach as well as autonomous cross-divisional cooperation constitute the core of embedding the agility aspect within LBBW.

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, such as North Rhine-Westphalia, Bavaria and the greater Hamburg area.

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. 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 this segment's 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 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. Services such as research or securities processing and administration are offered for further distribution to the customers of the savings banks. The Bank also selectively offers products and services to other savings banks beyond the core markets.

LBBW's asset management business is pooled within the group subsidiary LBBW Asset Management Investmentgesellschaft mbH. The main business areas are the management of special funds and direct investment mandates for institutional investors, together with mutual funds for institutional and private investors. Business with high net-worth private clients at BW-Bank and LBBW Asset Management has been managed as a joint business area called »LBBW Asset and Wealth Management« since fall 2020. The two areas remain legally distinct within the new Group business area LBBW AWM. Institutional customers are served under the LBBW brand. The new unit will remain under the BW-Bank brand for high net-worth private clients and foundations.

Private Customers/Savings Banks

The Private Customers/Savings Banks segment comprises the classic and upscale private customer business, 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 beyond Stuttgart is also orientated towards higher-income private customers in Baden-Württemberg, Rhineland-Palatinate and Saxony as well as other attractive economic regions such as Hamburg, Munich and Düsseldorf. As already explained in the Capital Markets Business section, business with high net-worth private clients 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 business 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 and commercial 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, LBBW's Board of Managing Directors is responsible for integrated bank management by taking 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 improved efficiency, LBBW will focus its central financial performance indicators at the end of the 2020 financial year on return on equity (RoE)[1], the cost/income ratio (CIR)[1] and the common equity Tier 1 (CET 1) capital ratio (after full implementation in accordance with CRR/CRD IV).

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

Business report for the Group

Overall economic development

Economic development in 2020 was shaped by the coronavirus pandemic. Governments in Europe and across the world imposed restrictions and lockdowns on public and private life. In Germany, economic output shrank by 5.0% year on year in 2020, with the decrease coming to 5.3% after adjusting for the number of working days. Economic output in the eurozone declined by 6.8% in the year under review in comparison to the previous year.

The world's two largest economies, the US and China, developed in different directions but were more robust than in the eurozone on the whole. The US saw GDP contract by 3.6% in 2020, following growth of 2.3% in 2019. GDP in China picked up by 2.3% in 2020, compared to growth of 6.1% achieved in 2019.

Inflation remained low in 2020. Price pressure declined on the back of an initial fall in energy prices. Another factor for Germany in the second half of the year was that inflation slipped into negative territory on account of the temporary reduction in VAT. Inflation for the year as a whole came to 0.5% in Germany and 0.3% in the eurozone.

A decision was made regarding eurozone fiscal policy in July, when the »recovery fund« (»Next Generation EU«) was set up. EUR 750 billion is to be set aside via this fund, in addition to the EU budget, for member states that have been hit particularly hard by the pandemic. The fund is to be financed in part by issuing EU bonds.

The ECB expanded its ongoing bond buying program APP and established an additional program (Pandemic Emergency Purchase Programme – PEPP) with an initial volume of EUR 500 billion. Targeted long-term tenders (TLTRO-III) were also again made more appealing to commercial banks. The program was increased on multiple occasions. The ECB decided on 10 December to increase the PEPP to EUR 1.85 trillion. The ECB's key interest rates were unchanged over the year as a whole. The interest rate for main refinancing operations was kept at 0% and the deposit facility rate at –0.5%. In the US, the Federal Reserve lowered the federal funds rate in March from 1.75% to 0.25% in two stages at extraordinary Federal Open Market Committee meetings. The Fed's bond buying program was also expanded and additional liquidity provided.

Yields on 10-year German government bonds were negative throughout the year. Yields bottomed out on 9 March at –0.84%, peaking on 19 March at –0.17%. At the end of the year, the yield on 10-year Bunds was –0.57%. At their lowest point (also on 9 March), yields on US Treasuries with matching maturities were +0.50%, with yields at the end of the year coming to +0.91%.

On the stock market, prices (DAX) slumped from 13,789 on 19 February to 8,441 points within the space of a month. The subsequent upturn until the end of the year/start of December brought the DAX to 13,178 points at year end. The Dow Jones index, which temporarily dipped below 20,000 index points in March, topped the 30,000 point mark for the first time in its history at the start of December, closing the year at 30,606 points.

On the currency market, the euro appreciated against the US dollar from just under USD 1.12 to the euro at the start of the year to almost USD 1.23 by the end of the year. The annual low here was recorded at the end of March, at USD 1.07 to the euro.

House prices in Germany continued to rise in the second half of 2020. Data available to date indicates that prices for office buildings have moved sideways in the past few quarters, with retail property prices declining. Vacancy rates on office real estate markets increased in major US cities and in London in 2020. After many years of growth, office rents decreased in the US for the first time.

Lending business performance

The outbreak of the coronavirus pandemic in 2020 affected both the macroeconomic environment in Europe and the region's banking systems. As early as spring 2020, governments and supervisory authorities introduced fiscal and regulatory countermeasures to mitigate expected negative effects. In addition, the European Central Bank again increased its supply of liquidity to help banks lend to the real economy during the pandemic.

Nevertheless, the lending environment remains exceptionally challenging in light of stiff competition and it is marked by uncertainty about economic development moving forwards. Despite stable asset quality at present, rising allowances for losses on loans and advances in 2020 resulted in lower profits. LBBW also anticipates pressure on the equity base in the future. Regardless of these pressures resulting from the upheaval associated with the pandemic, LBBW considers the German banking system sound by European standards. As a supervisory body, the BaFin also believes the sector is sufficiently stress resistant overall. However, the German banking market is still highly competitive, which exerts particular pressure on banks' profitability. Business models are also undergoing a period of transition due to increasing digitalization. As LBBW expects low interest rates to persist for the time being, the cost and income situation across the sector remains strained. The outbreak of the coronavirus pandemic in the last financial year thus increased existing pressure on the German banking market to make changes.

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

Successful year with stable income in operating customer business; consolidated profit/loss before tax strained by high allowances for losses on loans and advances; focus on strategic cornerstones fundamental to handling the coronavirus crisis.

Business development

With its customer-focused business model as a mittelstand-minded universal bank, LBBW believed it was well positioned even in the 2020 financial year, which was dominated by the coronavirus pandemic. Customer business was expanded substantially, with capitalization and the conservative risk profile unchanged. It also became clear that the four strategic cornerstones of business focus, sustainability, digitalization and agility introduced in 2017 have continued to grow in importance during the pandemic. Despite a challenging environment in all respects, net profit before tax was well into positive territory at EUR 252 million (previous year: EUR 610 million). Allowances for losses on loans and advances increased markedly, chiefly a result of model adjustments recognized to cover potential repercussions resulting from the pandemic-induced economic downturn. Despite the coronavirus crisis, LBBW's business performance was marked by stable income. At EUR 2,677 million, the sum of net interest, fee and commission income, net gains/losses from financial instruments measured at fair value through profit or loss and other operating income/expenses was EUR 10 million higher than in the previous year.

The strategic cornerstones again played a vital role in LBBW's business activities in 2020:

In light of the coronavirus pandemic, our priority in the strategic cornerstone *business focus* was on helping our customers through the crisis. As a reliable and highly efficient finance partner, we made commitments of EUR 11 billion to our customers as part of our development loan business, granting 12,000 COVID-19 development loans with a volume of EUR 4.5 billion to our own customers and to savings banks customers. LBBW also helped secure savings banks' liquidity by increasing the volume to EUR 9 billion. LBBW continued to grow its support of debt issuance in 2020, expanding its market leadership in covered bonds denominated in EUR to a market share of 25%. Thanks to this, LBBW was named the »Best Euro Lead Manager for Covered Bonds« at the 2020 »Global Capital Covered Bonds Awards«. In addition, lending to the promising growth industries of TM and electronics/IT, utilities and energy and pharmaceuticals and healthcare was stepped up further in the financial year, more broadly diversifying the lending portfolio. Collaboration between the business areas, for example between Corporate Customers and Financial Markets, was strengthened by activities including cross selling, partly for hedging products. Further progress was made in *business focus* by merging the two units private asset management and asset management to create the new business area »Asset and Wealth Management«, which has more than EUR 100 billion in assets under management and over 900 employees. Combining the sales strength and customer proximity of BW-Bank with the capital market skills of LBBW Asset Management chiefly helps us provide top-quality consultancy, in particular for medium-sized customers.

The high value the LBBW Group places on ***sustainability*** is also demonstrated by the continued growth in financing sustainable energy and infrastructure projects, such as the expansion of fiber optic networks and renewable energies. Overall, the volume of green and social financing increased in the 2020 financial year, as did own issuing activities by way of green and social bonds. To embed sustainability in risk management, the transformation of the lending portfolio in Corporate Customers was piloted. By reducing its CO_2 emissions and investing in reforestation projects, LBBW also propelled its medium-term target of carbon neutrality, which it will achieve on 1 January 2021. Last but not least, the sustainable business model was also praised by the environmental protection organization WWF, which ranked LBBW joint first in corporate banking together with two other banks.

The coronavirus pandemic heightened the need for better ***digitalization***. Accordingly, LBBW improved the features of the corporate portal for corporate customers by developing additional apps that allow users to digitally apply for and manage guarantees and company credit cards. The DEBTVISION platform was also further expanded, with over 400 registered investors by the end of 2020. In cooperation with automotive manufacturer Daimler AG, a fully digital Schuldschein loan was issued for the first time in Germany in spring 2020 via the platform with the help of distributed ledger technology and electronic signatures. Digitalization of internal processes was then stepped up. For example, a new data interface with the SüdLeasing subsidiary now automatically processes around 10,000 refinancing transactions each year, making leasing far more efficient. Expanding the Marco Polo trade finance network on the basis of blockchain technology and optimizing processes using robotics also contributed to additional digitalization progress.

The advantages of ***agile*** working methods at the Group were particularly apparent during the pandemic. In response to stricter restrictions in the early phase of the coronavirus pandemic, a majority of staff were equipped to work from home in order to protect employees and safeguard working capacity. The increased use of collaborative tools improved work between employees, even in crisis mode, and additional agile working methods were established. As part of agile project management, for example, the SPAYCE project to develop brand new, innovative and digital payment transaction solutions was launched together with Deutscher Sparkassenverlag's subsidiary S-Payment.

Key performance indicators

Overall, the LBBW Group's central financial performance indicators described below showed an improving overall trend year-on-year at the end of the 2020 financial year.

As well as successfully implementing cost measures, stable income was the basis for the lower ***cost/income ratio (CIR)***[1] as at 31 December 2020, which declined to 70.4% (previous year: 71.9%). The figure thus developed moderately better than expected, in particular as a result of costs. ***Return on equity (RoE)***[2] declined to 1.9% (previous year: 4.6%), due mostly to the exceptional increase in allowances for losses on loans and advances, thus also falling short of the target at the end of the year.

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.

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 IV »fully loaded«). At 14.8%, the ratio improved on the previous year (14.6%), moderately higher than the bank's own targets.

Supervisory authorities' requirements for the common equity Tier 1 (CET 1) capital ratio were lowered in response to the coronavirus crisis. The European Central Bank now requires only 0.98% of the Pillar 2 capital requirement (previously 1.75%) to be backed by CET 1 capital on a pro rata basis. In addition, the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (*Kreditwesengesetz*, KWG) was reduced from 1.00% to 0.75% following a change in methodology at the German Federal Financial Supervisory Authority (BaFin). The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. At the end of the year, LBBW was required to maintain a common equity Tier 1 capital ratio of 8.73% (currently: 9.75%). Section 10d of the German Banking Act also requires a countercyclical capital buffer to be held. This covers only a small share of foreign receivables, as the BaFin retracted the introduction of a countercyclical capital buffer for German receivables on account of coronavirus pandemic and various foreign supervisory authorities lowered the requirement. The ECB's capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital, still applies.

Active crisis management was also implemented at the start of the coronavirus crisis, focusing chiefly on the liquidity situation and capital ratios.

Other LBBW Group indicators such as risk weighted assets and the leverage ratio developed as follows:

Risk weighted assets (RWA) rose by EUR 1.8 billion to EUR 82.3 billion in the reporting period, primarily due to rating premiums driven by the economy. LBBW's ***leverage ratio*** was 4.5% (in accordance with CRR/CRD IV »fully loaded«), slightly below the previous year's 4.6% due primarily to the rise in risk exposures but still well over legal requirements.

Results of operations

With ***consolidated profit before tax*** of EUR 252 million, LBBW was well into positive territory in the 2020 financial year despite the influence of the coronavirus pandemic and the sharp rise in allowances for losses on loans and securities associated this entailed. The condensed income statement for the LBBW Group has been presented below:

	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019[1]	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,771	1,676	96	5.7
Net fee and commission income	538	558	– 20	– 3.6
Net gains/losses on remeasurement and disposal	– 362	172	– 534	-
of which allowances for losses on loans and securities	– 544	– 151	– 393	>100
Other operating income/expenses	198	148	50	34.0
Total operating income/expenses	*2,146*	*2,553*	*– 408*	*– 16.0*
Administrative expenses	– 1,743	– 1,810	68	– 3.7
Expenses for bank levy and deposit guarantee system	– 118	– 102	– 16	15.5
Net income/expenses from restructuring	– 32	– 31	– 2	5.7
Consolidated profit/loss before tax	*252*	*610*	*– 357*	*– 58.6*
Income taxes	– 80	– 167	87	– 52.2
Net consolidated profit/loss	*172*	*443*	*– 270*	*– 61.1*

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

Net interest income rose by EUR 96 million to EUR 1,771 million (previous year: EUR 1,676 million), thanks primarily to an improved contribution from Capital Markets Business. Activities relating to both Financial Markets and Treasury helped strengthen income here. Business with corporate customers was largely stable, whereas income in real estate financing declined as expected, chiefly in connection with high early termination fees in the previous year. The growth area of project financing, by contrast, performed well, considerably boosting its contribution to earnings. Conversely, continued historically low interest rates, with an ECB deposit rate of – 0.5%, particularly strained the deposit business. Pressure on margins in the sector was high and so net earnings in Private Customers / Savings Banks remained unchanged against the previous year.

Net fee and commission income declined slightly year on year, down EUR 20 million at EUR 538 million (previous year: EUR 558 million). Performance varied among the various types of commission. While commission from loans and guarantees was virtually unchanged year on year at EUR 119 million (previous year: EUR 120 million), payment transactions commission declined by EUR 12 million to EUR 106 million. Net fee and commission income from the securities and custody business rose moderately to EUR 204 million (previous year: EUR 195 million). In particular, this reflected good performance in securities transactions with customers. The decrease in demand in insurance was the main factor behind lower net income in brokerage business, which fell from EUR 49 million to EUR 42 million. There were marginal shifts between net fee and commission income due to clarifying accrual processes.

Net gains/losses on remeasurement and disposal fell by EUR – 534 million to EUR – 362 million and was defined by the effects described below.

Net income accounted for using the equity method decreased by EUR 2 million to EUR 5 million and was defined by opposing effects. Lower write-downs were more than offset by reduced current income from associates.

A sharp rise in allowances for losses on loans and advances prompted *net gains/losses from financial assets measured at cost* to increase to EUR – 545 million (previous year: EUR – 142 million). This mainly reflected allowances for losses on loans, which widened by EUR – 393 million year on year to EUR – 544 million. The reliability of statistical allowances for losses on loans and advances models, which were parameterized based on multi-year data, is limited at times of crisis and so model adjustments were made totaling EUR – 276 million. These related chiefly to the expected impact of the coronavirus pandemic. This used tailored individual models, some of which also incorporated sector-specific assessments by experts. In addition, allowances for losses on loans and advances were negatively affected by one larger individual case resulting from a company insolvency. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and a low default rate, which declined to 0.4%.

The decline in *net gains/losses from financial instruments measured at fair value through other comprehensive income* was caused in particular by lower contributions from the sale of debt instruments. These fell from EUR 22 million in the previous year to EUR 8 million.

Net gains/losses from financial instruments measured at fair value through profit or loss came to EUR 170 million, below the previous year's figure of EUR 285 million. While capital market activities actually improved year on year thanks to high customer demand, including for hedging products, with gains/losses of EUR 243 million (previous year: EUR 220 million), the contribution from banking book transactions fell. This saw a decline of EUR – 131 million to EUR – 77 million, chiefly a result of the ineffectiveness of derivatives as part of the Treasury's interest rate management and interest-related measurement effects. Net gains/losses from equity investments and affiliates reported with ***net gains/losses from financial instruments measured at fair value through profit or loss*** as an element of banking book activities declined to EUR 2 million as at 31 December 2020 (previous year: EUR 24 million).

Other operating income/expenses increased noticeably by EUR 50 million to EUR 198 million (previous year: EUR 148 million). There were also opposing effects. This upturn was attributable predominantly to the EUR 53 million improvement (net) to gains/losses related to legal issues, which were shaped by lower additions to provisions for legal risks in comparison to the previous year. Successfully completed project developments also resulted in a EUR 11 million improvement in net gains/losses. Income from investment properties declined by EUR – 18 million to EUR 53 million, down on the previous year, on account of lower income from the properties and fair value adjustments.

Administrative expenses decreased year on year by EUR 68 million to EUR – 1,743 million (previous year: EUR – 1,810 million). In particular, a reduction in variable remuneration decreased personnel costs, which improved by EUR 28 million to EUR – 1,010 million overall (previous year: EUR – 1,038 million). Cost leverage also reduced other administrative expenses by EUR 32 million to EUR – 600 million (previous year: EUR – 632 million). This was thanks predominantly to an array of individual effects relating to multiple cost types. Lower write-downs on intangible assets also helped improve the cost base.

Expenses for the bank levy and deposit guarantee system rose significantly by EUR – 16 million to EUR – 118 million. This was particularly affected by the increase in the target volume for the bank levy due to the 7.2% rise in covered deposits in the eurozone in 2019. The contribution payable each year (»annual target level«) was raised from 1.15% to 1.25% of the covered deposit volume in order to achieve the higher target volume.

Various restructuring activities were defined as part of the review of LBBW’s strategic direction, a result chiefly of the coronavirus pandemic. These affect LBBW’s processes and products. The introduction of new structural changes meant that previous measures no longer applied and so existing provisions were reversed. In the reporting period, this resulted in ***net expenses from restructuring*** of EUR – 32 million (previous year: EUR – 31 million.).

Consolidated profit before tax remained clearly positive at EUR 252 million (previous year: EUR 610 million) despite the considerable rise in allowances for losses on loans and advances.

Income tax expenses fell to EUR – 80 million (previous year: EUR – 167 million), mostly due to lower net profit/loss before tax.

Net consolidated profit/loss after tax saw a corresponding reduction to EUR 172 million (previous year: EUR 443 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.

The LBBW Group segments' contributions to consolidated profit before tax of EUR 252 million in the 2020 financial year (previous year: EUR 610 million) were as follows:

	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019[1]	Change	
	EUR million	EUR million	EUR million	in %
Corporate Customers	7	301	– 295	– 97.8
Real Estate/Project Finance	205	351	– 146	– 41.6
Capital Markets Business	202	121	81	67.1
Private Customers/Savings Banks	27	27	0	– 0.4
Corporate Items/Reconciliation/Consolidation	– 188	– 191	3	– 1.5
Consolidated profit/loss before tax	*252*	*610*	*– 357*	*– 58.6*

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

The ***Corporate Customers segment*** delivered strong operating performance in the 2020 financial year. For example, it increased cross selling proceeds, chiefly a result of commission income from corporate finance and conventional financing and hedging transactions. As a reliable partner to our customers, we also enjoyed further successes in the financing business. Furthermore, the cost/income ratio (CIR) was stable at the previous year's level of 60.3% thanks to high cost discipline. However, considerable additions to allowance for losses on loans and advances as a result of model adjustments for the expected coronavirus pandemic effects and a larger individual case resulting from a company insolvency weighed on earnings despite the risk structure otherwise remaining stable. In spite of this strain, we generated slight net gains of EUR 7 million and so the return on equity (RoE) was still slightly positive.

With a positive non-recurring effect from early loan repayments in the previous year and corresponding knock-on effects in the current year, income in the ***Real Estate/Project Finance segment*** remained pleasing thanks to further growth, enjoying high levels of profitable new business. Nevertheless, expenses picked up as expected as a result of continued growth. Overall, this development increased the cost/income ratio (CIR). Furthermore, this segment also saw model adjustments to allowances for losses on loans and advances to account for the expected impact of the coronavirus pandemic in the 2020 financial year, whereas the previous year had been shaped by net reversals for allowances for losses on loans and advances. This meant the net gains/losses and thus the return on equity (RoE) were – as expected – lower than in the strong previous year, albeit still high.

The ***Capital Markets Business segment*** enjoyed good operating performance in the 2020 financial year. Substantial business growth essentially reflected higher demand for hedging products, the provision of liquidity – especially for affiliated partners – and the supply of attractive types of investment with solid credit ratings. The cost structure was also further optimized, which was also reflected in an improved cost/income ratio (CIR) (71.5% versus 80.9% in previous year). Moreover, the segment enjoyed positive measurement effects. These comfortably offset the market turbulence triggered by the pandemic and the lower positive effects from securities sales compared to the previous year, again substantially boosting net gains to EUR 202 million, even after an upturn had already been achieved in the previous year (EUR 121 million). As a result, return on equity (RoE) climbed markedly to 8.4% (previous year: 4.8%).

The *Private Customers/Savings Banks segment* increased its financing volume with high-net-worth private clients and, due to the crisis, development loan business with savings banks in the 2020 financial year. Securities transactions climbed considerably, whereas brokerage business contracted on account of the pandemic. Furthermore, expenses declined from EUR – 528 million to EUR – 508 million. Despite this, the cost/income ratio (CIR) rose only slightly from 94.6% in the previous year to 98.6% in the 2020 financial year in connection with income. Overall, net gains/losses were stable on par with the previous year and so return on equity (RoE) was also virtually unchanged year on year at 2.5%.

Profit/loss before tax in *Corporate Items/Reconciliation/Consolidation* was in line with the previous year in the 2020 financial year despite the negative impact of additional model adjustments in allowances for losses on loans and advances as a result of the coronavirus pandemic. Lower administrative expenses partially offset this.

Net assets and financial position

Assets	31/12/2020 EUR million	31/12/2019[1] EUR million	Change EUR million	Change in %
Cash and cash equivalents	13,650	18,331	– 4,681	– 25.5
Financial assets measured at amortized cost	177,502	167,202	10,300	6.2
Financial assets measured at fair value through other comprehensive income	34,810	30,245	4,565	15.1
Financial assets designated at fair value	1,132	1,170	– 38	– 3.2
Financial assets mandatorily measured at fair value through profit or loss	42,185	33,013	9,172	27.8
Shares in investments accounted for using the equity method	261	265	– 4	– 1.4
Portfolio hedge adjustment attributable to assets	1,039	839	200	23.8
Non-current assets held for sale and disposal groups	2	65	– 63	– 96.8
Intangible assets	178	198	– 19	– 9.7
Investment property	796	655	141	21.5
Property and equipment	790	814	– 23	– 2.9
Income tax assets	1,225	1,251	– 26	– 2.1
Other assets	2,878	2,619	259	9.9
Total assets	*276,449*	*256,667*	*19,782*	*7.7*

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

Equity and liabilities	31/12/2020 EUR million	31/12/2019[1] EUR million	Change EUR million	Change in %
Financial liabilities measured at amortized cost	221,627	201,890	19,737	9.8
Financial liabilities designated at fair value	6,509	6,757	– 248	– 3.7
Financial liabilities mandatorily measured at fair value through profit or loss	28,815	26,959	1,857	6.9
Portfolio hedge adjustment attributable to liabilities	693	486	208	42.8
Provisions	2,523	4,530	– 2,007	– 44.3
Liabilities from disposal groups	0	4	– 4	– 100.0
Income tax liabilities	73	89	– 16	– 18.0
Other liabilities	2,217	2,113	104	4.9
Equity	13,992	13,840	152	1.1
Total equity and liabilities	*276,449*	*256,667*	*19,782*	*7.7*
Guarantee and surety obligations	7,232	7,777	– 545	– 7.0
Irrevocable loan commitments	32,677	28,961	3,716	12.8
Business volume	*316,358*	*293,405*	*22,953*	*7.8*

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

Moderate rise in consolidated total assets

As at 31 December 2020, ***total assets*** were up EUR 19.8 billion as against the end of 2019 at EUR 276.4 billion. The rise in total assets is essentially due to higher loans and advances to banks and deposits from banks, which rose by the drawing amount as a result of participating in the ECB's tender program in June. The Eurosystem carried out a total of three series of targeted longer-term refinancing operations to improve monetary policy transmission and to create additional lending incentives for banks. In total, ten loan tranches were extended in the period from September 2019 to December 2021 at quarterly intervals as part of TLTRO III. LBBW took up EUR 20 billion in the tender in June, thereby completely replacing the existing TLTRO II of EUR 4 billion.

Business activities related to real estate financing and business with hedging and investment products were increased. Purchases of bonds and debentures to manage liquidity portfolios also contributed to growth.

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 23.0 billion to EUR 316.4 billion.

Lending

Cash and cash equivalents amounted to EUR 13.6 billion at the year under review, EUR – 4.7 billion lower than the figure for the previous year (EUR 18.3 billion). Central bank balances increased by EUR 20 billion as a result of participating in the ECB's tender program (TLTRO III) in June. Payments and alternative financing options again decreased significantly in the second half of the year.

The item *financial assets measured at amortized cost* rose by EUR 10.3 billion to EUR 177.5 billion, attributable almost entirely to loans and advances to banks.

Loans and advances to banks climbed by EUR 12.7 billion, the greatest increase among financial assets measured at amortized cost, bringing their total to EUR 68.5 billion as at 31 December 2020. This substantial upturn was driven predominantly by short-term financing business with the Bundesbank to manage liquidity. This boosted public-sector loans by EUR 16.0 billion to EUR 47.7 billion. This was offset by a EUR – 1.2 billion decrease in securities repurchase transactions, predominantly with major international banks and clearing houses, to EUR 10.2 billion and a EUR – 0.5 billion fall in overnight and term deposits to EUR 6.4 billion.

The portfolio of *loans and advances to customers* contracted by EUR – 2.2 billion to EUR 108.1 billion. Mortgage backed loans picked up by EUR 7.4 billion to EUR 39.1 billion and public-sector loans by EUR 3.8 billion to EUR 15.3 billion. This was offset by a EUR – 6.6 billion decrease in other loans to EUR 21.4 billion and a EUR – 3.1 billion fall in securities repurchase transactions to EUR 5.4 billion. Customer business to provide support in times of crisis in almost all segments contributed to the development of this item. Business with hedging and investment products was also bolstered. The item continued to decline on account of higher allowances for losses on loans and advances, which were deducted from the receivables.

Financial assets measured at fair value through other comprehensive income saw a EUR 4.6 billion rise to EUR 34.8 billion. Securities purchases to manage liquidity portfolios increased bonds and debentures by EUR 5.0 billion to EUR 30.2 billion. Money market paper, especially commercial papers and certificates of deposit, declined by EUR – 0.7 billion to EUR 0.8 billion.

Financial assets mandatorily measured at fair value through profit or loss increased by EUR 9.2 billion to EUR 42.2 billion. Interest rates declined again in connection with the coronavirus crisis, causing positive fair values from derivatives to rise by EUR 2.8 billion to EUR 22.7 billion. Receivables from trading assets picked up by EUR 6.2 billion to EUR 11.1 billion, in part due to expanding the trading volume of Schuldschein receivables.

Funding

In line with developments under assets, the item ***financial liabilities measured at amortized cost*** was affected by the most significant changes in volume in comparison to the previous year, with growth of EUR 19.7 billion to EUR 221.6 billion.

Deposits from banks climbed by EUR 12.1 billion to EUR 78.8 billion. In particular, this development was due to a EUR 10.2 billion increase in overnight and term deposits to EUR 38.0 billion in connection with participating in the ECB's tender program. Transmitted loans to provide support during the crisis rose by a substantial EUR 3.4 billion to EUR 32.1 billion. This was countered by a EUR – 1.4 billion decline in securities repurchase transactions to EUR 0.5 billion.

At EUR 95.3 billion, the item ***deposits from customers*** was up EUR 5.0 billion against the figure for 31 December 2019. The volume of current account liabilities increased by EUR 11.1 billion to EUR 57.3 billion. Corporate customers and private households made particular use of LBBW investment products. This was offset by a EUR – 4.6 billion decrease in overnight and term deposits to EUR 24.9 billion and a EUR – 1.0 billion fall in securities repurchase transactions to EUR 1.0 billion.

The volume of ***securitized liabilities*** expanded by EUR 3.0 billion in the reporting period to EUR 41.8 billion. Short-term refinancing via securitized money market transactions was chiefly expanded outside Germany, increasing by EUR 2.7 billion to EUR 12.9 billion. In line with its sustainability efforts, LBBW continued to systematically issue bonds with sustainable use of funds. As part of this, its own funding was supplemented by a first green bond in pound sterling, with a volume of GBP 500 million, and a second social bond of EUR 1.0 billion. At the »Sustainable Award in Finance«, LBBW was awarded a prize in the »Environment«[1] category for the step-up sustainability bond issued in 2019, the first structured bond with a sustainable use of funds.

Subordinated capital declined by EUR – 0.4 billion year on year to EUR 5.7 billion in the reporting period in connection with the repayment of subordinated deposits and silent partners' contributions.

Financial liabilities designated at fair value remained virtually in line with the previous year's figure of EUR 6.8 billion, decreasing by EUR – 0.2 billion. Considerably wider spreads owing to the coronavirus pandemic resulted in lower fair values and thus a EUR – 0.1 billion decline in carrying amounts, especially for subordinated bonds, in the first half of the year. This declined again in the second half of the year. Nevertheless, planned maturities outweighed the volume of new business and so these were also responsible for the slight decrease.

As in the items under assets, ***financial liabilities mandatorily measured at fair value through profit or loss*** rose by EUR 1.9 billion to EUR 28.8 billion. The sharp decline in interest rates throughout the year also had an impact here on the measurement of derivatives, resulting in a EUR 2.0 billion rise in negative fair values from derivatives and bringing this figure to EUR 19.0 billion. By contrast, delivery obligations from short sales of securities reported a decrease of EUR – 0.6 billion to EUR 0.3 billion, with securitized liabilities falling by EUR – 0.2 billion to EUR 6.2 billion.

Provisions saw a EUR – 2.0 billion decrease to EUR 2.5 billion in the year under review. This is essentially because LBBW transferred most of its existing direct pension obligations to a pension fund. This resulted in the creation of plan assets intended to meet the benefit entitlements transferred. As at the reporting date, pension obligations were offset against the plan assets and so a pension obligation of EUR 1.6 billion is now recognized in equity and liabilities.

[1] www.sustainable-award-in-finance.de

Equity

At EUR 14.0 billion as at 31 December 2020 (previous year: EUR 13.9 billion), LBBW's ***equity*** was virtually unchanged as against the end of 2019. Valuation reserves declined by a total of EUR – 0.1 billion year on year. This reflects changes in valuations of bonds and debentures measured at fair value through other comprehensive income in the amount of EUR 0.1 billion and reclassifications of valuation reserves from equity instruments to other retained earnings in the amount of EUR – 0.2 billion. At the same time, the measurement of pension obligations reduced other retained earnings by EUR – 0.1 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. Another increase in excess liquidity following the ECB's longer-term tender was also reflected in LBBW's extensive liquidity. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The LCR was met during the entire reporting period and came to 135.4% as at 31 December 2020.

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 should be 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 of the European Central Bank (ECB) and these findings are implemented accordingly.

Material risk types

An annual Group risk inventory is used to identify all of LBBW's material risk types and thereby make it possible to manage and monitor these.

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. LBBW assigns companies whose risks are regarded as immaterial in investment risk.

The following material risk types were identified:

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

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«).

The pension risk is no longer be classified as material. For details, see the chapter on the LBBW Group's risk situation.

Risk strategy and risk tolerance

The Board of Managing Directors and the Risk Committee of the Supervisory Board stipulate the principles of the risk management system for all risk types identified as material by defining risk strategies that are consistent with LBBW's business strategy.

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 risk inventory.

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 the creation of 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. In order to implement the sustainability policy, the organizational unit defines sustainability and environment social governance standards for all business areas.

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.

Non-financial risks were summarized into a separate risk strategy for 2021 and expanded to include the interdisciplinary issue ESG risks (environmental, social and governance).

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 viability of the LBBW Group. Normal business operations focus on achieving the company targets while making adequate provisions for stress resistance under stress conditions.

Medium-term planning

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 state of the coronavirus pandemic 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, reported and, where necessary, measures to achieve the targets are agreed, implemented and monitored throughout the year.

In addition, compliance with the internal targets also in case of adverse development of the coronavirus pandemic over the same time horizon is ensured.

Economic view

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 developments in the coronavirus pandemic compared to other possible 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).

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 revaluation 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 99.99% and a one-year holding period for counterparty, market price, real estate, development, investment and operational risks. For other risks (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 directly quantified risk types and for the other risks not quantified within a model approach.

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. 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.

Regulatory view

In addition to the economic perspective, LBBW's risk appetite and management concept includes the regulatory steering group. This steering group is responsible for ensuring compliance with internal regulatory capital and liquidity thresholds at all times. The ongoing monitoring process comprises frequent comparisons of target/actual data and a forecast process and ensures that company targets are met in the long-term (and thus also minimum regulatory requirements).

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

Stress tests

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 both specific scenarios regarding how the coronavirus pandemic will develop, as well as general stress scenarios with exceptional but plausible events of varying degrees of severity and exposure scenarios under which the existence of the Bank is threatened within the context of the recovery plan. Stress scenarios are defined either for a time frame of several years or of one year. 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.

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.

Medium-term planning accounts for adverse developments, both in top-down and in bottom-up planning. 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 how feasible the medium-term planning is under adverse market conditions and to demonstrate a clear relationship between risk tolerance, business strategy and the capital and liquidity plan.

Monitoring and escalation using tolerance and recovery thresholds
Effective monitoring of LBBW's capital and liquidity situation using defined parameters and timely escalation in the event of potential bottlenecks is based on appropriately defined thresholds, escalation procedures, and escalation routes for all key economic and regulatory parameters.

LBBW uses a multi-stage procedure that distinguishes between purely internal thresholds and restructuring thresholds. The limits and thresholds are applied to the actual value of the respective parameters as well as to the values under simulated stress conditions and in each case exceed the regulatory minimum requirements. Monitoring takes place at Group level and at various subordinated management levels.

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 Group Risk Controlling 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

Credit risk strategy	Market price risk, liquidity risk, operational risk strategy	Investment risk, real estate risk and development risk strategy
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
	Operational risks ▪ Group Risk Control in cooperation with all of the Group's divisions	Development risks ▪ LBBW Immobilien Management GmbH
		Other risks ▪ Business risks ▪ Reputation risks ▪ Model 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, compliance and auditing, the head of finance/strategy and divisional managers from Group Risk Control, 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.

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 auditing, the head of finance/strategy and the divisional managers from Group 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/compliance and auditing and heads of information technology and finance/strategy, in addition to divisional managers from the Legal division, Group Risk Control, 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 Group Risk Controlling. 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 specialist banks and less important banks.

The coronavirus pandemic also forced banking supervision to move into crisis mode. While the focus initially was on operating relief (including cancellation of EBA/ECB stress test, approval of moratoriums), close monitoring was implemented as the situation developed. This included additional disclosure and reporting requirements. The focus was and remains on ensuring banks' liquidity and solvency as well as lending to the real economy.

The future development and nature of the regulatory framework is fundamentally dependent on how the coronavirus pandemic unfolds moving forwards and its impact on the banking sector. The focus is expected to be on the economic impact of the crisis and its effects on banks. ECB supervisory activities will also continue to cover capitalization, profitability and business models.

Basel IV

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 reaction to the financial crisis (»Basel IV«). The new rules, which will, in the final analysis, impact on the denominator of the solvency and equity ratios, are expected to be phased in internationally over a five-year period from 2022 on and still need to be transposed into European law. This implementation has been postponed until 2023 due to the coronavirus pandemic. It is still uncertain whether this also applies to the time of initial application for European banks.

The anticipated RWA effects 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.

Development of CRD/CRR in Europe

The revised EU banking regulation CRR II/CRD V was published as part of the EU banking package in the Official Journal of the European Union on 7 June 2019. The revision aimed to remove inconsistencies as well as implement international regulatory requirements. This includes guidelines for indebtedness, liquidity and liabilities. Furthermore, new trading book guidelines (»FRTB« – Fundamental review of the trading book) and provisions for counterparty risk of derivatives (»SA-CCR – standardized approach for measuring counterparty credit risk exposures«) were introduced. These can be described informally as forming part of the Basel IV reform package described above. The legislative package took effect on 27 June 2019, although it will not be applied to key issues until after a two-year transition period. Furthermore, the FRTB will be introduced in two stages. Initially, there will be only a reporting requirement from 30 September 2021, before a binding capital requirement is introduced from 2023 onwards. Most of the CRD V, an EU Directive, was transposed into German law under the Risk Reduction Act (*Risikoreduzierungsgesetz*). The divisions and control units responsible at the Bank will ensure that the new requirements are met as part of an implementation project.

Outlook

The EBA/ECB stress test will form a key part of supervisory activities in 2021, with the results of this stress test – both qualitative and quantitative – being included in the 2021 SREP. The EU-wide stress test aims to assess banks' stability under adverse economic developments in order to reveal potential risks, identify any areas where banking supervisory authorities need to take action and to improve market discipline. For this, supervisory authorities have specified a standardized methodology and macroeconomic scenarios that banks must use to calculate/forecast the performance of their entire portfolios over three years. The results of the stress test will be published on the EBA website at the end of July 2021.

On the basis of an audit of the guarantee system of the Sparkassen-Finanzgruppe, the ECB and BaFin also informed the German Savings Banks Finance Group (DSGV) of certain regulatory expectations regarding the further development of the guarantee system in 2020. LBBW is a member of the institutional guarantee system of the Deutscher Sparkassen- und Giroverband, DSGV e. V. (German Savings Bank Association). The German Savings Bank Association is currently discussing this with the ECB and BaFin. It is expected that Sparkassen-Finanzgruppe will agree to any necessary changes to the guarantee system along with the ECB and BaFin.

LBBW Group – Risk situation

LBBW Group – Risk-bearing capacity

	31/12/2020		31/12/2019	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	11,808	55%	12,116	59%
Economic capital limit[2]	10,000	65%	10,000	71%
Correlated total economic capital	6,447		7,126	
of which:	0		0	
Interrisk correlations	– 663		– 483	
Counterparty risk	3,969		3,692	
Market price risk	1,948		2,341	
Investment risk	38		43	
Operational risk	588		655	
Development risk	122		153	
Real estate risk	131		121	
Other risks[3]	314		604	

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 decreased by EUR 0.3 billion compared to year-end 2019 to EUR 11.8 billion. This decline is essentially a result of existing maturities and expected maturities for silent partner contributions and profit participation rights over a one-year period. By contrast, subordinated liabilities and AT1 capital are not taken into account for aggregate risk cover in accordance with the requirements of the ECB's ICAAP guideline, whereas these classes of capital are still fully recognized as regulatory capital for the regulatory perspective.

The economic capital commitment has declined by a total of EUR 0.7 billion since the end of 2019. Lower market price risk reflects optimization measures, which removed overexposure. Another methodology change saw interest-dependent components of the pension risk – which were previously included in Other risks – shown in full in market price risks, with the remaining non-interest components (e.g. change in employee mortality) categorized as immaterial. The improvements described in the calculation of market price risk more than make up for the increase resulting from integrating pension risks. Another improvement results from the revised methodology for the effect of diversification between the risk types. This is countered mostly by the first-time recognition of Group concentration in counterparty risk (previously recognized under Other risks).

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained at the reporting dates during the 2020 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 coronavirus pandemic on LBBW's economic and regulatory key performance indicators are regularly analyzed and investigated in stress scenarios. However, the rapid growth of the coronavirus pandemic outbreak means that only very limited exact forecasts can be made.

In counterparty risk, portfolios deteriorated in some individual sectors in the last financial year and further negative effects on the portfolio are expected. Market volatility induced in the first half of 2020 by the coronavirus pandemic has so far not had any impact on the economic capital in market price risk as the model includes a parameterization for crisis volatility. Nonetheless, it did impact value-at-risk for market risks. Individual risk management methods were amended to take account of regulatory easing during the coronavirus pandemic. The sections below provide more information.

An assessment of the situation regarding LBBW's liquidity can be found in the section on liquidity risks.

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 operation, 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).

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:

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.

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 (a subsidiary of Deutscher Sparkassen- und Giroverband – DSGV).

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.

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 advances as per IFRS 9 (see Note 20 (»allowances for losses on loans and advances«).

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. Group Risk Controlling 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.

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 advances). The potential effects of the simulated development are converted into negative changes to the key lending risk parameters (PD, LGD and correlations) of the transactions in the portfolio in question.

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 Bank'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. LBBW aims to minimize losses through successful restructuring activities, in line with the Bank's own interests and those of its customers.

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. If the country limit is almost fully utilized, the affected front and risk management units are notified.

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 rating distributions, size classes and risk concentration. Portfolio analyses additionally report on the risk situation of individual sectors, for example. Each quarter, these also contain detailed information such as the development of new business.
- The half-yearly in-depth sector report with detailed information on the sector situation, portfolio structure and important customers in each sector.

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.

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 borrower unit 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.
- 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 dangerous risk situations, which may require 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 to the presentation from risk aspects and deviations from the companies included for accounting purposes. In internal risk management, the SüdLeasing Group and LBBW México Sofom are included as consolidated subsidiaries.

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, detailed overviews broken down by rating classes, sectors and regions have been added to note 30 (Counterparty risk) in accordance with the disclosure requirements under 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	31/12/2020	31/12/2019
Gross exposure	389,452	353,332
Netting/collateral	123,076	98,911
Credit derivatives (protection buy)	5,378	6,620
Classic credit collateral	42,242	41,776
Net exposure	*218,756*	*206,025*

Figures may be subject to rounding differences.

Gross exposure amounted to EUR 389 billion as at 31 December 2020, and is therefore around EUR 36 billion higher than as at the end of 2019, driven primarily by the market performance of interest rate derivatives. As a result of the simultaneous increase in the risk-reducing effects of netting and collateral agreements and despite a decline in credit derivatives (protection buy), the increase is not fully reflected in net exposure. Net exposure rose by EUR 13 billion or 6% to EUR 219 billion.

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 31/12/2020	in % 31/12/2020	EUR million 31/12/2019	in % 31/12/2019
1(AAAA)	32,469	14.8	26,886	13.1
1(AAA) – 1(A–)	101,581	46.4	103,326	50.2
2 – 5	63,149	28.9	53,873	26.1
6 – 8	12,859	5.9	14,876	7.2
9 – 10	3,943	1.8	2,791	1.4
11 – 15	1,927	0.9	1,558	0.8
16 – 18 (default)[1]	981	0.4	949	0.5
Other[2]	1,848	0.8	1,767	0.9
Total	*218,756*	*100.0*	*206,025*	*100.0*

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

The investment grade share (ratings 1(AAAA) to 5) increased slightly to 90.1% as at 31 December 2020 (previous year: 89.4%) chiefly as a result of an increase in exposure with good credit ratings and despite migrations to lower rating clusters. Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 8.6% (previous year: 9.3%). The top rating class 1 (AAAA) mainly includes the German public sector. The non-performing exposure accounts for 0.4% of the entire portfolio.

Ratings deteriorated in the 2020 financial year on account of the coronavirus pandemic and some sectors saw a rise in the non-performing exposure. The economic environment deteriorated noticeably, and it remains uncertain how the situation will develop moving forwards. Exposures are increasingly closely monitored. LBBW joined several moratoriums from lending associations and granted payment deferrals to customers impacted by the coronavirus pandemic. In our customers' risk assessment, the process relief measures defined in the EBA Guidelines 2020/02 for borrowers involved in a moratorium were utilized.

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 31/12/2020	CVaR 31/12/2020	Net exposure on default 31/12/2020	Net exposure 31/12/2019	CVaR 31/12/2019	Net exposure on default 31/12/2019
Financials	*94,516*	*924*	*20*	*89,219*	*917*	*28*
Corporates	*82,889*	*1,903*	*916*	*79,846*	*1,807*	*863*
Automotive	10,943	445	411	11,862	371	346
Construction	7,754	176	61	7,262	157	67
Chemicals and commodities	6,293	176	50	6,942	143	76
of which chemicals	2,923	98	0	3,185	64	0
of which commodities	3,370	78	50	3,757	79	76
Retail and consumer goods	13,582	274	147	12,812	299	157
of which consumer goods	9,627	170	30	8,950	178	31
of which durables	3,955	104	117	3,862	120	126
Industry	9,855	187	112	9,920	210	88
Pharmaceuticals and healthcare[1]	4,796	85	4	4,468	82	8
TM and electronics/IT[1]	7,140	131	28	6,541	127	22
Transport and logistics	6,378	210	15	5,790	134	10
Utilities and energy[1]	8,876	139	68	8,060	199	42
of which utilities and disposal companies	5,041	63	32	4,375	90	35
of which renewable energies	3,835	76	37	3,685	109	8
Other	7,273	80	19	6,189	86	46
Real estate	*12,920*	*381*	*24*	*12,223*	*357*	*36*
Commercial real estate (CRE)	8,556	259	19	8,883	296	31
Housing	4,364	122	5	3,340	61	6
Public sector	*22,283*	*146*	*0*	*19,033*	*152*	*0*
Private individuals	*6,147*	*62*	*20*	*5,705*	*100*	*22*
Total	*218,756*	*3,417*	*981*	*206,025*	*3,332*	*949*

Figures may be subject to rounding differences.
1 Core sectors

Financials represent the largest of the five main sectors with net exposure of EUR 95 billion as at 31 December 2020. The increase of EUR 5 billion as against the end of 2019 is essentially due to the increased exposure to central banks.

In the corporates portfolio, above all the utilities and energy, retail and consumer goods, TM and electronics/IT and transport and logistics sectors contributed EUR 3 billion to net exposure, bringing the total to EUR 83 billion in the 2020 financial year. LBBW's core sectors accounted for 25% of the corporates portfolio, up on 24% in the previous year. Automotive is an important sector for the portfolio and is therefore be monitored closely in the interests of managing sector concentrations. The automotive portfolio was further reduced in 2020.

The net exposure in real estate increased by around EUR 1 billion year on year to EUR 13 billion. The portfolio is distributed among strategic locations.

Public-sector net exposure was up EUR 3 billion as against the end of 2019 at EUR 22 billion. There were increases in the exposure to public-sector entities in Germany and outside Germany.

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

Most customers have exposures with a net exposure of up to EUR 10 million. Other exposures also include a few with a net exposure of over EUR 500 million. As at 31 December 2020, the portfolio also had two large exposures (individual exposures with a net exposure of over EUR 3 billion). These are exclusively of very good credit quality in the rating class 1(AAAA).

Regions

Geographic breakdown

Net exposure in %	Share 31/12/2020	Share 31/12/2019
Germany	65.2	67.7
Western Europe (excluding Germany)	21.9	22.3
North America	7.0	5.1
Asia/Pacific	3.6	2.9
Other[1]	2.1	2.1
Total	*100.0*	*100.0*

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

The share of domestic business in the net exposure in 2020 was 65.2%. The basic distribution by region was largely constant. 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 and/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 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.

Risk measurement

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

It is measured using a model developed in-house based on a classic Monte Carlo simulation. Here market-induced movements in the value 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.

Regulatory bodies have accepted the use of the risk model for general interest rate and equity risks to determine the regulatory capital requirements for market risks of the trading book[1].

Credit spread risks of securities and Schuldscheine are measured on the basis of rating and sector-dependent yield curves and CDS spreads to reflect issuer-specific risks.

The model 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 parameter set covering multiple risk types regarding the confidence level and holding period.

1 Trading book excluding funds that cannot be represented transparently.

The following specific VaR characteristics are used at LBBW:

- Internal management and backtesting analyses: confidence of 99% and one-day holding period
- Supervisory/regulatory purposes: confidence level of 99% and ten-day holding period
- Strategic management/economic capital/risk-bearing capacity: confidence level of 99.90% and 250-day holding period

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

Stress testing

The calculations of VaR and sensitivities 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. curve trend 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 decision-makers both on a portfolio basis and with regard to their impact on the Group as a whole. The stress simulations are also integrated in the stress scenarios for multiple risk types and are therefore relevant for risk-bearing capacity.

In order to calculate the weekly StressVaR, 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.

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

New products and further development of the risk model

The model was optimized in 2020 and adjusted to reflect new market conditions. Improvements were made in the area of interest, equity and credit spread risk, which also integrated new product variants into the risk model.

Validation of the risk model

LBBW's market risk model 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 and in the relevant market data, 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 model risk and validation group, 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 is conducted 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). 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.

Risk monitoring and reporting

The utilization of limits and compliance with the detailed risk strategy defined in the portfolio descriptions, are monitored in Group Risk Control as part of the second line of defense and reported to the Group's Board of Managing Directors. Reporting comprises specifically:

- Daily report with overview of the P&L and risk development.
- Weekly stress test report comprising the effects of the stress scenarios.
- Overall risk report that is prepared monthly and contains detailed information about P&L and risk development, risk concentration, economic capital and monitoring of the economic capital limit.

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 LBBW portfolios are documented in the portfolio descriptions, following from the market price risk strategy.

The quantitative market price risk 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. The loss-warning trigger acts as an indicator for losses of market value in the economic P&L and thus also entails a 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.

The relevant VaR amount is calculated for strategic management and monthly inclusion in the economic capital limit in the strategic limit system. If it is not possible to completely quantify the material risks, appropriate adjustments or reserves are formed.

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 Group Risk Control and escalated if necessary. The persons responsible are defined via the escalation policy.

Risk situation of the LBBW Group

Development of market price risks

Exposure to market price risks in 2020 was 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 2020.

LBBW'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 Treasury's banking book. These are primarily credit spread risks from securities for liquidity management purposes and interest and credit spread risks of pension obligations. Equity risks, along with currency and commodity risks, are less significant for LBBW. Commodity risks also include risks from precious metals and notes and coins portfolios, which LBBW holds to only a limited degree.

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

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	31/12/2020[1]	31/12/2019
LBBW Group	**156**	**212**	**97**	**150**	**100**
Interest rate risk	84	111	52	98	54
Credit spread risk	116	197	76	98	80
Equity risks	8	22	5	7	9
Currency risks[2]	3	6	1	5	1

1 The last reporting date in the 2020 financial year was 30 December 2020.
2 Including commodity risks.

The VaR of the LBBW Group increased substantially in 2020. This rise predominantly reflects higher volatility in the parameters included in the risk calculation due to the coronavirus pandemic and additional securities for liquidity management purposes.

For the trading book the VaR developed as follows in 2020:

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	31/12/2020[1]	31/12/2019
LBBW (Bank) trading book	**20**	**32**	**12**	**16**	**14**
Interest rate risk	8	18	4	5	10
Credit spread risk	17	28	9	13	10
Equity risks	8	22	5	7	9
Currency risks[2]	3	7	1	5	1

1 The last reporting date in the 2020 financial year was 30 December 2020.
2 Including commodity risks.

The LBBW trading book includes the positions of the segment Financial Markets and of Treasury, which are used for short-term interest rate and liquidity management. The risk in the trading book rose slightly as at 31 December 2020 in comparison to the previous year.

Backtesting result

Up to and including the last reporting date of 30 December 2020, the internal risk model shows multiple outliers for the Clean P/L for the preceding 250 trading days in the CRR portfolio, the portfolio relating to capital adequacy. All outliers are the result of market turbulence in connection with the coronavirus pandemic. In line with supervisory approval, these outliers are not relevant for capital adequacy.

On the basis of the Dirty P/L, one outlier was also recorded for the CRR-relevant portfolio in the preceding 250 trading days as a result of market fluctuations caused by the pandemic. According to supervisory approval, these outliers are not to be taken into consideration for capital adequacy either.

Stress test

LBBW regularly conducts diverse stress tests. The main adverse case scenario for the LBBW Group is currently a Sovereign Debt Crisis and chiefly comprises changes to spread curves. The LBBW Group's stress test value declined slightly against the previous year.

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 in 2020.

Market liquidity risks

Market liquidity risk designates the risk that transactions cannot be closed out, or can only be closed out at a loss, due to inadequate market depth or market disruptions. Changes in the bid/ask price range are taken into account when determining the market liquidity risk depending on the size of the position. As at 31 December 2020, the market liquidity risk calculated using this model stood at EUR 377 million. The market liquidity risk decreased by EUR 92 million in the financial year.

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).

There is a limit system 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 deposits, loan commitments and the collateralization of derivatives for the economic steering group. These models are used to determine the effect of uncertain cash flows on liquidity in normal market phases due to common fluctuations, and are also the basis for stress tests.

Call risks from demand and savings deposits are calculated using historic changes in portfolios and their volatility. A revision of the model in October 2020 produced a more precise depiction of risk diversification between the various products. The change to model parameters and the introduction of automated model result monitoring also improved the distribution of call risks over the respective forecast horizons and ensures that changing market conditions cannot negatively affect model performance without being detected.

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 overarching MaRisk stress scenarios.

The LCR and NSFR stipulations apply in the regulatory steering view.

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 increased risk from known but previously immaterial 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 regularly 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.

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 (LCR and, from the middle of 2021, NSFR) 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.

The LBBW's funding strategy aims at diversifying products and investor groups. 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 2020 through covered bonds, senior preferred, senior non-preferred bonds in various currencies, both via private placements and in the benchmark segment and in some cases as ESG green and social bonds. LBBW also participated in the ECB’s longer-term tender (TLTRO III).

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. Liquidity Risk Control evaluates the daily turnover in euro and monitors intraday liquidity using calculated key figures and a daily stress test.

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

The impact of continued excess liquidity in 2020 is also reflected in LBBW's extensive liquidity. Despite the pandemic, the customer deposit business picked up and capital market placements – both covered and uncovered – 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 31 December 2020, the funding needs and the counterbalancing capacity were as follows:

Overview of funding requirements and counterbalancing capacity

	3 months		12 months	
EUR billion	**31/12/2020**	**31/12/2019**	**31/12/2020**	**31/12/2019**
Funding requirement from the business portfolio (deterministic cash flow)	– 5.7	5.2	– 17.3	– 0.2
Funding requirement from material call risks (stochastic cash flow)	14.4	16.7	32.3	33.8
Funding potential from free liquidity reserves	12.2	22.8	16.4	29.7
Counterbalancing capacity on the market	49.5	48.5	64.6	64.7
Overcollateralization	53.0	49.3	66.1	60.8

The funding requirement from the business portfolio in the 3 and 12-month forecast is negative if liquidity inflows exceed the outflows and thus de facto result in an investment requirement. The liquidity portfolio was shaped chiefly by a funding requirement from the business portfolio in the first half of the year. This developed into a continuous investment requirement, along with reduced securities, due to participating in the ECB's longer-term tender in June 2020. In particular, net inflows in EUR (investment requirement) are opposed by net outflows of key foreign currencies at LBBW (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 (approximately EUR 53 billion) and 12-month (approximately EUR 66 billion) horizon. The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the 12-month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

Results of the economic stress scenarios

	Funding requirements (3 months)		Funding potential (3 months)	
EUR billion	**31/12/2020**	**31/12/2019**	**31/12/2020**	**31/12/2019**
Rating downgrade scenario	21.3	25.8	33.8	45.8
Financial market crisis scenario	13.3	26.6	48.3	58.8
Combined scenario of market crisis with downgrade	13.6	27.1	43.3	54.0

The targeted stress resistance was met throughout 2020. The liquidity risk stress scenarios rating downgrade, financial market crisis, and a combination of the two, structured in accordance with the guidelines of MaRisk (BTR 3.2), show that the 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.

In addition to the requirements for stress resistance, the limits and requirements on LBBW's liquidity risk tolerance set by the senior management also include limits for the maximum funding requirement arising from maturities from the business portfolio and requirements concerning their coverage through funding potential. In the first quarter of 2020, total Group limits (EUR plus foreign currencies), which are monitored each day, were exceeded on one day but were complied with again on the following day.

The prescribed minimum value of 100% for the European indicator for short-term liquidity »Liquidity Coverage Ratio (LCR)« was observed on each day in 2020. At 135.4%, it was exceeded as at year-end 2020 (31 December 2019: 123.6%). LBBW has implemented the net stable funding ratio (NSFR) requirements applicable from June 2021 onwards and already meets the requirements in a closely monitored process.

No material negative effects on LBBW's liquidity situation in connection with the coronavirus crisis had been identified at the time of preparing this report. Deposit holdings rose significantly and credit line commitments were within normal ranges. The regularly implemented liquidity stress tests show that the funding requirement continues to be well covered by the assumed or existing funding potential.

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 2020. The risk management system is reviewed at least annually.

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.

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. Business risks and reputation risks are not included under operational risks.

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.

The 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.

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 MaRisk stress 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 Group Risk Controlling 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 division carries our 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 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 open 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 2020 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 and IT risks are set out below as they are key areas of the operational risk. Divisions are generally responsible for the first line of defense. The Legal division comprises the second line of defense for legal risks, with the Group Purchasing and Security division assuming this role for IT risks.

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 not inconsiderable legal risks from customer transactions in complex derivatives and the further development of consumer protection. In 2017, the German Federal Court of Justice (Bundesgerichtshof – BGH) also applied principles of consumer rights to commercial customers, to the detriment of banks. 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 new legislation or new pronouncements by the revenue 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 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. Technical requirements for remote working were also expanded at a bank-wide level. Outsourced services were further increased. IT applications are becoming increasingly more complex and the volume of data greater, and the supply of cloud services within the context of modern work is expanding. 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.

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 (e.g. on data leakage and cyber threats), 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.

Personnel risks

Based on this sub-risk being classified in the Group risk inventory, personnel risks are no longer considered material as the risk situation has only a minor impact on the results of operations, net assets and liquidity.

Business continuity management measures in connection with the coronavirus pandemic

With regard to the impact of the corona pandemic on LBBW, the existing crisis committees, the »crisis response team« and the »emergency center« were activated at the end of the first quarter of 2020 to manage operational risks.

The work of the crisis committees can be divided into three phases.

- Phase 1 (March – April 2020): Active crisis management, focus on ad-hoc decisions, communication and ensuring IT infrastructure, employee protection
- Phase 2 (May – June 2020): Creating normal working conditions during corona pandemic, corona policy adopted laying out key regulations on working models, use of space and continuation of hygiene and safeguarding measures, collaboration tools expanded
- Phase 3 (July 2020 onwards): Active monitoring and continuity, regular analysis of working from home rates, region-specific special circumstances and process vigor

Other material risks

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.

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

- 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.
- 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.

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

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 Group Risk Controlling 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.

The investment portfolio was further reduced in the 2020 financial year, selling shares in a strategic equity investment. Furthermore, the complexity of the investment portfolio was reduced, chiefly by merging LBBW Immobilien GmbH & Beteiligungs KG with LBBW Immobilien-Holding GmbH.

Reputation risks, business risks and model risks

Reputation risk is the risk of a loss or foregone profit due to damage to/deterioration of LBBW'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 (press/issue management in particular).

In all business decisions the effect of the transaction on LBBW's reputation is to be considered. Transactions that have a long-term negative impact on LBBW's reputation are avoided. 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. In order to implement the sustainability policy, the Group defines sustainability and environment social governance standards for all business areas. The transaction-based analysis of new transactions with regard to reputation risks is carried out on a decentralized basis by the front office particularly within the context of the New Product Process (NPP) and the credit application process. The Compliance division, the Sustainability group and Environment Social Governance support the relevant front office divisions in their day-to-day business in identifying and assessing reputation risks. In the case of OTC derivatives for interest-rate, currency and commodity management there is a product certification process upstream of the NPP.

Business risk is the risk of unexpected falls in earnings and negative plan variances not caused by other defined risk types. They may be caused by factors including changes in customer behavior or changes to the economic environment, as well as by the impact of reputational damage incurred. It is reflected in particular in lower fee and commission income or net interest spreads as well as in increased costs.

The historical plan/actual variances of selected items in the income statement form the basis for quantifying the business and reputation 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 measure asset and liability items (»valuation models«), models to define 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«).

Model risks are a subset of operational risks (OpRisk) similar to legal or behavioral risks, but by virtue of their significance and special characteristics at LBBW they are largely managed in the scope of an independent model risk management process (MRM process).

In this MRM process, methods and procedures are used that ensure model risks for individual models and across models are adequately identified, assessed, monitored, communicated and managed. 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 (first model risk evaluation). Depending on the model class and other model-specific factors (e.g. line of defense in which the model was developed), the models are graded 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.

Group Risk Controlling informs the Group's Board of Managing Directors of the key results of the model inventory and the model valuation, 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 models, 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.

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 Group Risk Controlling 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. Group Risk Controlling 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. As well as triggering sustained upheaval on the office market, the impact of the coronavirus pandemic may also extend to long-term changes in consumer behavior and increased use of, for example, online concepts. In the future, real estate players will also have to adapt to these market developments in the retail asset class, both in terms of concepts and structures. Future trends that influence the real estate sector, increasingly so as a result of the coronavirus pandemic, include the sustainability of real estate investments, 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 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 and commercial properties in selected locations in Germany. Investments in commercial property (including retail parks), 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.

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 Group Risk Controlling division includes this in the LBBW Group's analysis of risk-bearing capacity. .

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), ICS management testing, the ICS self-assessment 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. 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 risks in relation with this are handled appropriately.

The controls are geared toward ensuring that the annual and consolidated financial statements as well as the 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 well as proper and timely compliance with internal and external financial reporting requirements. A process portal and framework and operating instructions 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 group.

Higher-level control and coordination of the interdivisional process of preparing the LBBW 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 group 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 Group. The notes to the consolidated financial statements are also prepared using standardized software. The Consolidated Financial Statements group 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

The Bank believes that 2021, too, will be marked by uncertainty caused by the pandemic. The economy has been suffering from the consequences of the lockdown since the start of the year. Economic performance is therefore likely to depend on how cases develop and on the success of vaccinations. The economy is being shored up by ongoing expansive monetary and fiscal policy. At present, LBBW expects year-on-year GDP growth of 2.5% in Germany in 2021, with economic output in the eurozone looking set to pick up by 4.0%. The two largest non-European economies are expected to generate GDP growth of 7.5% (China) and 5.5% (USA). Inflation is expected to be higher than in the previous year in 2021, both in Germany and in the eurozone. With the temporary reduction in VAT in Germany coming to an end and rates returning to the level in place until mid-2020, inflation began to pick up at the start of the year. In addition, the CO_2 tax was introduced, pushing up the price of heating and fuel. All told, inflation is likely to come to 1.9% in Germany and 1.7% in the eurozone in 2021.

Given this environment, the ECB's monetary policy is likely to remain expansive. The ECB has stated that an increase in bond purchases is possible. We believe that a further decrease in key interest rates is rather unlikely.

On financial markets, yields on 10-year Bunds look set to increase to – 0.30% by the end of 2021 in connection with lower economic uncertainty. In light of this, the EUR/US exchange rate is likely to come to USD 1.23 to the euro at the end of 2021. We expect the DAX to close 2021 at 14,500 points. The Dow Jones Industrial is likely to climb to 32,500 by the end of 2021.

Industry and competitive situation

Despite the second national lockdown, which we did not expect, LBBW's estimates regarding the challenging environment for the banking sector have not changed. In particular, the impact of the coronavirus pandemic both on the real economy and on the banking sector remains severe. The temporary adjustment of the credit risk model by way of post-model adjustments likely significantly affected the amount of allowances for losses on loans and advances at many banks in the last financial year. While this creates a loss buffer for potential defaults, it should also have reduced profits accordingly. In its quarterly risk report, the European Banking Authority (EBA) states that insufficient profitability represents the Achilles' heel of banks - as it has done for a long time. This is also related to persistent low interest rates in the eurozone. LBBW believes that the actual strain on assets caused by the pandemic will likely be felt only gradually. As a result, we expect more loan defaults and a rise in the number of company and personal bankruptcies in the medium term, including in Germany.

Regardless of these pressures, LBBW still considers the German banking system sound in the European environment thanks to its high capital buffer. Nevertheless, the German financial supervisory authority BaFin does not rule out the possibility of banks leaving the market on account of competitive pressure and problems with income. This is compounded by the acceleration in the use of new, digital technologies resulting from changes in behavior following the coronavirus pandemic. Finally, climate and environmental aspects are also becoming increasingly significant, with the ECB, for example, publishing a guide on this in November 2020. Improving profitability, in part by further cutting costs, and making changes to business models still represent major challenges for Germany's banking sector.

Company forecast

General conditions

The following statements on LBBW's company forecast are based on the planning produced at the end of 2020.

Following the economic downturn sparked by the coronavirus pandemic in 2020, LBBW believes that the forecast period should see a return to positive economic growth in Germany and in the eurozone, likely ushering in a longer period of recovery. In particular, this gradual upturn should be reflected in a decline in allowances for losses on loans and advances, albeit still higher than pre-crisis levels. LBBW also anticipates low and, in some cases, negative interest rates in the forecast period, which will likely further hurt banks' profitability.

Outlook for LBBW

The following outlook for ***the most important financial performance indicators*** and other indicators for the LBBW Group in the 2021 financial year is based on the planning approved at the end of 2020. This accounts for the effects of the coronavirus pandemic on the basis of knowledge at this time. The Bank believes that 2021 will continue to be marked by uncertainty caused by the pandemic. This could cause the performance indicators and other indicators to deviate from the descriptions below.

In the 2020 financial year, which was shaped by the coronavirus pandemic, LBBW generated profit before tax of EUR 252 million despite higher provisioning than in the previous year thanks to good operating performance in view of the bank and stable income. For the forecast period 2021, LBBW expects a positive consolidated profit before tax above the previous year's level in the three digit million range. Essentially, this development should be justified by risk costs remaining high but strongly lower compared to the previous year. Aided by ongoing cost discipline, the ***cost/income ratio (CIR)*** should improve marginally year on year, with *return on equity (RoE)* likely to pick up markedly in line with earnings performance.

LBBW expects the ***common equity Tier 1 capital ratio (»fully loaded«)*** to see a slight decline at the end of 2021 in comparison to the year prior. As part of this, risk-weighted assets should pick up in the forecast period, along with operating growth in part as a result of crisis-related re-ratings. Nonetheless, LBBW believes that it will continue to enjoy comfortable capitalization in the future. The common equity Tier 1 (CET 1) capital ratio should remain well in excess of the CRR/CRD IV minimum requirements and the SREP[1] requirement of 8.73% in the forecast period. Even taking into account current requirements regarding a countercyclical capital buffer (Section 10 d KWG) and the availability of extra common equity Tier 1 capital expected by ECB supervisory authorities (Pillar 2 Guidance), LBBW's common equity Tier 1 capital ratio should be far above ECB requirements.

1 Supervisory Review and Evaluation Process

LBBW is forecasting the following developments for the ***operating segments*** in the 2021 financial year:

LBBW expects the ***Corporate Customers segment*** to boost segment earnings considerably in the 2021 financial year in comparison to the previous year, which was affected by high allowances for losses on loans and advances. Segment earnings will likely be shaped by continued high risk costs in the forecast period, which are expected to remain higher than pre-crisis levels due to the ongoing crisis. This earnings performance and higher risk weighted assets compared to the previous year on account of re-ratings will depress *return on equity (RoE)* in the forecast period, although this should increase markedly on the low previous year level thanks to earnings. In terms of income, the Corporate Customers segment is likely to see a moderate upturn in 2021 by focusing on long-term customer relations and customer support as a principle bank. Accordingly, corporate finance business will remain a key driver of income in 2021, too. The ***cost/income ratio (CIR)*** should move down slightly in conjunction with stable costs.

In the 2021 financial year, LBBW expects the earnings before tax of the ***Real Estate/Project Finance segment*** to be moderately higher than in the previous year. Despite re-rating effects in response to the crisis and the resulting increase in risk weighted assets, *return on equity (RoE)* should be almost on par with the previous year. Irrespective of slight cost increases, in part due to growth, the ***cost/income ratio (CIR)*** at the end of 2021 should be in line with the previous year.

In the ***Capital Markets Business segment***, LBBW expects segment earnings before tax to rise in the 2021 financial year, resulting in a moderate increase in *return on equity (RoE)*. The forecast period is expected to be shaped by the selective expansion of growth areas such as asset management, the continuation of systematic cost management and efficient use of capital from LBBW´s point of view. Administrative expenses look set to reduce marginally in 2021 thanks to improved efficiency in the entire process chain. Thanks to a similar boost in income, the ***cost/income ratio (CIR)*** at the end of 2021 also looks set to come in marginally below the previous year’s level.

LBBW anticipates a noticeable year-on-year rise in segment earnings in the ***Private Customers / Savings Banks segment*** as at the end of 2021. With interest rates remaining low and the low interest income that this entails, LBBW expects to see higher proceeds from the expansion of commission business – in particular from the growth areas asset and wealth management and business customers. With costs expected to remain at the previous year's level, LBBW anticipates a slight improvement to the ***cost/income ratio (CIR)*** and a perceptible improvement in *return on equity (RoE)*.

Opportunities and risks

Over the course of the 2021 financial year, the statements made could be positively or negatively affected by the *opportunities and risks* described below:

If the ongoing coronavirus pandemic puts the economy under more strain than expected and triggers a severe recession in 2021, this could hinder the perceptible, long-term recovery in subsequent years – in spite of fiscal and monetary policy support. This could negatively affect LBBW's income and risk profile. A higher number of company insolvencies than expected and a sharp rise in unemployment or structural problems in some sectors – especially in the automotive industry –could hamper economic performance in Germany and in the eurozone more than currently expected. Ongoing intensified competition and further declines in interest rates could have additional unexpected negative consequences for margins and earnings in the forecast period. In addition, unanticipated tighter regulatory requirements could cause a strain. 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, financial position and liquidity.

Digitalization and sustainability pose risks as they require adjusting to changed market and customer requirements, but also present opportunities for LBBW in terms of further developing its business model.

On the other hand, all the general conditions already described could also open up opportunities for LBBW if the factors develop better than expected.

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

Results of operations, net assets and financial position

Business development in 2020

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 well positioned even in the 2020 financial year, which was dominated by the coronavirus pandemic. At EUR 651 million operating income before tax, which acts as an indicator of operating strength, remained above the 2019 figure of EUR 632 million. This was thanks to the focus on the strategic cornerstones defined in 2017 (business focus, sustainability, digitalization and agility), which continue to underpin the Bank's business activities.

Results of operations

Performance figures:

	01/01/2020 – 31/12/2020	01/01/2019 – 31/12/2019	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,634	1,713	– 79	– 4.6
Net fee and commission income	417	441	– 24	– 5.4
Total operating income/expenses from the trading portfolio	250	189	62	32.6
Administrative expenses[1]	– 1,685	– 1,762	77	– 4.4
Other operating income/expenses	34	51	– 16	– 32.3
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	*651*	*632*	*19*	*3.0*
Allowances for losses on loans and advances/remeasurement gain or loss	– 349	– 171	– 178	>100
Reversal/addition to fund for general banking risks	– 86	– 91	6	– 6.3
Operating income/expenses (result from ordinary business activities)	*216*	*369*	*– 154*	*– 41.6*
Extraordinary result	– 47	– 57	10	– 16.9
Partial profit transfer	– 38	– 44	6	– 13.3
Net profit/loss for the year before tax	*131*	*269*	*– 138*	*– 51.4*
Income taxes	– 26	– 10	– 16	>100
Net profit/loss for the year after tax	*105*	*259*	*– 154*	*– 59.6*

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.

As expected, ***net interest income*** at LBBW (Bank) declined by EUR 79 million in the last financial year to EUR 1,634 million, due primarily to a decrease in early termination fees resulting from early loan repayments. In the previous year, these were shaped chiefly by repayments in real estate and project finance. Income from equity investments also declined, chiefly in connection with the sale of non-strategic equity investments. Net interest income excluding equity investments and early termination fees, by contrast, rose slightly but did not fully offset the effects described above. Continued historically low ECB interest rates with a deposit rate of.5% particularly strained the deposit business. Pressure on margins in the sector was high in the 2020 financial year, reflected mainly in business with Private Customers / Savings Banks.

At EUR 417 million, ***net fee and commission income*** declined by EUR 24 million on the previous year (EUR 441 million). Performance here was varied. By contrast, net fee and commission income from securities and custody business increased to EUR 114 million thanks to a higher transaction volume of customers with securities (previous year: EUR 107 million). The contribution from commission related to asset management also picked up, coming to EUR 65 million at the end of the financial year (previous year: EUR 63 million). This was offset by negative effects, chiefly from the payments business, where earnings fell by EUR 13 million to EUR 94 million. Net fee and commission income from loans and guarantees fell to EUR 83 million (previous year: EUR 92 million). In addition, brokerage commission declined from EUR 52 million to EUR 46 million, a result predominantly of muted demand for insurance services. There were marginal shifts between net fee and commission income due to clarifying accrual processes.

At EUR 250 million, *total operating income/expenses from the trading portfolio* was considerably up on the previous year's level, improving by EUR 62 million. Changes in this item reflected high customer demand, including for hedging products. Furthermore, the extraordinary item for general bank risks in accordance with Section 340e (4) no. 4 HGB came to EUR 6 million (previous year: EUR 0 million).

Administrative expenses saw a slight year on year decline and totaled EUR – 1,685 million (previous year: EUR – 1,762 million). Staff costs, which fell by EUR 60 million to EUR – 866 million at the end of 2020 (previous year: EUR – 926 million), particularly benefited from lower pension expenses. As at the end of 2020, LBBW transferred most of its existing pension obligations to a pension fund. The accounting effects are explained in the Provisions item. Other administrative expenses declined by a total of EUR 13 million to EUR – 734 million (previous year: EUR – 747 million) despite higher expenses for the bank levy. The increase in the bank levy chiefly reflected the rise in the target volume due to the 7.2% upturn in covered deposits in the eurozone (in 2019). The remaining general administrative expenses items declined as a result of various cost reduction measures and were spread across several types of cost. Amortization and write-downs of property and equipment and intangible assets fell to EUR – 84 million (previous year: EUR – 88 million). This was attributable chiefly to lower write-downs on intangible assets, which were downstream from the previous years' investments.

Other operating income/expenses declined by EUR 16 million and came to EUR 34 million (previous year: EUR 51 million). There were also opposing effects. The previous year's result was marked by an intra-Group building sale, causing the contribution from the sale of real estate to decline by EUR 46 million in the current year. LBBW disposed of non-strategic equity investments as part of streamlining the investment portfolio, resulting in a negative contribution of EUR – 32 million (previous year: EUR 1 million). This was countered by a net decrease in legal expenses of EUR 72 million. This includes a EUR 69 million improvement in the net allocation of provisions for legal risks.

Allowances for losses on loans and advances and remeasurement gain or loss fell overall year on year by EUR – 178 million to EUR – 349 million (previous year: EUR – 171 million). A differentiated performance was recorded for the individual subitems:

- *The remeasurement gain or loss on securities* improved by EUR 8 million to EUR 45 million, shaped by treasury activities to optimize the risk structure in individual portfolios.
- The *remeasurement gain or loss from equity investments and affiliates* improved by EUR 7 million year on year to EUR – 38 million (previous year: EUR – 45 million). As previously, however, impairment losses due to lower expectations for the future continue to weigh heavily.
- *Gains/losses from the transfer of losses* decreased to EUR – 7 million (previous year: EUR – 3 million).
- *Allowances for losses on loans and advances* rose by EUR – 189 million to EUR – 350 million at the end of 2020. Higher allowances for losses on loans and advances primarily reflect changes to estimates regarding the forecast for probability of default on account of the coronavirus pandemic. In addition, allowances for losses on loans and advances were negatively affected by one larger individual case resulting from a company insolvency.

The EUR 86 million addition to the *fund for general banking risks in accordance with Section 340g HGB* in 2020 served mainly to compensate in future for a change in the calculation of allowances for losses on loans and advances under HGB in accordance with the statement of the Banking Committee of the German Institute of Public Auditors (IDW RSBFA 7), as well as additional latent risks resulting from the coronavirus pandemic. The IDW pronouncement on this is expected to be applied to financial years starting after 31 December 2021.

Overall, *the extraordinary result* improved by EUR 10 million to EUR – 47 million (previous year: EUR – 57 million), thanks chiefly to lower net restructuring expenses. 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 – 38 million (previous year: EUR – 44 million), *net profit/loss before tax* for the 2020 financial year amounted to EUR 131 million overall (previous year: EUR 269 million).

Income taxes rose to EUR – 26 million (previous year: EUR – 10 million), mainly due to the increase in non-tax-deductible expenses, primarily from the bank levy.

Despite the considerable rise in allowances for losses on loans and advances, *net profit/loss for the year after tax* remained positive at EUR 105 million (previous year: EUR 259 million).

Net assets and financial position

Assets	31/12/2020 EUR million	31/12/2019 EUR million	Change EUR million	in %
Cash and cash equivalents	13,636	18,317	– 4,682	– 25.6
Loans and advances to banks	64,385	53,010	11,375	21.5
Loans and advances to customers	108,555	110,175	– 1,620	– 1.5
Debentures and other fixed-income securities	31,832	25,935	5,896	22.7
Equities and other non-fixed-income securities	187	200	– 13	– 6.4
Trading portfolio	32,800	27,172	5,628	20.7
Equity investments	194	592	– 398	– 67.2
Shares in affiliates	1,596	1,627	– 31	– 1.9
Trust assets	901	289	612	>100
Intangible assets	147	169	– 22	– 12.9
Property and equipment	780	792	– 12	– 1.5
Other assets	2,248	2,398	– 150	– 6.3
Deferred items	4,017	2,665	1,352	50.8
Total assets	*261,278*	*243,342*	*17,935*	*7.4*

Equity and liabilities	31/12/2020 EUR million	31/12/2019 EUR million	Change EUR million	in %
Deposits from banks	75,947	64,334	11,614	18.1
Deposits from customers	95,340	90,850	4,489	4.9
Securitized liabilities	44,797	42,017	2,781	6.6
Trading portfolio	16,808	17,243	– 436	– 2.5
Trust liabilities	901	289	612	>100
Other liabilities	1,434	1,356	78	5.7
Deferred items	3,475	2,415	1,060	43.9
Provisions	1,059	3,045	– 1,985	– 65.2
Subordinated liabilities	5,121	5,482	– 361	– 6.6
Capital generated from profit participation rights	229	229	0	0.0
Regulatory AT 1 capital instruments	771	755	17	2.2
Fund for general banking risks	926	834	92	11.0
Equity	14,470	14,494	– 25	– 0.2
Total equity and liabilities	*261,278*	*243,342*	*17,935*	*7.4*
Contingent liabilities	10,338	9,860	478	4.8
Other obligations	34,745	31,752	2,992	9.4
Business volume[1]	*306,360*	*284,955*	*21,405*	*7.5*

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 2020 rose by EUR 17.9 billion to EUR 261.3 billion compared with the previous year. LBBW (Bank)'s business volume thus grew by EUR 21.4 billion to EUR 306.4 billion.

Lending

At the end of the year under review ***cash and cash equivalents*** came to EUR 13.6 billion. The EUR – 4.7 billion decline was essentially a result of lower central bank balances. These increased by EUR 20 billion as a result of participating in the ECB's tender program (TLTRO III) in June. Payments and alternative financing options again decreased significantly in the second half of the year.

Loans and advances to banks as at 31 December 2020 picked up by EUR 11.4 billion to EUR 64.4 billion. This upturn was driven mostly by short-term financing business, including a EUR 15.5 billion increase in public-sector loans to EUR 47.4 billion. This was countered by a EUR – 1.2 billion decline in securities repurchase transactions, chiefly with major international banks and clearing houses, to EUR 10.2 billion.

The ***portfolio of loans and advances to customers*** decreased by EUR – 1.6 billion and came to EUR 108.6 billion as at the current reporting date. Mortgage backed loans picked up by EUR 9.6 billion to EUR 40.9 billion and public-sector loans by EUR 4.2 billion to EUR 18.7 billion. This was offset by a EUR – 3.1 billion decrease in securities repurchase transactions to EUR 5.4 billion and a EUR – 15.5 billion fall in other receivables to EUR 49.1 billion. Customer business to provide support in times of crisis in almost all business areas contributed to the development of this item. Business with hedging and investment products was also bolstered. The item continued to decline on account of higher allowances for losses on loans and securities, which were deducted from the receivables.

Debentures and other fixed-income securities rose by EUR 25.9 billion to EUR 31.8 billion. Securities purchases to manage liquidity portfolios increased bonds and debentures by EUR 6.3 billion to EUR 30.4 billion. Money market paper shrank by EUR – 0.8 billion to EUR 0.8 billion.

Trading assets increased compared with the previous year by EUR 5.6 billion to EUR 32.8 billion. Loans and advances to banks picked up by EUR 5.0 billion to EUR 10.0 billion and loans and advances to customers rose by EUR 2.8 billion to EUR 4.8 billion, in part due to expanding the trading volume of Schuldschein receivables. By contrast, debentures and other fixed-income securities declined by EUR – 2.4 billion to EUR 5.8 billion.

Trust receivables increased almost three fold, rising by EUR 0.6 billion from EUR 0.3 billion in the previous year to EUR 0.9 billion. Funding programs set up as a result of the pandemic, such as the KfW fast loan for companies, contributed to this increase.

Prepaid *expenses* saw an increase of EUR 1.4 billion from EUR 2.7 billion in 2019 to EUR 4.0 billion as at 31 December 2020. More derivative transactions were processed in clearing, resulting in higher upfront payments.

Funding

Deposits from banks were affected by the considerable changes in volume compared to the previous year. They picked up by EUR 11.6 billion to EUR 75.9 billion. In particular, this development was due to a EUR 10.3 billion increase in overnight and term deposits to EUR 37.9 billion in connection with participating in the ECB's tender program. Transmitted loans to provide support during the crisis rose by a substantial EUR 3.4 billion to EUR 32.1 billion. This was countered by a EUR – 1.4 billion decline in securities repurchase transactions to EUR 0.5 billion.

Deposits from customers amounted to EUR 95.3 billion as at 31 December 2020, up EUR 4.5 billion on the previous year. The volume of current account liabilities increased by EUR 11.0 billion to EUR 57.9 billion. Corporate customers and private households made particular use of LBBW (Bank) investment products. This was offset by a EUR – 4.6 billion decrease in overnight and term deposits to EUR 25.0 billion and a EUR – 1.0 billion fall in securities repurchase transactions to EUR 1.0 billion.

The volume of ***securitized liabilities*** expanded by EUR 2.8 billion to EUR 44.8 billion. Other debentures increased by EUR 2.8 billion to EUR 24.5 billion, with money market paper picking up by EUR 1.3 billion to EUR 6.3 billion. Short-term refinancing was expanded chiefly at the New York branch.

Trading liabilities decreased compared with the previous year by just EUR – 0.4 billion to EUR 16.8 billion. A EUR 1.7 billion increase in deposits to EUR 4.5 billion was offset by a fall of EUR – 1.7 billion in negative fair values from derivative financial instruments, which declined to EUR 5.2 billion.

As in the item under assets, ***trust liabilities*** also tripled, climbing by EUR 0.6 billion from EUR 0.3 billion in the previous year to EUR 0.9 billion. Funding programs set up as a result of the pandemic such as the KfW program also increased the items to this extent.

Deferred income mirrored prepaid expenses, rising by EUR 1.1 billion from EUR 2.4 billion to EUR 3.5 billion.

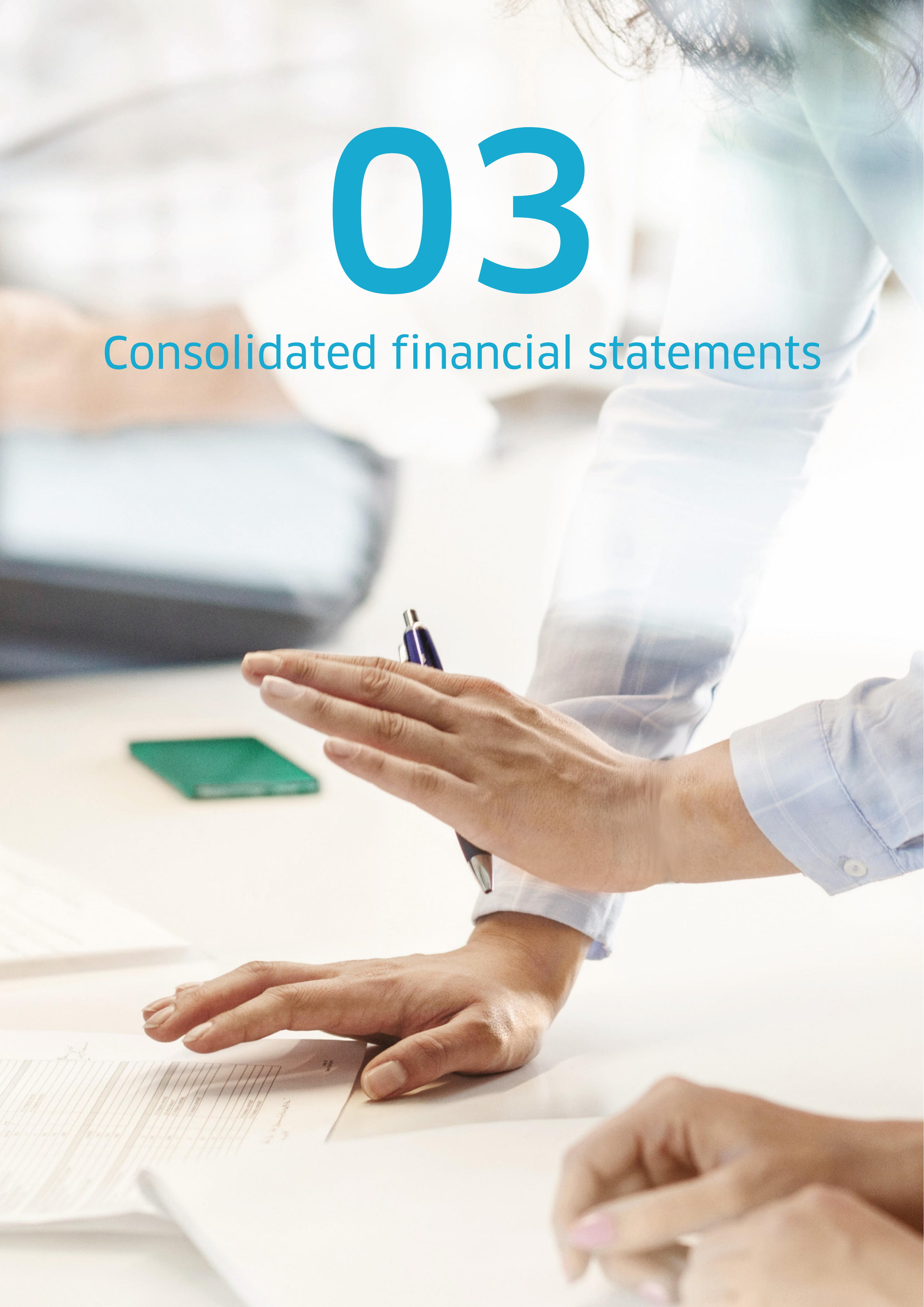
Provisions saw a EUR – 2.0 billion decline to EUR 1.1 billion in the year under review. With effect from 31 December 2020, LBBW Bank transferred most of its direct pension obligations to a non-insurance-based pension fund under German law, together with the corresponding funding. This transfer turns the commitments into indirect commitments, for which there is a disclosure option in accordance with Article 28 (1) sentence 2 of the Introductory Act to the German Commercial Code (*Einführungsgesetz zum Handelsgesetzbuch* - EGHGB). LBBW (Bank) has exercised this option, which reduced pension provisions by EUR – 2.0 billion.

Equity
At EUR 14.5 billion as at 31 December 2020, LBBW (Bank)'s ***equity*** was unchanged as against the end of 2019. Unappropriated profit increased to EUR 0.4 billion (previous year: EUR 0.3 billion) on the basis of dividends not yet distributed to the owners.

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. Another increase in excess liquidity following the ECB's longer-term tender was also reflected in LBBW (Bank)'s extensive liquidity. 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. At individual bank level, this came to 136.1% at LBBW (Bank) as at 31 December 2020.

03

Consolidated financial statements



Consolidated financial statements

Contents

Income statement

for the period 1 January to 31 December 2020

EUR million	Notes	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Net interest income[2]	9	1,771	1,676
Interest income and current income from equity instruments		12,551	14,051
of which negative interest income		– 247	– 243
Interest expenses and current expenses from equity instruments		– 10,780	– 12,376
of which positive interest expenses		288	225
Net fee and commission income	10	538	558
Fee and commission income		668	688
Fee and commission expenses		– 130	– 130
Net gains/losses on remeasurement and disposal	11	– 362	172
of which allowances for losses on loans and securities		– 544	– 151
Other operating income/expenses	13	198	148
Administrative expenses	14	– 1,743	– 1,810
Expenses for bank levy and deposit guarantee system	15	– 118	– 102
Net income/expenses from restructuring	*16*	– 32	– 31
Consolidated profit/loss before tax		*252*	*610*
Income taxes	17	– 80	– 167
Net consolidated profit/loss		*172*	*443*
of which attributable to non-controlling interests after tax		0	1
of which attributable to shareholders after tax		172	442

1 Restatement of prior year amounts (see Note 3).
2 Information on the overview of interest income and interest expenses for the categories »Financial assets measured at amortized cost« and »Financial instruments measured at fair value through other comprehensive income« can be found in Note 9.

Statement of comprehensive income

for the period 1 January to 31 December 2020

EUR million	Notes	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Net consolidated profit/loss		*172*	*443*
Items that will not be transferred subsequently to the income statement			
Retained earnings	55	70	– 307
Actuarial gains/losses before tax		– 115	– 443
Realized gains/losses from the sale of equity instruments		152	– 0
Income taxes	17	33	135
Measurement gains/losses from own credit rating	55	34	– 12
Measurement gains/losses from own credit rating before tax		49	– 18
Income taxes	17	– 15	6
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)		– 223	– 26
Measurement gains/losses before tax		– 81	– 23
Transfer to realized gains/losses from the sale of equity instruments		– 152	0
Income taxes	17	10	– 3
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)		128	141
Measurement gains/losses before tax		181	172
Change in allowances for losses on loans and securities		1	0
Transferred to income statement		– 9	24
Income taxes	17	– 45	– 56
Currency translation differences		– 16	6
Changes before tax		– 16	6
Net consolidated profit/loss in equity		*– 7*	*– 200*
Net consolidated total comprehensive income		*165*	*243*
of which attributable to non-controlling interests after tax		0	1
of which attributable to shareholders after tax		165	242

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

Balance sheet

as at 31 December 2020

Assets

EUR million	Notes	31/12/2020	31/12/2019[1]	01/01/2019[1]
Cash and cash equivalents	27	13,650	18,331	24,721
Financial assets measured at amortized cost	28	177,502	167,202	157,127
Loans and advances to banks		68,465	55,801	46,749
Loans and advances to customers		108,116	110,320	109,231
Debentures and other fixed-income securities		921	1,082	1,146
Financial assets measured at fair value through other comprehensive income	29	34,810	30,245	23,743
Financial assets designated at fair value	33	1,132	1,170	1,207
Financial assets mandatorily measured at fair value through profit or loss	34	42,185	33,013	28,857
Shares in investments accounted for using the equity method	7	261	265	266
Portfolio hedge adjustment attributable to assets	22	1,039	839	569
Non-current assets and disposal groups held for sale	45	2	65	24
Intangible assets	46	178	198	224
Investment property	47	796	655	697
Property and equipment	48	790	814	463
Current income tax assets	17, 50	118	126	142
Deferred income tax assets	17, 50	1,107	1,126	1,165
Other assets	52	2,878	2,619	2,017
Total assets		*276,449*	*256,667*	*241,222*

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

Equity and liabilities

EUR million	Notes	31/12/2020	31/12/2019[1]	01/01/2019[1]
Financial liabilities measured at amortized cost	36	221,627	201,890	190,388
Deposits from banks		78,765	66,633	63,585
Deposits from customers		95,288	90,319	82,481
Securitized liabilities		41,834	38,815	38,827
Subordinated capital		5,740	6,123	5,495
Financial liabilities designated at fair value	37	6,509	6,757	7,613
Financial liabilities mandatorily measured at fair value through profit or loss	38	28,815	26,959	24,478
Portfolio hedge adjustment attributable to liabilities	22	693	486	297
Provisions	51	2,523	4,530	3,999
Liabilities from disposal groups	45	0	4	0
Current income tax liabilities	17, 50	49	55	32
Deferred income tax liabilities	17, 50	24	33	27
Other liabilities	52	2,217	2,113	1,283
Equity	*55*	*13,992*	*13,840*	*13,105*
Share capital		3,484	3,484	3,484
Capital reserve		8,240	8,240	8,240
Retained earnings		1,243	744	903
Other comprehensive income		74	152	44
Consolidated profit/loss		172	442	413
Shareholders' equity		*13,214*	*13,063*	*13,085*
Additional equity components		745	745	0
Equity attributable to non-controlling interests		33	32	20
Total equity and liabilities		*276,449*	*256,667*	*241,222*

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

Statement of changes in equity

for the period 1 January to 31 December 2020

EUR million	Share capital	Capital reserve	Retained earnings[1, 2]	Valuation reserve for equity instruments	Valuation reserve for debt instruments	Measurement gains/losses from investments accounted for using the equity method
Equity as at 31 December 2018	*3,484*	*8,240*	*960*	*211*	*- 207*	*0*
Restatement of prior year amounts			0	0	0	0
Equity as at 1 January 2019	*3,484*	*8,240*	*903*	*211*	*- 207*	*0*
IFRS 16 effects of first-time adoption			- 14	0	0	0
Equity as at 1 January 2019 in accordance with retrospective application of IFRS 16	*3,484*	*8,240*	*890*	*211*	*- 207*	*0*
Allocation to retained earnings			413			
Distribution to shareholders			- 250			
Net consolidated profit/loss in equity			- 307	- 26	141	0
Net consolidated profit/loss						
Net consolidated total comprehensive income	0	0	- 307	- 26	141	0
Other changes in equity			*- 1*	*0*	*0*	*0*
Equity as at 31 December 2019	*3,484*	*8,240*	*744*	*185*	*- 67*	*0*
Equity as at 1 January 2020	*3,484*	*8,240*	*744*	*185*	*- 67*	*0*
Allocation to retained earnings			442			
Net consolidated profit/loss in equity			70	- 223	128	0
Net consolidated profit/loss						
Net consolidated total comprehensive income	*0*	*0*	*70*	*- 223*	*128*	*0*
Servicing of additional equity components			*- 13*			
Other changes in equity			0	0	0	- 1
Equity as at 31 December 2020	*3,484*	*8,240*	*1,243*	*- 38*	*61*	*- 1*

1 Restatement of prior year amounts (see Note 3).
2 Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«. A resolution was passed at the end of February 2021 for LBBW (Bank) regarding the appropriation of net profit in 2019 (see Note 55 on equity).

Measurement gains/losses of the currency basis element from hedging transactions	Measurement gains/losses from own credit rating	Currency translation reserve	Consolidated profit/loss	Shareholders' equity[1]	Additional equity components	Equity attributable to non-controlling interests	Total[1]
	16	25	413	13,142	0	20	13,163
	0	0	0	0		0	0
0	16	25	413	13,085	0	20	13,105
			0	- 14		0	- 14
0	16	25	413	13,072	0	20	13,092
			- 413	0		0	0
				- 250		0	- 250
	- 12	6		- 200		0	- 200
			442	442		1	443
0	- 12	6	442	242	0	1	243
	0	0	0	- 1	745	11	755
0	4	30	442	13,063	745	32	13,840
0	4	30	442	13,063	745	32	13,840
			- 442	0		0	0
0	34	- 16	0	- 7	0	0	- 7
			172	172		0	172
0	34	- 16	172	165	0	0	165
				- 13			- 13
0	0	0	0	- 1	0	1	0
0	38	15	172	13,214	745	33	13,992

LBBW issued an AT1 bond in the 2019 financial year. As LBBW is not contractually obliged to repay this or to make current payments, this bond meets the definition of an equity instrument. The subordinated bond meets the requirements for additional Tier 1 capital under the Capital Requirements Regulation (CRR) and is recognized under the new sub-item »Additional equity components«.

Cash flow statement

for the period 1 January to 31 December 2020

EUR million	Notes	01/01/ – 31/12/2020	01/01/ – 31/12/2019[1]
Net consolidated profit/loss		*172*	*443*
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)		512	194
Increase in/reversal of provisions		305	306
Other non-cash expenses/income		– 1,429	– 154
Gains/losses from the sale of equity investments, property and equipment and intangible assets		– 2	– 10
Other adjustments (net)		– 1,642	– 1,644
Subtotal		*– 2,084*	*– 865*
Changes in assets and liabilities from operating activities			
Financial assets measured at amortized cost		– 10,821	– 10,320
Loans and advances to banks		– 12,709	– 9,061
Loans and advances to customers		1,764	– 1,256
Debentures and other fixed-income securities		125	– 3
Financial assets measured at fair value through other comprehensive income		– 4,798	– 6,376
Debentures and other fixed-income securities		– 4,271	– 6,135
Loans and advances		– 531	– 239
Equity instruments		4	– 1
Financial assets designated at fair value		25	59
Financial assets mandatorily measured at fair value through profit or loss		– 1,752	2,351
Shares in investments accounted for using the equity method		8	7
Other assets from operating activities		– 261	– 544
Financial liabilities measured at amortized cost		20,226	10,910
Deposits from banks		12,177	3,074
Deposits from customers		4,990	7,835
Securitized liabilities		3,060	1
Financial liabilities designated at fair value		– 239	– 962
Financial liabilities mandatorily measured at fair value through profit or loss		– 2,436	– 3,269
Other liabilities from operating activities		– 2,324	202
Dividends received		28	36
Interest received		12,416	13,243
Interest paid		– 12,513	– 11,871
Income taxes paid		– 89	7
Cash flow from operating activities		*– 4,613*	*– 7,392*
Proceeds from the sale of			
Equity investments		375	43
Property and equipment		13	14
Intangible assets		1	2
Payments for the acquisition of			
Equity investments		– 15	– 11
Property and equipment		– 75	– 62
Intangible assets		– 44	– 43
Payments for the acquisition of consolidated companies		– 44	0
Cash flow from investing activities		*212*	*– 57*
Proceeds from issuing additional equity components		0	745
Payments for servicing additional equity components		– 13	0
Dividends paid		0	– 250
Other payments	36	– 129	0
Net change in cash and cash equivalents from other capital		– 316	567
Cash flow from financing activities		*– 459*	*1,061*

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

EUR million		01/01/ – 31/12/2020	01/01/ – 31/12/2019[1]
Cash and cash equivalents at the beginning of the period	*27*	*18,331*	*24,721*
Cash flow from operating activities		– 4,613	– 7,392
Cash flow from investing activities		212	– 57
Cash flow from financing activities		– 459	1,061
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		180	– 3
Cash and cash equivalents at the end of the period	*27*	*13,650*	*18,331*

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

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 – 41 million in the 2020 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 decreased by EUR – 383 million from the previous year. In addition to a cash decrease of EUR – 328 million, the change resulted from measurement effects of EUR 8 million and the effects from present value accounting of EUR – 1 million. In addition, changes in exchange rates of EUR – 63 million and other changes of EUR 2 million changed the amount of subordinated capital.

The acquisition of a fully consolidated subsidiary in the second half of 2020 resulted in a rise of EUR 44 million in land and land rights. Only a small amount of cash was available. Net cash outflow (purchase price less cash and cash equivalents received) was EUR – 44 million.

Notes and additional disclosures in accordance with Section 315e HGB

for the 2020 financial year

A. Material changes in the financial year

1. Basis of Group accounting

Landesbank Baden-Württemberg (LBBW (Bank)), as the parent company of the Group (LBBW), is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with four registered offices: in Germany in Stuttgart (Am Hauptbahnhof 2, 70173 Stuttgart), Karlsruhe (Ludwig-Erhard-Allee 4, 76131 Karlsruhe), Mannheim (Augustaanlage 33, 68165 Mannheim) and Mainz (Große Bleiche 54-56, 55116 Mainz). The commercial register numbers at the responsible district court are as follows: district court of Stuttgart HRA 12704, district court of Mannheim HRA 104440 (for Karlsruhe) and HRA 4356 (for Mannheim) and district court of Mainz HRA 40687.

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

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

The consolidated financial statements for the 2020 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 prepared by the LBBW Board of Managing Directors on 2 March 2021.

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 balance sheet 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 2020 financial year. They have no material effect on the LBBW consolidated financial statements:

- Amendments to References to the Conceptual Framework in IFRS
- Definition of a Business – Amendments to IFRS 3
- Definition of Material – Amendments to IAS 1 and IAS 8
- Covid-19-Related Rent Concessions –Amendments to IFRS 16
- Hedge Accounting – IFRS 9

LBBW has applied the provisions of IFRS 9 »Financial Instruments« for the hedge accounting of its micro fair value hedges and Group fair value hedges since 1 November 2020. The transition was carried out in accordance with the relevant transitional provisions of IFRS 9. The IFRS 9 regulations on hedge accounting (see Note 23) relevant to LBBW are to be applied prospectively. All of LBBW's hedges designated under IAS 39 are maintained because they also meet the requirements of IFRS 9. Hedge ratios were retained unchanged. The transition from IAS 39 to IFRS 9 thus had no impact on the consolidated financial statements and so previous year figures have not been restated.

LBBW's portfolio fair value hedges continue to comply with the provisions of IAS 39.

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
Extension of the Temporary Exemption from Applying IFRS 9 – Amendments to IFRS 4	2021 financial year	Yes	The amendment to IFRS 4 postpones the mandatory first-time adoption of IFRS 9 from 1 January 2021 to 1 January 2023.
Reference to the Conceptual Framework – Amendments to IFRS 3	2022 financial year	No	These amendments relate to a reference to the IFRS conceptual framework.
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	2022 financial year	No	Under this amendment, proceeds generated when the property and equipment is not yet ready for use are recognized directly in profit or loss.
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37	2022 financial year	No	This amendment specifies the costs to be included when assessing whether a contract is onerous.
Annual Improvements to IFRS 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41	2022 financial year	No	These amendments establish immaterial changes to individual standards.
Classification of Liabilities as Current or Non-Current – Amendments to IAS 1	2023 financial year	No	This amendment updates the Standard IAS 1 by clarifying in which cases an existing right to defer settlement of liabilities results in this being classified as »non-current« (more than 12 months).
IFRS 17 »Insurance Contracts« and Amendments to IFRS 17	2023 financial year	No	This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4.
Definition of Accounting Estimates – Amendments to IAS 8	2023 financial year	No	This amendment to IAS 8 describes in more detail the distinction between accounting methods and accounting estimates.
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2	2023 financial year	No	The amendments to IAS 1 and to the IFRS Practice Statement 2 provide more detail on the materiality of accounting methods and disclosing these.

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

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

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 deferred taxes. 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 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 following changes in estimates were applied prospectively in accordance with IAS 8.39 in the financial year:

- To determine the calculatory interest rate for measuring pension and other obligations to employees under IAS 19, LBBW's external appraiser uses an established method to determine interest rates. An alternative way of determining the calculatory interest rate was developed in the 2020 financial year that takes account of the high volatility on capital markets observed during the coronavirus crisis. Applying this alternative interest rate model results in a 10 basis points decrease in the calculatory interest rate as at the reporting date. In accordance with the available sensitivities, this causes pension obligations to rise by EUR 66.6 million and deferred income tax assets by EUR 20.3 million. This is offset by a EUR – 46.3 million decline in net actuarial profit/loss in equity after deferred taxes.
- In the past, the basis for calculating the inflation parameter to measure pension obligations was the European Central Bank inflation target. In the 2020 reporting year, a switch was made to a market-based calculation of the inflation parameter. The switch took place because LBBW will be hedging inflation risks using inflation derivatives. Applying the newly calculated parameters as at the reporting date resulted in a reduced inflation assumption of 40 basis points and consequently a reduction in the pension obligations of EUR – 120.7 million and a EUR – 36.8 million decline in deferred income tax assets. This had an effect of EUR 83.9 million after deferred taxes on net actuarial profit/loss in equity.

The impact of the changes in estimates on future reporting periods that were implemented in the year under review 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 adjustments were made retrospectively in accordance with IAS 8.42 in the financial year:

- Operating liquidity management contains a portfolio with various sub-portfolios, which was assigned to the IFRS 9 »Sell« business model. However, individual portfolios effectively serve primarily to manage liquidity. Treasury activities for money market and repo transactions were restructured in 2017. At this time, the portfolios would have been split depending on their intended purpose and it would have been necessary to allocate the portfolios in question to the IFRS 9 »Hold to collect and sell« business model. The retroactive correction of the business model allocation reduced trading assets by EUR – 922.1 million as at 1 January 2019. Debt instruments measured at fair value through other comprehensive income rose by the same amount. Within equity, profit carried forward (EUR 0.8 million) was offset by the valuation reserves (EUR – 0.8 million). Net trading gains/losses rose by EUR 3.0 million as at 31 December 2019, whereas net gains/losses on debt instruments measured at fair value through other comprehensive income decreased by EUR – 0.6 million. In 2019 as a whole, deferred tax expenses increased by EUR – 0.7 million and valuation reserves moved down by EUR – 1.7 million. Trading assets declined by EUR – 675.1 million to a total of EUR – 1,597.2 million in 2019, with debt instruments measured at fair value through other comprehensive income increasing by the same amount.

- LBBW (Bank)'s pension obligations were transferred to a pension fund in the 2020 financial year, as part of which the measurement assumptions were subjected to an in-depth analysis in relation to the capital payment options. The assessment of individual pension schemes was based on the assumption of a single capital payment at the start of retirement. According to valid service agreements for a defined group of beneficiaries, there is the alternative of having an annuity. Insufficient account was taken of this when determining the measurement parameters and thus the measurement. More corrections were needed for the pension obligations due to an excessive measurement of the claim to a surviving dependents pension in the past. Pension obligations were amended and remeasured retrospectively for the 2020 annual financial statements to take account of this. The retroactive correction increased pension obligations by EUR 82.3 million and deferred income tax expenses by EUR 25.1 million as at 1 January 2019. Net actuarial profit/loss in equity after deferred taxes declined similarly by EUR – 57.2 million. Staff costs increased by EUR – 4.6 million in 2019. Deferred tax expenses declined by EUR 1.4 million. Pension obligations picked up by a further EUR 37.5 million in 2019 to EUR 119.8 million. Deferred income tax assets saw an increase of EUR 11.4 million to EUR 36.5 million. Net actuarial profit/loss in equity after accounting for deferred taxes decreased by EUR – 22.8 million to EUR – 80.0 million.

The Notes were also revised in the 2020 financial year. Related topics were merged and reordered to make the information more transparent and easier to understand. To better highlight information relevant to decisions, information was not provided without additional information.

4. Events after the end of the reporting period

There were no events after the end of the reporting period.

B. Group of companies

5. Basis of consolidation/principles

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, 90 subsidiaries, including five structured entities (previous year: 97 subsidiaries including five structured entities), were included in the consolidated financial statements.

A total of 48 subsidiaries (previous year: 55 subsidiaries) were not included in the consolidated 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, as well as start-up financing.

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 2020:

- Ungererstraße München GmbH & Co. KG
- Revaler Straße Grundbesitz GmbH
- Mainz Marina A + B GmbH & Co. KG

The following subsidiaries are no longer included in the scope of consolidation due to accruals/mergers into other Group companies:

- Dritte LBBW US Real Estate GmbH
- LBBW Immobilien GmbH & Co. Beteiligung KG
- Nagatino Property S.à.r.l.
- Grunewaldstraße 61 - 62 GmbH
- FOM/LEG Verwaltungs GmbH
- SGB - Hotel - Verwaltung GmbH
- Rheinallee V Komplementär GmbH
- Rheinallee V GmbH & Co. KG

Bahnhofplatz-Gesellschaft Stuttgart Aktiengesellschaft and LBBW Immobilien Luxembourg S.A., subsidiaries included in the consolidated financial statements, were deconsolidated and dissolved during the reporting period.

Five joint ventures (previous year: six 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.

Sealink Funding DAC is in liquidation. LBBW no longer has any influence over the company and has no more claims or obligations to the company. It was therefore removed from the basis of consolidation in the financial year.

Joint venture OVG MK6 GmbH & Co. KG, included in the consolidated financial statements using the equity method, became a part of another joint venture included in the consolidated financial statements using the equity method in the financial year.

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%.

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 balance sheet, 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.

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.

6. 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. Nonmonetary 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 balance sheet items of consolidated companies whose reporting currency is not the euro are translated at the exchange rate on the balance sheet 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	31/12/2020	31/12/2019
USD	1.2293	1.1195
SGD	1.6262	1.5095
MXN	24.4569	21.1185
RUB	91.9578	69.3597
RON	4.8637	4.7833

7. Shares in investments accounted for using the equity method

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«.

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«.

EUR million	31/12/2020	31/12/2019
Associates	259	260
Joint ventures	3	5
Total	*261*	*265*

8. 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	31/12/2020	31/12/2019
Assets with restrictions on disposal		
Financial assets measured at amortized cost	66,536	64,139
Loans and advances to banks	25,860	23,230
Loans and advances to customers	40,500	40,714
Debentures and other fixed-income securities	176	195
Financial assets measured at fair value through profit or loss	8,782	6,798
Financial assets measured at fair value through other comprehensive income	5,867	4,463
Other assets	1,086	1,153
Total	*82,271*	*76,552*

The assets with significant restrictions comprised mainly the EUR 32 billion (previous year: EUR 34 billion) in cover assets in the covered bond business, financial assets of EUR 43 billion (previous year: EUR 34 billion) that have been transferred but not fully derecognized, especially in securities repurchase or lending transactions and development loan transactions (see Note 35) and collateral pledged for liabilities from OTC derivative transactions in the amount of EUR 5 billion (previous year: EUR 6 billion).

Shares in consolidated structured entities

A total of five (previous year: five) 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 2020, liquidity lines in the amount of EUR 2,402 million (previous year: EUR 3,276 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:

EUR million	GIZS GmbH & Co. KG, Frankfurt am Main[1,2]	
	31/12/2020	31/12/2019
Revenues	21	23
Scheduled amortization	– 4	– 4
Profit/loss from continuing operations	– 3	– 1
Net consolidated total comprehensive income	*– 3*	*– 1*
Current assets	13	14
Cash and cash equivalents	7	7
Other current assets	6	6
Non-current assets	8	12
Current liabilities	5	5
Other current liabilities	5	5
Non-current liabilities	0	1
Other non-current liabilities	0	1
Net assets of the joint venture	*16*	*19*
Share of capital (in %)	33	33
Share of net assets	5	6
Other adjustments	– 5	– 6
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:

EUR million	BWK GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart[1,2]		Hypo Vorarlberg Bank AG, Bregenz[1,2]	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Revenues	29	39	289	305
Profit/loss from continuing operations	12	11	29	57
Net consolidated profit/loss in equity	0	0	– 2	– 4
Net consolidated total comprehensive income	*12*	*11*	*27*	*54*
Current assets	79	94	4,718	3,406
Non-current assets	266	254	10,368	10,317
Current liabilities	3	3	4,718	5,913
Non-current liabilities	8	7	9,202	6,669
Contingent liabilities	0	0	460	435
Net assets of the associate	*334*	*338*	*1,166*	*1,140*
Share of capital (in %)	40	40	23	23
Share of net assets	134	135	270	264
Other adjustments	– 27	– 27	– 127	– 121
Carrying amount of the equity investment	*107*	*109*	*143*	*143*

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 0 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	**31/12/2020**	**31/12/2019**	**31/12/2020**	**31/12/2019**
Portion of the profit or loss from continuing operations	1	- 0	- 0	2
Share in net consolidated total comprehensive income	1	- 0	- 0	2
Total carrying amounts of the Group shares	*9*	*8*	*3*	*5*

Other unrecognized liabilities of EUR 2 million (previous year: EUR 1 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 nonconsolidated 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:

EUR million	Securitization vehicle 31/12/2020	Securitization vehicle 31/12/2019	Funds 31/12/2020	Funds 31/12/2019	Financing companies 31/12/2020	Financing companies 31/12/2019	Other 31/12/2020	Other 31/12/2019	Total 31/12/2020	Total 31/12/2019
Scope of the structured entities	2,724	5,800	448,185	429,865	7,190	7,853	1,109	1,184	459,208	444,703

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 balance sheet in which these assets and liabilities are recognized, depending on the type of structured entity:

EUR million	Securitization vehicle 31/12/2020	Securitization vehicle 31/12/2019	Funds 31/12/2020	Funds 31/12/2019	Financing companies 31/12/2020	Financing companies 31/12/2019	Other 31/12/2020	Other 31/12/2019	Total 31/12/2020	Total 31/12/2019
Financial assets measured at amortized cost	405	333	4,777	4,261	299	1,366	0	0	5,481	5,960
Loans and advances to customers	405	333	4,777	4,261	299	1,366	0	0	5,481	5,960
Financial assets mandatorily measured at fair value through profit or loss	3	3	523	689	21	16	1,109	1,233	1,656	1,942
Trading assets	3	3	523	686	21	16	1,109	1,233	1,656	1,939
Positive fair values from hedging derivatives	0	0	0	3	0	0	0	0	0	3
Financial assets measured at fair value through other comprehensive income	110	94	0	0	0	0	0	0	110	94
Total assets	*517*	*430*	*5,300*	*4,951*	*320*	*1,382*	*1,109*	*1,233*	*7,246*	*7,996*
Financial liabilities measured at amortized cost	60	30	6,091	5,207	3	187	0	0	6,154	5,424
Deposits from banks	0	0	20	1	0	0	0	0	20	1
Deposits from customers	60	30	6,072	5,205	3	187	0	0	6,135	5,422
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	249	87	0	0	0	0	249	88
Trading liabilities	0	0	249	87	0	0	0	0	249	87
Other liabilities	0	0	1	0	0	0	0	0	1	0
Total equity and liabilities	*60*	*30*	*6,341*	*5,294*	*3*	*187*	*0*	*0*	*6,404*	*5,511*
Off-balance-sheet transactions	*0*	*0*	*265*	*173*	*156*	*208*	*0*	*0*	*421*	*381*

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 balance sheet figures (after allowances for losses on loans and securities if necessary). Of the derivatives with a carrying amount of EUR 95 million (previous year: EUR 98 million) and EUR 249 million (previous year: EUR 90 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 5,146 million (previous year: EUR 4,167 million) while that for derivatives with a negative replacement value was EUR 6,223 million (previous year: EUR 7,039 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 nonconsolidated 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 6 million (previous year: EUR 6 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, nonconsolidated structured entities in 2020 (previous year: EUR 0 million).

C. Segment reporting

LBBW's segment reporting for the 2020 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 financing and structured project finance in the commercial real estate business. Property, portfolio and corporate financing structures are offered to real estate clients as an arranger or syndicate bank with a supplementary range of liability, interest rate and currency management products. Project Finance offers financing solutions for major projects 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 include expenses assigned on the basis of intragroup cost allocation.

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

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

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

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

Segment results

01/01/ – 31/12/2020 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	802	310	406	279	– 26	1,771
Net fee and commission income	171	17	137	248	– 35	538
Net gains/losses on remeasurement and disposal[1]	– 356	– 64	153	22	– 116	– 362
of which allowances for losses on loans and securities[2]	– 411	– 68	0	20	– 84	– 544
Other operating income/expenses	26	125	12	– 14	50	198
Total operating income/expenses	*642*	*388*	*708*	*534*	*– 127*	*2,146*
Administrative expenses	– 596	– 166	– 449	– 508	– 24	– 1,743
Expenses for bank levy and deposit guarantee system	– 32	– 17	– 56	0	– 13	– 118
Net income/expenses from restructuring	– 7	0	– 1	0	– 25	– 32
Consolidated profit/loss before tax	*7*	*205*	*202*	*27*	*– 188*	*252*
Income taxes						– 80
Net consolidated profit/loss						*172*
Assets[3] (in EUR billion)	59.1	31.0	144.5	38.1	3.8	276.4
Risk-weighted assets[4] (EUR billion)	38.4	13.8	16.2	8.3	5.7	82.3
Tied-up equity[4] (EUR billion)	5.0	1.7	2.3	1.1	3.5	13.6
Return on equity (RoE) (in %)	0.1	10.7	8.4	2.5		1.9
Cost/income ratio (CIR) (in %)	60.3	40.1	71.5	98.6		70.4

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 5 million in the Corporate Customers segment.
2 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »Financial assets measured at fair value through other comprehensive income« are attributable to a net addition of EUR – 1 million.
3 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 256 million for Corporate Customers and EUR 5 million for Real Estate/Project Finance.
4 In accordance with CRR/CRD IV.
Differences are due to rounding effects.

01/01/ – 31/12/2019 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	806	376	207	306	– 19	1,676
Net fee and commission income	177	20	130	244	– 13	558
Net gains/losses on remeasurement and disposal[2]	– 57	26	283	0	– 79	172
of which allowances for losses on loans and securities[3]	– 128	21	1	– 4	– 42	– 151
Other operating income/expenses	13	98	8	9	20	148
Total operating income/expenses	*939*	*520*	*628*	*558*	*– 92*	*2,553*
Administrative expenses	– 608	– 156	– 462	– 528	– 56	– 1,810
Expenses for bank levy and deposit guarantee system	– 29	– 13	– 44	– 2	– 14	– 102
Net income/expenses from restructuring	0	0	0	– 2	– 29	– 31
Consolidated profit/loss before tax	*301*	*351*	*121*	*27*	*– 191*	*610*
Income taxes						– 167
Net consolidated profit/loss						*443*
Assets[4] (in EUR billion)	62.5	28.6	126.0	35.0	4.5	256.7
Risk-weighted assets[5] (EUR billion)	36.0	12.7	16.0	8.5	7.4	80.5
Tied-up equity[5] (EUR billion)	4.8	1.7	2.1	1.1	3.5	13.1
Return on equity (RoE) (in %)	6.3	20.9	4.8	2.5		4.6
Cost/income ratio (CIR) (in %)	59.8	33.8	80.9	94.6		71.9

1 Restatement of prior year amounts (see Note 3).
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 6 million in the Corporate Customers segment.
3 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »Financial assets measured at fair value through other comprehensive income« are attributable to a net addition of EUR 0 million.
4 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 257 million for Corporate Customers and EUR 8 million for Real Estate/Project Finance.
5 In accordance with CRR/CRD IV.
Differences are due to rounding effects.

Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items[1]		Reconciliation/Consolidation[1]		Corporate Items/Reconciliation/ Consolidation[1]	
	01/01 – 31/12/2020	01/01 – 31/12/2019	01/01 – 31/12/2020	01/01 – 31/12/2019	01/01 – 31/12/2020	01/01 – 31/12/2019
Net interest income	– 12	– 2	– 14	– 18	– 26	– 19
Net fee and commission income	– 4	– 12	– 30	– 1	– 35	– 13
Net gains/losses on remeasurement and disposal	– 117	– 80	1	0	– 116	– 79
of which allowances for losses on loans and securities[2]	– 84	– 42	0	0	– 84	– 42
Other operating income/expenses	50	20	0	0	50	20
Total operating income/expenses	*– 83*	*– 73*	*– 43*	*– 19*	*– 127*	*– 92*
Administrative expenses	– 24	– 56	0	0	– 24	– 56
Expenses for bank levy and deposit guarantee system	– 13	– 14	0	0	– 13	– 14
Net income/expenses from restructuring	– 25	– 29	0	0	– 25	– 29
Consolidated profit/loss before tax	*– 145*	*– 172*	*– 43*	*– 19*	*– 188*	*– 191*
Assets (EUR billion)	3.9	5.4	– 0.1	– 0.8	3.8	4.5
Risk-weighted assets[3] (EUR billion)	6.1	7.7	– 0.4	– 0.3	5.7	7.4
Tied-up equity[3] (EUR billion)	3.6	3.5	0.0	0.0	3.5	3.5

1 Restatement of prior year amounts (see Note 3).
2 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »Financial assets measured at fair value through other comprehensive income« are attributable to a net addition of EUR – 1 million in the current year (previous year: net addition of EUR 0 million).
3 In accordance with CRR/CRD IV.
Differences are due to rounding effects.

Reconciliation of segment results to the consolidated income statement

In the 2020 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax came to EUR – 43 million (previous year: EUR – 19 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.
- Since April 2020, the IFRS income statement has been taken from banking book transactions for internal management reporting. This resulted in a transition effect, in particular in net fee and commission income.
- 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 – 31/12/2020 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ Consolidation	LBBW Group
Total operating income/expenses	1,846	136	134	61	– 31	2,146
Consolidated profit/loss before tax	28	99	91	38	– 3	252

01/01 – 31/12/2019 EUR million	Germany[1]	Europe (excl. Germany)	America	Asia	Reconciliation/ Consolidation	LBBW Group[1]
Total operating income/expenses	2,270	105	134	45	– 1	2,553
Consolidated profit/loss before tax	416	75	94	24	1	610

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

D. Notes to the income statement

9. Net interest income

In net interest income, the payments to typical silent partners are reported under »Interest expenses« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

EUR million	01/01/ – 31/12/2020	01/01/ – 31/12/2019
Interest income and current income from equity instruments	*12,551*	*14,051*
Interest income	12,523	14,016
Trading derivatives	7,465	9,265
Lending and money market transactions	2,222	2,899
Hedging derivatives	1,796	822
Fixed-income securities and debentures	178	206
Early termination fees[1]	67	152
Leasing business	231	246
Other	563	427
Current income from equity instruments	28	36
Equities and other non-fixed-income securities	18	9
Equity investments and affiliates	9	25
Profit transfer agreements	1	2
of which negative interest income	– 247	– 243
Interest expenses and current expenses from equity instruments	*– 10,780*	*– 12,376*
Interest expenses	– 10,773	– 12,373
Trading derivatives	– 7,124	– 8,900
Hedging derivatives	– 1,794	– 728
Deposits	– 540	– 1,186
Securitized liabilities	– 367	– 716
Leasing business	– 34	– 29
Lease liabilities	– 2	– 3
Subordinated capital	– 247	– 255
Other	– 665	– 558
Current expenses from equity instruments	– 7	– 3
Transfer of losses	– 7	– 3
of which positive interest expenses	288	225
Total	*1,771*	*1,676*

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

Net interest income for 2020 financial year included EUR 61 million (previous year: EUR 16 million) in connection with government grants under targeted longer-term refinancing operations II (TLTRO II and TLTRO III).

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

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Financial assets measured at amortized cost		
Interest income	2,277	3,013
of which negative interest income	– 239	– 240
Financial assets measured at fair value through other comprehensive income		
Interest income	232	295
of which negative interest income	– 7	– 3
Financial liabilities measured at amortized cost		
Interest expenses	– 957	– 1,980
of which positive interest expenses	288	225

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

10. Net fee and commission income

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019
Fee and commission income	*668*	*688*
Securities and custody business	285	271
Payments business	118	132
Brokerage business	46	56
Loans and guarantees[1]	127	130
Lending business fee and commission income	67	71
Fee and commission income from fiduciary transactions	0	1
Fee and commission income from financial guarantees	19	9
Fee and commission income from guarantee business	41	49
Fee and commission income from factoring business	15	17
Fee and commission income from asset management	65	63
Other	11	18
Fee and commission expenses	*– 130*	*– 130*
Securities and custody business	– 81	– 76
Payments business	– 24	– 25
Loans and guarantees[1]	– 8	– 10
Lending business fee and commission expense	– 5	– 7
Fee and commission expense from guarantee business	– 3	– 3
Brokerage business	– 4	– 8
Leasing business	– 3	– 3
Other	– 10	– 9
Total	*538*	*558*

1 Includes lending, trustee, guarantee and credit business.

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

Net fee and commission income resulted mainly from financial assets and financial liabilities not measured at fair value through profit or loss.

11. Net gains/losses on remeasurement and disposal

EUR million	01/01–31/12/2020	01/01 – 31/12/2019[1]
Net income/expenses from investments accounted for using the equity method	5	6
Net gains/losses from financial assets measured at amortized cost	– 545	– 142
Net gains/losses from financial instruments measured at fair value through other comprehensive income	8	22
Net gains/losses from financial instruments measured at fair value through profit or loss	170	285
Total	*– 362*	*172*

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

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

EUR million	01/01/ – 31/12/2020	01/01/ – 31/12/2019
Net gains/losses on measurement	*5*	*6*
Net gains/losses from investments in associates	5	6
Current income	13	23
Impairment	– 8	– 16
Total	*5*	*6*

Net gains/losses from financial assets measured at amortized cost

EUR million	01/01/ – 31/12/2020	01/01/ – 31/12/2019
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 544*	*– 151*
Reversal of/disposals from allowances for losses on loans and securities	268	243
Net gains/losses from provisions for lending business	– 133	– 24
Recoveries on loans and securities previously written off	14	20
Direct loan write-offs	– 170	– 11
Gains/losses from financial assets that were already impaired when purchased or originated	1	– 5
Additions to allowances for losses on loans and securities	– 522	– 370
Other expenses for the lending business	– 3	– 3
Realized gains/losses	*– 1*	*9*
Lending business net gains/losses on disposal	– 0	9
Securities net gains/losses on disposal	– 1	– 0
Total	*– 545*	*– 142*

The entire global economy was heavily affected by the coronavirus pandemic in 2020. This means that statistical allowances for losses on loans and securities models which were estimated based on multi-year data, do not provide unlimited reliability in the current situation. This constitutes a special case. 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. Model adjustments of EUR – 276 million were made in profit or loss for the 2020 financial year as part of this. Allowances for losses on loans and securities were also negatively affected by a company insolvency.

Gains or losses recognized in profit or loss due to derecognizing financial assets measured at amortized cost resulted from the following:

31/12/2020 **EUR million**	**Derecognition gain**	**Derecognition loss**
Derecognition due to sale	0	0
Derecognition due to termination	0	– 1

31/12/2019 **EUR million**	**Derecognition gain**	**Derecognition loss**
Derecognition due to sale	10	– 0
Derecognition due to termination	0	– 1

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

EUR million	**01/01/ – 31/12/2020**	**01/01/ – 31/12/2019**[1]
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 1*	*– 0*
Reversal of/disposals from allowances for losses on loans and securities	2	1
Additions to allowances for losses on loans and securities	– 2	– 1
Realized gains/losses	*9*	*23*
Net gains/losses on disposal	9	23
Total	*8*	*22*

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

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

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Net gains/losses from hedging transactions	*21*	*– 33*
Portfolio fair value hedge	16	– 31
of which hedged items	344	414
of which hedging instruments	– 328	– 444
Micro fair value hedge	5	– 3
of which hedged items	13	86
of which hedging instruments	– 8	– 88
Group fair value hedge	– 0	0
of which hedged items	– 9	0
of which hedging instruments	9	0
Net trading gains/losses	*168*	*263*
Lending business	– 19	– 14
Equity transactions	– 169	739
Foreign exchange transactions	73	28
Economic hedging derivatives	51	135
Interest rate transactions	219	– 632
Gains/losses from foreign exchange/commodity products	14	8
Net income/loss from financial instruments designated at fair value	*– 61*	*– 70*
Realized gains/losses	– 0	– 3
Unrealized gains/losses	– 61	– 67
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	*42*	*125*
Net gains/losses from credits and loans	56	97
Net gains/losses from equity investments	3	25
Net gains/losses from investments in affiliates	– 0	– 1
Net gains/losses from shares and other equity instruments	– 16	4
Total	*170*	*285*

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

Currency translation differences recognized in currency gains/losses from financial instruments not measured at fair value through profit or loss amounted to EUR 1,087 million (previous year: EUR 30 million).

12. Net gains/losses from financial instruments

EUR million	01/01/ – 31/12/2020	01/01/ – 31/12/2019[1]
Financial assets/liabilities mandatorily measured at fair value through profit or loss	– 125	– 144
Net gains/losses recognized through profit or loss	– 125	– 144
Net gains/losses recognized in other comprehensive income	0	0
Financial assets designated at fair value	– 13	23
Financial liabilities designated at fair value	– 14	– 105
Net gains/losses recognized through profit or loss	– 48	– 92
Net gains/losses recognized in other comprehensive income	34	– 12
Financial assets measured at amortized cost	– 30	305
Financial liabilities measured at amortized cost	– 59	– 442
Equity instruments measured at fair value through other comprehensive income	– 225	– 26
Financial debt instruments measured at fair value through other comprehensive income	169	683
Net gains/losses recognized in other comprehensive income	161	661
Net gains/losses transferred from other comprehensive income to the income statement after derecognition	8	22

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

13. Other operating income/expenses

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019
Other operating income	*586*	*531*
Disposal of inventories	252	134
Reversal of other provisions	80	111
Revenue from property services	15	16
Income from cost refunds by third parties	30	31
Management of other property portfolios	0	3
Operating leases	23	22
Fixed assets and intangible assets	1	1
Lease income from investment property	44	53
Net income from the fair value measurement of investment property	31	43
Foreign currency translation on investment property	2	0
Miscellaneous operating income	108	117
Other operating expenses	*– 387*	*– 383*
Disposal of inventories	– 213	– 106
Addition to other provisions	– 62	– 149
Management of other property portfolios	– 1	– 1
Operating leases	– 5	– 4
Operating expenses for leased properties	– 19	– 14
Net losses from the fair value measurement of investment property	– 4	– 8
Foreign currency translation on investment property	0	– 2
Miscellaneous operating expenses	– 84	– 100
Total	*198*	*148*

Increase in/reversal of other provisions resulted in net income of EUR 18 million (previous year: EUR – 37 million), chiefly a result of a reversal of provisions for legal risks.

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

14. Administrative expenses

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Staff costs	*– 1,010*	*– 1,038*
Wages and salaries	– 725	– 718
Expenses for pensions and benefits	– 114	– 127
Social security contributions	– 119	– 116
Other staff costs	– 52	– 78
Other administrative expenses	*– 600*	*– 632*
IT costs	– 321	– 312
Legal and consulting expenses	– 63	– 67
Expenses from leases	– 2	– 2
Buildings expenses	– 59	– 60
Association and other contributions	– 41	– 40
Advertising, public relations and representation costs	– 20	– 31
Audit costs	– 8	– 13
Miscellaneous administrative expenses	– 86	– 107
Depreciation, amortization and write-downs[2]	*– 133*	*– 141*
Amortization and write-downs of intangible assets	– 62	– 67
Depreciation and write-downs of property and equipment	– 30	– 33
Depreciation and write-downs on right-of-use assets	– 42	– 41
Total	*– 1,743*	*– 1,810*

1 Restatement of prior year amounts (see Note 3).
2 This includes scheduled and unscheduled write-downs. The partial amount of the unscheduled write-downs can be found in Notes 46 and 48.

For further explanations on leasing business, please see Note 49.

Expenses for pensions and other benefits included:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Expenses for defined benefit obligations	*– 104*	*– 117*
Net interest income from defined benefit plans	– 36	– 57
Service cost	– 68	– 61
Other expenses for pensions and benefits	*– 7*	*– 7*
Expenses for defined contribution obligations	*– 3*	*– 3*
Total	*– 114*	*– 127*

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

In addition to the expenses for pensions, LBBW paid EUR – 60 million (previous year: EUR – 59 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 – 8 million (previous year: EUR – 13 million). The (net) fees for audit costs in accordance with IDW RS HFA 36 broke down as follows:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019
Audit services	– 6	– 10
Other audit-related services	– 1	– 1
Tax advisory services	– 0	0
Other services	– 0	– 0
Total	*– 7*	*– 11*

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 and key points of the audit agreed with the Supervisory Board. 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 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.

Tax advisory services were utilized primarily in relation to assessments on the land transfer tax impact in respect to company structures and ongoing tax advice at a LBBW subsidiary.

Other services include, inter alia, quality assurance activities and training courses.

15. Expenses for bank levy and deposit guarantee system

EUR million	01/01/ – 30/12/2020	01/01/ – 31/12/2019
Expenses for bank levy	– 88	– 69
Expenses for deposit guarantee system	– 31	– 33
Total	*– 118*	*– 102*

16. Net income/expenses from restructuring

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019
Reversal of provisions for restructuring measures	50	0
Additions to restructuring provisions	– 83	– 31
Total	*– 32*	*– 31*

Various restructuring activities were defined as part of the review of LBBW's strategic direction, a result chiefly of the coronavirus pandemic. These affect LBBW's processes and products. The introduction of new structural measures meant that previous instruments no longer applied and so existing provisions were reversed. In the reporting period, this resulted in net expenses from restructuring of EUR – 32 million (previous year: EUR – 31 million).

17. Income taxes

Income and expenses from income taxes:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Current income taxes from the reporting period	– 66	– 91
Current income taxes from previous years	– 22	58
Current income taxes	*– 88*	*– 33*
of which decrease in current income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	0	9
Deferred income taxes	*8*	*– 134*
of which deferred income tax expense/income from change in temporary differences	18	– 156
of which deferred income tax expense/income from change in deferred tax assets from loss carryforwards	– 10	22
of which deferred tax expense/income from change in tax rates	2	4
of which deferred tax expense from write-downs or the reversal of earlier write-downs	– 4	59
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	8	30
Total	*– 80*	*– 167*

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

The following reconciliation shows the relationship between reported and expected income taxes:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Consolidated profit/loss before tax	*252*	*610*
Applicable tax rate	30.53%	30.53%
Expected income taxes	*– 77*	*– 186*
Tax effects		
from non-deductible operating expenses	– 39	– 22
from tax-free income	10	16
from change to value adjustments	– 1	17
from taxes from the previous year recorded in the financial year	15	– 10
from permanent tax effects	7	10
from changes in tax rates	2	– 4
from differing tax rates affecting on deferred taxes as shown in profit or loss	26	26
from other differences	– 22	– 14
Total	*– 80*	*– 167*

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

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. Tax-free income includes in particular effects from tax-free dividend income.

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 – 31/12/2020	01/01 – 31/12/2019
Loss and interest carryforwards	*4,114*	*4,234*
of which loss and interest carryforwards for which deferred tax assets were created	651	768
of which loss and interest carryforwards for which no deferred tax assets were recognized	3,463	3,466
of which expire in 2021 and thereafter	9	11
of which non-forfeitable	3,454	3,455
Unrecognized temporary differences at the balance sheet date	1	0

Deferred tax assets of EUR 1 million (previous year: EUR 1 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 balance sheet 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 balance sheet and the national tax base.

Deferred tax assets and liabilities were recognized in connection with the following items in the 2020 financial year:

	Deferred tax assets		Deferred tax liabilities	
EUR million	**2020**	**2019** [1]	**2020**	**2019**
Assets				
Financial assets measured at amortized cost	159	143	– 810	– 797
Financial assets measured at fair value through other comprehensive income	9	19	– 42	– 113
Financial assets designated at fair value	0	15	– 27	– 36
Financial assets mandatorily measured at fair value through profit or loss	8,905	6,027	– 506	– 415
Portfolio hedge adjustment attributable to assets	0	0	– 310	– 254
Non-current assets and disposal groups held for sale	0	0	– 1	– 8
Intangible assets	1	1	– 29	– 29
Property and equipment/investment property	34	33	– 203	– 193
Other assets	105	111	– 11	– 59
Equity and liabilities				
Financial liabilities measured at amortized cost	425	662	– 389	– 248
Financial liabilities designated at fair value	197	202	0	0
Financial liabilities mandatorily measured at fair value through profit or loss	1	2	– 7,613	– 5,077
Portfolio hedge adjustment attributable to liabilities	212	150	0	0
Provisions	851	805	– 1	– 4
Other liabilities	89	80	– 51	– 30
Loss and interest carryforwards	92	110	0	0
Outside basis differences	0	0	– 3	– 3
Net amount	– 9,973	– 7,233	9,973	7,233
Total	*1,107*	*1,127*	*– 23*	*– 33*
Change in the balance from deferred taxes	*9*	*– 46*		
of which changes recognized in profit or loss	9	– 134		
of which from valuation reserves (from FVOCI financial instruments)	– 36	– 59		
of which measurement gains/losses of financial liabilities	– 15	6		
of which retained earnings (provisions – actuarial gains/losses)	51	135		
of which other changes recognized directly in equity (first-time adoption IFRS 9)	0	6		

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

No deferred tax liabilities were recognized for taxable temporary differences of EUR 8 million (previous year: EUR 5 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

18. 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 balance sheet 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 balance sheet 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 balance sheet. 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.

19. Initial and subsequent 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 an internal process which monitors 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 balance sheet.

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 are 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)'s right of recourse to certain assets of the special investment vehicle or payments from these assets. At LBBW (Bank), 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)[1]	Measured at fair value through other comprehensive income
Sell	Yes/no	n/a	Measured at fair value through profit or loss

1 not relevant at LBBW to date.

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.

20. 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 in the next twelve months (stage 1). In the event of a significant increase in the default risk of a financial asset since its initial recognition to the balance sheet, all expected credit losses over the remaining term of the financial instrument are recognized (stage 2). Each asset is generally measured individually; groupings are established when taking into account special cases as required.

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 as a result of the pandemic.

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. As at the reporting date, the coronavirus pandemic and structural change in the automotive sector were deemed to constitute special cases. 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 always 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 with an initial timescale for estimating probability of default of twelve months is considered. As shown by analysis in the context of the development of the transfer criterion, this is suitable for 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 balance sheet. For transactions subject to measurement at fair value through other comprehensive income, the amount reported in the balance sheet is the fair value. Credit losses for off-balance-sheet transactions are shown in the item provisions for credit risks.

21. 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 no prices quoted in active markets are 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 IPV and Market Data organizational unit within the Risk Controlling division. The models, the data used in them and the resulting fair values are regularly reviewed by the Market Risk Controlling Methodology organizational unit.

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

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

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

Financial instruments and product classes:

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

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

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

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

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

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

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

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

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

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

If the fair value of 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.

22. Recognition

Net amount

Financial assets and financial liabilities are recognized in the balance sheet on a net basis if, at the balance sheet 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 balance sheet, 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

Measurement category	Balance sheet item
Financial assets measured at amortized cost	Cash and cash equivalents Financial assets measured at amortized cost Other 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	Portfolio hedge adjustment attributable to assets Portfolio hedge adjustment attributable to liabilities

Measurement categories and recognition of gains/losses

Measurement category	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 (assets: derivatives, equity instruments, debentures and other fixed-income securities, receivables; equity and liabilities: derivatives, delivery obligations from short sales of securities, deposits, securitized liabilities, other financial liabilities). 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.

23. 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.

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. Critical term matches are used for group fair value hedges. 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 dedesignated 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.

Micro fair value hedges were recognized in accordance with IAS 39 until 31 October 2020. The explanations above mostly also apply to the recognition of micro fair value hedges before the transition to IFRS 9. However, prior to this effectiveness was measured as described for portfolio fair value hedges. Group fair value hedges were designated for the first time after the transition to IFRS 9.

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 25).

24. Financial guarantee contracts

If the LBBW Group is the assignee, financial guarantee contracts are accounted for as an “integral contract component” of the secured financial asset when determining its allowances for losses on loans and securities under IFRS 9, provided there is an economic hedging effect. Related commission payments are recognized as a commission expense on an accrual basis in accordance with IFRS 15.

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«.

25. 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.

The focus in the 2020 financial year was chiefly on clearing houses’ activities: In July the clearing houses transitioned interest on cash collateral of collateralized derivatives secured in euro and the measurement of these derivatives on the basis of EONIA to €STR. Transitioning the discount curves resulted in a change to the fair values of these derivatives. In order to achieve this transition to €STR on a neutral basis, settlement payments between the parties were also made. This was repeated in October when the clearing houses transitioned interest on cash collateral of collateralized interest derivatives in USD and the measurement of these derivatives from EFFR to SOFR. In the same way, the first bilateral agreements were transitioned over the last few months of the financial year. The effects from the changes to fair values and the settlement payments were recognized on an accrual basis.

Project activities also focused on preparations for the transition to alternative reference interest rates for variable rate financial instruments. While the current IBOR fixings mean that the next interest payment can be determined at the start of the period, the reference interest rate based on the new RFRs is not calculated until the end of the interest period.

From an accounting perspective, the two major questions as at 31 December 2020 remain how the contractual modifications required by the IBOR reform are to be accounted for and whether existing hedge relationships are to be terminated prematurely on account of the IBOR reform.

LBBW considers all cases in which the IBOR reform results in a contractual amendment to the interest rate terms of a financial instrument to be a modification. In particular, these include a change to the reference interest rate and the inclusion of fallback clauses. Where conditions otherwise remain unchanged, both of these contractual amendments represent insubstantial modifications.

At LBBW, fixed-income financial assets and liabilities in different currencies are hedged against interest rate risks. The main method used is interest rate swaps. The IBOR reform will likely have several effects on these hedge relationships until the end of 2021. For example, the interest conditions for the variable aspect of many of the interest rate swaps will change by the end of 2021. It is still unclear when exactly this will occur and by how much they will change. This may result in the premature termination of hedge relationships. For this reason, the IASB has introduced the IFRS »Interest Rate Benchmark Reform«, new requirements which enable LBBW to maintain its hedge relationships for the period of this uncertainty even if there is insufficient effectiveness due to effects of the IBOR reform. These exemptions also include various operating practical expedients for assessing effectiveness and designating hedge relationships. The exemptions may be used only until there is no more uncertainty resulting from the IBOR reform with regard to the hedge relationship. However, the period of uncertainty must be interpreted broadly and ends only when the final successors for the discontinued reference interest rates have been determined and incorporated into the contracts of financial products.

LBBW's hedging instruments are based on EURIBOR, USD LIBOR, CHF LIBOR and GBP LIBOR. LBBW believes that the conditions for applying the practical expedients granted for the reference interest rates of the EURIBOR family are no longer met as at 31 December 2020, as the European Money Market Institute – the administrator responsible for these reference interest rates – announced the successful completion of its reform efforts on 28 November 2019.

The nominal volume of the hedging instruments still covered by the exemptions described above amounted to EUR 20,051 million as at 31 December 2020 (previous year: EUR 16,803 million). The hedged risk components were still separately identifiable as at 31 December 2020.

26. Government grants

LBBW recognizes the ECB's targeted longer-term refinancing operations (TLTRO) that, including if certain conditions are met, have an interest bonus, 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 bonuses 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 company 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 LBBW's (expanded) lending, which are incurred on a pro rata basis during the term of the tender. LBBW uses the net presentation method, whereby grants reduce the reported interest expense.

Financial liabilities

Participating in the third series of targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 20.0 billion in the reporting period. At the same time, a nominal volume of EUR 4.0 billion of the TLTRO II was repaid. Accounts payable from TLTRO as at the end of the reporting period still came to EUR 19.95 billion (previous year: EUR 3.95 billion). No interest bonuses from TLTRO III, which depend on an increase in net lending, were collected in the 2020 financial year. LBBW, like all market participants, believes that the main risk with regard to achieving current net lending conditions is the risk of increasingly muted demand among its customers in 2021 in light of economic uncertainty caused by the pandemic.

Financial assets

27. Cash and cash equivalents

EUR million	31/12/2020	31/12/2019
Balances with central banks	13,437	18,180
Cash	213	151
Total, gross	*13,650*	*18,331*
Allowances for losses on loans and securities	– 0	– 0
Total, net	*13,650*	*18,331*

Balances with central banks included balances with Deutsche Bundesbank of EUR 7,141 million (previous year: EUR 16,166 million).

28. Financial assets measured at amortized cost

Loans and advances to banks

EUR million	31/12/2020	31/12/2019
Public-sector loans	47,685	31,655
Current account claims	1,279	1,703
Securities repurchase transactions	10,191	11,392
Other loans	1,658	2,687
Borrower's note loans	70	70
Overnight and term money	6,418	6,881
Mortgage loans	699	597
Other receivables	484	834
Total, gross	*68,485*	*55,819*
Allowances for losses on loans and securities	– 20	– 19
Total, net	*68,465*	*55,801*

Of loans and advances to banks (gross), EUR 26 billion (previous year: EUR 22 billion) had a term of over twelve months as at the reporting date.

The item also includes transmitted loans of EUR 24.6 billion (previous year: EUR 21.9 billion).

Loans and advances to customers

EUR million	31/12/2020	31/12/2019
Other loans	21,863	28,446
Mortgage loans	39,299	31,782
Public-sector loans	15,328	11,492
Receivables from finance leases	5,433	5,828
Transmitted loans	2,972	3,760
Securities repurchase transactions	5,371	8,423
Current account claims	2,245	2,861
Overnight and term money	5,510	6,357
Borrower's note loans	7,311	7,312
Other receivables	3,860	4,935
Total, gross	*109,193*	*111,197*
Allowances for losses on loans and securities	– 1,077	– 877
Total, net	*108,116*	*110,320*

Loans and advances to customers (gross) amounting to EUR 74,851 million (previous year: EUR 73,525 million) had a term of over twelve months as at the reporting date.

As well as the transmitted loans shown in the table, transmitted loans are also included in other sub-items. In total, the item includes EUR 7.6 billion (previous year: EUR 6.9 billion) in transmitted loans.

Debentures and other fixed-income securities

EUR million	31/12/2020	31/12/2019
Money market instruments	– 0	160
Government bonds and government debentures	344	394
Other bonds and debentures	584	536
Total, gross	*929*	*1,090*
Allowances for losses on loans and securities	– 8	– 8
Total, net	*921*	*1,082*

Debentures and other fixed-income securities amounting to EUR 918 million (previous year: EUR 857 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

Changes in allowances for losses on loans and securities deducted from assets:

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

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2019	*59*	*287*	*499*	*21*	*865*
Changes	- 13	11	29	- 18	9
Transfer to stage 1	20	- 19	- 1	0	- 0
Transfer to stage 2	- 7	15	- 8	0	0
Transfer to stage 3	- 4	- 9	12	0	0
Additions	11	75	202	2	290
Reversals	- 33	- 52	- 89	- 1	- 175
Utilization	0	0	- 86	- 19	- 106
Additions	24	7	50	0	81
Disposals	- 10	- 11	- 45	- 2	- 68
Other changes	0	0	16	1	17
Balance as at 31 December 2019	*59*	*294*	*549*	*1*	*904*

It is a great challenge to calculate the allowances for losses on loans and securities in the corona crisis, which triggered a sharp downturn and has been different from any former crisis in structural terms. Statistical allowances for losses on loans and securities models which were estimated based on multi-year data, do not provide unlimited reliability in the current situation. For this reason, LBBW has determined allowances for losses on loans and securities to the end of 2020 using a multi-scenario approach on the basis of quantitative models in combination with an expert-based overlay. In addition, the IFRS 9 stage transfer was cyclically adjusted so that a significant rise in the credit risk from transactions can be identified as early as possible and so that a transfer to stage 2 can be arranged promptly. To do so, vulnerable portfolios in particular were moved to stage 2 on a pro rata basis as part of a collective stage transfer. The percentage transferred was partially determined by the region and cyclical nature of the sectors. Allowances for losses on loans and securities to quantify the effects of structural change towards e-mobility were reduced marginally towards the end of 2019. This decline was essentially a result of a reduction in the portfolio volume. In addition, account was taken of increased risks for a successful workout at portfolio level for exposures for specific loan loss provisions. Overall, the model adjustments had a EUR 276 million negative effect on allowances for losses on loans and securities.

Development of gross carrying amounts:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2020	*153,122*	*13,888*	*1,064*	*31*	*168,106*
Changes	– 34,865	23,231	86	– 5	– 11,554
Transfer to stage 1	1,995	– 1,963	– 33	0	0
Transfer to stage 2	– 26,975	26,993	– 19	0	– 0
Transfer to stage 3	– 181	– 161	342	0	0
Repayments	– 9,705	– 1,638	– 205	– 5	– 11,553
Additions	105,048	392	94	0	105,534
Disposals	– 86,389	– 4,682	– 655	– 15	– 91,740
Write-downs through profit or loss (direct write-down)	0	0	– 170	– 0	– 170
Write-downs through other comprehensive income (use of allowances for losses on loans and securities)	0	0	– 53	0	– 53
Changes in the basis of consolidation	0	0	0	0	0
Other changes	1,769	6,011	687	17	8,484
Balance as at 31 December 2020	*138,686*	*38,840*	*1,053*	*28*	*178,607*

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2019	*142,436*	*14,537*	*957*	*61*	*157,991*
Changes	– 12,182	933	411	– 2	– 10,841
Transfer to stage 1	2,220	– 2,204	– 16	0	– 0
Transfer to stage 2	– 4,213	4,256	– 43	0	0
Transfer to stage 3	– 534	– 177	712	0	– 0
Repayments	– 9,654	– 942	– 242	– 2	– 10,841
Additions	106,167	445	1	1	106,614
Disposals	– 90,726	– 2,545	– 239	– 9	– 93,519
Write-downs through profit or loss (direct write-down)	0	0	– 11	0	– 11
Write-downs through other comprehensive income (use of allowances for losses on loans and securities)	0	0	– 81	– 19	– 101
Changes in the basis of consolidation	– 1	0	0	0	– 1
Other changes	7,428	518	27	0	7,973
Balance as at 31 December 2019	*153,122*	*13,888*	*1,064*	*31*	*168,106*

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:

31/12/2020 EUR million	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	*1,555*	*159*	*9*	*1,723*

31/12/2019 EUR million	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	*301*	*142*	*3*	*446*

29. Financial assets measured at fair value through other comprehensive income

EUR million	31/12/2020	31/12/2019[1]
Debentures and other fixed-income securities	*31,039*	*26,642*
Money market instruments	826	1,488
Bonds and debentures	30,213	25,154
Receivables	*3,712*	*3,116*
Equity instruments	*59*	*487*
equity investments	56	485
Shares in affiliates	3	2
Total	*34,810*	*30,245*

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

The item »Financial assets measured at fair value through other comprehensive income« contains EUR 653 million (previous year: EUR 483 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 29,543 million (previous year: EUR 25,291 million) had a term of over twelve months as at the reporting date.

Development of allowances for losses on loans and securities

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

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2019	*2*	*0*	*0*	*0*	*2*
Changes	– 0	– 0	0	0	– 0
Additions	0	0	0	0	0
Reversals	– 1	– 0	0	0	– 1
Additions	1	0	0	0	1
Disposals	– 0	0	0	0	– 0
Other changes	0	0	0	0	0
Balance as at 31 December 2019	*3*	*0*	*0*	*0*	*3*

Development of gross carrying amounts

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Balance as at 31 December 2019	*29,748*	*10*	*0*	*0*	*29,758*
Restatement of prior year amounts	0	0	0	0	0
Balance as at 1 January 2020	*29,748*	*10*	*0*	*0*	*29,758*
Changes	- 70	0	0	0	- 70
Transfer to stage 1	0	0	0	0	0
Transfer to stage 2	0	0	0	0	0
Transfer to stage 3	0	0	0	0	0
Repayments	- 70	0	0	0	- 70
Additions	13,975	0	0	0	13,975
Disposals	- 9,080	- 10	0	0	- 9,090
Other changes	178	- 0	0	0	178
Balance as at 31 December 2020	*34,751*	*0*	*0*	*0*	*34,751*

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Balance as at 31 December 2018	*22,302*	*10*	*0*	*0*	*22,312*
Restatement of prior year amounts	922	0	0	0	922
Balance as at 1 January 2019	*23,224*	*10*	*0*	*0*	*23,234*
Changes	- 117	- 0	0	0	- 117
Transfer to stage 1	10	- 10	0	0	0
Transfer to stage 2	- 10	10	0	0	0
Transfer to stage 3	0	0	0	0	0
Repayments	- 117	0	0	0	- 117
Additions	21,025	0	0	0	21,025
Disposals	- 14,954	0	0	0	- 14,954
Other changes	570	0	0	0	570
Balance as at 31 December 2019	*29,748*	*10*	*0*	*0*	*29,758*

30. Counterparty risk

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

Collateral

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

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

31/12/2020 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	101,154	75,177	5,378	960	19,639
Trading assets	90,976	66,099	5,378	960	18,539
Derivatives	67,894	54,506	4,192	676	8,521
Equity instruments	714	667	0	0	47
Debentures and other fixed-income securities	4,811	1,527	199	0	3,085
Receivables	17,558	9,399	988	284	6,887
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,232	191	0	0	1,041
Equity instruments	583	191	0	0	392
Receivables	650	0	0	0	649
Positive fair values from hedging derivatives	8,946	8,888	0	0	58
Financial assets designated at fair value	939	0	0	0	938
Debentures and other fixed-income securities	58	0	0	0	58
Receivables	881	0	0	0	880
Financial assets measured at fair value through other comprehensive income	34,107	0	0	0	34,107
Equity instruments	1,476	0	0	0	1,476
Debentures and other fixed-income securities	29,688	0	0	0	29,688
Receivables	2,943	0	0	0	2,943
Financial assets measured at amortized cost					
Cash and cash equivalents	7,406	0	0	0	7,406
Loans and advances to banks	70,033	34,378	0	537	35,117
Loans and advances to customers	111,227	13,521	0	36,849	60,857
Debentures and other fixed-income securities	850	0	0	0	850
Total	*325,715*	*123,076*	*5,378*	*38,347*	*158,914*
Loan commitments and other agreements	63,737	0	0	3,895	59,842
Total exposure	*389,452*	*123,076*	*5,378*	*42,242*	*218,756*

31/12/2019 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	83,759	59,324	6,620	530	17,286
Trading assets	76,164	52,988	6,620	521	16,035
Derivatives	60,627	47,369	5,316	494	7,448
Equity instruments	916	912	0	0	4
Debentures and other fixed-income securities	6,494	1,163	0	0	5,112
Receivables	8,128	3,544	0	27	3,471
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,364	210	0	1	1,153
Equity instruments	649	210	0	0	440
Debentures and other fixed-income securities	10	0	0	0	10
Receivables	704	0	0	1	703
Positive fair values from hedging derivatives	6,231	6,126	0	8	97
Financial assets designated at fair value	959	0	0	4	955
Debentures and other fixed-income securities	60	0	0	0	60
Receivables	899	0	0	4	895
Financial assets measured at fair value through other comprehensive income	28,627	0	0	0	28,627
Equity instruments	1,920	0	0	0	1,920
Debentures and other fixed-income securities	24,185	0	0	0	0
Receivables	2,522	0	0	0	0
Financial assets measured at amortized cost					
Cash and cash equivalents	3,121	0	0	0	3,121
Loans and advances to banks	66,831	25,872	0	531	40,428
Loans and advances to customers	110,368	13,715	0	37,563	59,090
Debentures and other fixed-income securities	1,015	0	0	0	1,015
Total	*294,680*	*98,911*	*6,620*	*38,628*	*150,522*
Loan commitments and other agreements	58,651	0	0	3,148	55,503
Total exposure	*353,332*	*98,911*	*6,620*	*41,776*	*206,025*

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 389 billion as at 31 December 2020 is EUR 171 billion or 43.8% in total (previous year: 41.7%). The increased share of risk mitigation is mainly on account of higher weightings for repo/lending transactions and collateral performance of interest rate derivatives. Credit collateral has developed stably. There are differences between segments – for example, credit collateral is higher for real estate financing than for corporate customers.

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

Credit-impaired assets

Credit-impaired assets in accordance with IFRS 9 are financial instruments in default (rating 16 to 18). These rating classes accounted for gross exposure of EUR 1.2 billion as at 31 December 2020.

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

31/12/2020 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at amortized cost					
Loans and advances to banks	18	0	0	0	18
Loans and advances to customers	935	0	0	243	692
Total	*953*	*0*	*0*	*243*	*710*
Loan commitments and other agreements	268	0	0	15	253
Total exposure	*1,222*	*0*	*0*	*258*	*963*

31/12/2019 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at amortized cost					
Loans and advances to banks	19	0	0	1	18
Loans and advances to customers	968	0	0	268	700
Total	*987*	*0*	*0*	*270*	*718*
Loan commitments and other agreements	238	0	0	25	213
Total exposure	*1,226*	*0*	*0*	*295*	*931*

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 6 million (previous year: EUR 26 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)

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

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

31/12/2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	21,034	0	0	0	21,034
1 (AAA)–1 (A-)	139,545	709	0	2	140,256
2–5	59,356	7,992	0	17	67,365
6–8	13,473	5,139	0	0	18,612
9–10	1,722	2,092	0	0	3,814
11–15	1,125	2,426	0	5	3,557
16–18 (default)[1]	0	0	1,200	26	1,226
Other[2]	3,409	13	0	0	3,422
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

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

Gross exposure by sector

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

1 Core sectors

31/12/2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Financials	*110,372*	*1,007*	*32*	*1*	*111,411*
of which transactions under specific state liability[2]	7,947	0	0	0	7,947
Corporates	*79,429*	*10,561*	*1,072*	*27*	*91,089*
Automotive	9,018	3,007	404	0	12,429
Construction	7,463	699	90	3	8,255
Chemicals and commodities	6,874	696	77	0	7,648
of which chemicals	3,485	207	1	0	3,693
of which commodities	3,390	489	77	0	3,955
Retail and consumer goods	13,987	1,851	242	0	16,079
of which consumer goods	10,099	891	75	0	11,065
of which durables	3,888	960	167	0	5,014
Industry	9,565	1,482	114	0	11,161
Pharmaceuticals and healthcare[1]	4,774	383	9	3	5,169
TM and electronics/IT[1]	7,054	443	10	0	7,507
Transport and logistics	6,437	389	27	0	6,853
Utilities and energy1	7,630	992	48	3	8,674
of which utilities and disposal companies	4,638	268	36	3	4,945
of which renewable energies	2,993	724	12	0	3,729
Other	6,626	618	50	18	7,313
Real estate	*25,885*	*5,056*	*44*	*10*	*30,995*
Commercial real estate (CRE)	18,660	4,725	34	8	23,428
Housing	7,225	330	10	2	7,567
Public sector	*13,934*	*97*	*0*	*0*	*14,031*
Private individuals	*10,044*	*1,651*	*52*	*11*	*11,758*
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

1 Core sectors

The exposures in financials and the public sector (and the German public sector in particular) generally have very good, stable credit quality with a low exposure share in stage 2. There is a higher share of stage 2 exposure in the corporates and real estate portfolio. In the automotive sector, for example, this is rooted partly in long-term uncertainty regarding change in the industry and the impact on manufacturers and suppliers. Furthermore, the economic risks caused by the coronavirus pandemic resulted in a significant rise in the share of stage 2 exposures (see also Development of allowances for losses on loans and securities under Note 28 (»Financial assets measured at amortized cost«).

Gross exposure by region

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

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

31/12/2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 impairment after recognition	Credit impairment at recognition	Total
Germany	145,591	11,570	1,044	25	158,230
Western Europe (excluding Germany)	63,892	4,008	30	23	67,954
North America	18,358	1,335	19	0	19,713
Asia/Pacific	7,057	211	1	0	7,269
Other[1]	4,766	1,248	105	2	6,120
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

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

Forbearance

As at 31 December 2020, LBBW held assets with a net carrying amount of EUR 987 million (previous year: EUR 412 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 294 million (previous year: EUR 227 million) sub-portfolio of the assets for which forbearance measures had been adopted comprised credit-impaired assets.

LBBW has received guarantees of EUR 316 million (previous year: EUR 52 million) for assets with forbearance measures.

The risk report contains further information on impairment on the portfolio and qualitative disclosures.

31. Collateral

Assignor

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 48,599 million (previous year: EUR 43,192 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 23,470 million (previous year: EUR 22,400 million). Of the collateral received, LBBW is required to return collateral with a total fair value of EUR 23,470 million (previous year: EUR 22,400 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 3,615 million (previous year: EUR 3,152 million).

32. 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.

The decrease in equity instruments is particularly due to the sale of a non-strategic minority interest. The sale allowed LBBW to adjust its shareholding in order to increasingly shift focus to customer business.

In the first half of the year and following the disposal, cumulative gains from equity instruments voluntarily measured at fair value through other comprehensive income were transferred from other comprehensive income to retained earnings (see Statement of comprehensive income).

Dividends of EUR 3 million (previous year: EUR 19 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the 2020 financial year. As in the previous year, these relate entirely to equity instruments held at the reporting date.

33. Financial assets designated at fair value

EUR million	31/12/2020	31/12/2019
Debentures and other fixed-income securities	*58*	*61*
Bonds and debentures	58	61
Receivables	*1,074*	*1,109*
Total	*1,132*	*1,170*

»Financial assets designated at fair value« amounting to EUR 1,112 million (previous year: EUR 1,150 million) had a term of over twelve months as at the reporting date.

31/12/2020 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	– 1
Receivables	– 0	– 2
Total	*– 1*	*– 3*

31/12/2019 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	2
Other	1	– 1
Total	*2*	*1*

The maximum default risk is shown in Note 30.

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

EUR million	31/12/2020	31/12/2019[1]
Positive fair values from hedging derivatives	1,673	1,374
Trading assets	39,405	30,421
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	1,107	1,218
Total	*42,185*	*33,013*

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

Positive fair values from hedging derivatives

EUR million	31/12/2020	31/12/2019
Positive fair values from portfolio fair value hedges	1,293	986
Positive fair values from micro fair value hedges	379	389
Total	*1,673*	*1,374*

The change in »Positive fair values from portfolio fair value hedges« reflects the trading book derivatives assigned as part of hedge accounting.

Positive fair values from derivative hedging instruments amounting to EUR 1,640 million (previous year: EUR 1,303 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	31/12/2020	31/12/2019
Assets		
Derivative hedging instruments on loans and advances to customers	0	0
Debentures and other fixed-income securities FVOCR	0	0
Equity and liabilities		
Derivative hedging instruments on deposits from banks	23	18
Derivative hedging instruments on deposits from customers	93	105
Derivative hedging instruments on securitized liabilities	27	32
Derivative hedging instruments on subordinated liabilities	236	234
Derivative hedging instruments on portfolio fair value hedges	1,293	986
Total	*1,673*	*1,374*

Trading assets

EUR million	31/12/2020	31/12/2019[1]
Positive fair values from derivative financial instruments	*22,657*	*19,834*
Debentures and other fixed-income securities	*4,919*	*4,752*
Money market instruments	275	399
Bonds and debentures	4,644	4,353
Receivables	*11,115*	*4,925*
Borrower's note loans	4,785	3,318
Other money market transactions	2,558	158
Receivables from securities repurchase agreements	2,842	800
Other receivables	930	649
Equity instruments	*714*	*910*
Equities	310	302
Investment fund units	400	607
Other securities	4	0
Total	*39,405*	*30,421*

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

The item contains EUR 642 million (previous year: EUR 297 million) in total collateral provided with the protection buyer's right to resell or repledge.

Trading assets amounting to EUR 27,993 million (previous year: EUR 24,693 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	31/12/2020	31/12/2019
Debentures and other fixed-income securities	*5*	*16*
Bonds	0	10
Silent partner contributions	5	5
Receivables	*659*	*707*
Loans and advances to customers	659	707
Equity instruments	*443*	*495*
Equities	5	12
Investment fund units	275	304
Equity investments	138	151
Shares in affiliates	25	27
Total	*1,107*	*1,218*

Assets of EUR 662 million (previous year: EUR 703 million) had a term of over twelve months as at the reporting date.

35. 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	
31/12/2020 EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Financial assets measured at fair value		
Financial assets mandatorily measured at fair value through profit or loss	1,649	1,612
Trading assets	1,649	1,612
Financial assets designated at fair value	241	241
Financial assets measured at fair value through other comprehensive income	4,449	3,861
Financial assets measured at amortized cost		
Loans and advances to banks	24,574	24,610
Loans and advances to customers	12,343	12,354

31/12/2019 EUR million	Transferred assets continue to be recognized in full Carrying amount of transferred assets	 Carrying amount of the associated liabilities
Financial assets measured at fair value		
Financial assets mandatorily measured at fair value through profit or loss	685	552
Trading assets	685	552
Financial assets designated at fair value	96	96
Financial assets measured at fair value through other comprehensive income	2,286	1,776
Financial assets measured at amortized cost		
Loans and advances to banks	21,793	21,792
Loans and advances to customers	9,300	9,345
Bonds and other fixed-income securities	2	0

Financial liabilities

36. Financial liabilities measured at amortized cost

Deposits from banks

EUR million	31/12/2020	31/12/2019
Securities repurchase transactions	542	1,932
Transmitted loans	32,142	28,698
Borrower's note loans	2,837	3,152
Overnight and term money	37,971	27,733
Public-sector registered covered bonds issued	367	347
Current account liabilities	2,243	1,690
Mortgage-backed registered covered bonds issued	123	133
Other liabilities	2,541	2,947
Total	*78,765*	*66,633*

Participating in targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 20.0 billion in the reporting period. Accounts payable from this as at the end of the reporting period still came to EUR 19.95 billion.

As at the reporting date, the item included liabilities of EUR 53,375 million (previous year: EUR 32,733 million) with a remaining term to maturity of over twelve months.

Deposits from customers

EUR million	31/12/2020	31/12/2019
Current account liabilities	57,287	46,194
Overnight and term money	24,909	29,530
Borrower's note loans	2,230	2,163
Securities repurchase transactions	954	1,916
Public-sector registered covered bonds issued	2,041	2,195
Savings deposits	5,238	5,595
Mortgage-backed registered covered bonds issued	192	219
Other liabilities	2,435	2,507
Total	*95,288*	*90,319*

As at the reporting date, the item included liabilities of EUR 5,854 million (previous year: EUR 6,673 million) with a remaining term to maturity of over twelve months.

Securitized liabilities

EUR million	31/12/2020	31/12/2019
Issued debentures	*28,898*	*28,536*
Pfandbriefe (mortgage-backed covered bonds)	8,444	9,436
Pfandbriefe (public covered bonds)	4,585	4,867
Other debentures	15,868	14,233
Other securitized liabilities	*12,936*	*10,280*
Total	*41,834*	*38,815*

The item »Securitized liabilities« amounting to EUR 23,776 million (previous year: EUR 23,389 million) had a term of over twelve months as at the reporting date.

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.

»Subordinated capital« is broken down as follows:

EUR million	31/12/2020	31/12/2019
Typical silent partners' contributions	950	1,085
Subordinated liabilities	4,672	4,927
Capital generated from profit participation rights	117	111
Total	*5,740*	*6,123*

No new subordinated liabilities were raised in the calendar year. This figure compared with repayments of EUR 334 million (nominal amount).

»Subordinated capital« of EUR 4,929 million (previous year: EUR 5,382 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 balance sheet date, broken down according to product type.

	31/12/2020			31/12/2019		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated EUR bearer notes	2,814	40	2,854	2,858	41	2,899
Subordinated EUR registered securities	854	9	863	1,089	11	1,100
Subordinated foreign currency bearer bonds	1,370	34	1,404	1,448	35	1,483
Total	*5,038*	*83*	*5,121*	*5,395*	*87*	*5,482*

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 599 million (previous year: EUR 687 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 – 190 million (previous year: EUR – 191 million).

Capital generated from profit participation rights

The capital generated from profit-participation rights fulfills the requirements of Article 63 CRR for Tier 2 instruments. 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.

The terms of material profit-participation rights (incl. profit-participation rights designated at fair value) were as follows at the balance sheet date:

31/12/2020 EUR million	Nominal amount	Interest rate in % p.a.	End of term
Registered participation rights			
Corporates	201	4.77 to 7.13	until 31 Dec. 2022
Banks	10	4.82	31/12/2020
Public undertaking	5	7.18	31/12/2020
Total	*216*		

31/12/2019 EUR million	Nominal amount	Interest rate in % p.a.	End of term
Registered participation rights			
Corporates	206	4.77 to 7.18	until 31 Dec. 2022
Banks	10	4.82	31/12/2020
Public undertaking	0		
Total	*216*		

The table above include registered participation rights »designated at fair value« with nominal capital in the amount of EUR 101 million (previous year: EUR 101 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 – 19 million (previous year: EUR – 18 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). However, due to the transitional provisions of Article 484 CRR, they may continue to be included within the limits of Article 486 CRR. Accordingly, only part of the silent partners' contributions can be considered as AT 1, with the other part considered in accordance with the applicable provisions, provided the conditions in place here for supplementary capital are met.

At the end of the financial year, the following contributions had been made by silent partners:

Duration[1]	Dividend payout as a percentage of the nominal amount	Nominal amount 31/12/2020 EUR million	Nominal amount 31/12/2019 EUR million
15/11/1999 – 31/12/2019	0.0	0.0	10.0
25/04/1999 – 31/12/2019	0.0	0.0	30.0
29/10/2001 – 31/12/2019 (terminated)	3.92	0.0	3.2
29/10/2001 – 31/12/2019 (terminated)	3.92	0.0	86.3
05/01/2000 – 31/12/2020	8.25	30.0	30.0
19/05/1999 – 31/12/2024	7.11	20.0	20.0
13/07/2001 – 31/12/2026[2]	1.86	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	8.46	20.0	20.0
Silent partners contributions with a fixed end of term		*144.0*	*273.5*

Expiry of the fixed interest period	Dividend payout as a percentage of the nominal amount	Nominal amount 31/12/2020 EUR million	Nominal amount 31/12/2019 EUR million
31/12/2021	3.93	8.9	8.9
31/12/2022	3.74	4.7	4.7
31/12/2023	3.81	222.7	222.7
27/06/2027	2.24	200.0	200.0
No expiry of the fixed interest period[3]	4.56	300.0	300.0
Silent partners' contributions without a fixed end of term		*736.3*	*736.3*
Total		*880.3*	*1,009.8*

1 Repayment takes place after approval of the annual financial statements in accordance with HGB at a contractually fixed date. Provided the start of the term is stated, the information relates to the first agreement entered into in a group of agreements with similar terms.
2 Annual adjustment of interest rates.
3 Interest rate is fixed. Only specific changes in the tax legislation have an impact on the interest rate.

The interest expense for silent partners' contributions in the last financial year totaled EUR – 38 million (previous year: EUR – 45 million).

37. Financial liabilities designated at fair value

EUR million	31/12/2020	31/12/2019
Borrower's note loans	769	825
Securitized liabilities	3,920	4,011
Subordinated deposits	132	170
Junior bonds	655	726
Money market transactions	117	115
Other	915	909
Total	*6,509*	*6,757*

In the event of insolvency proceedings or liquidation, the subordinated liabilities recognized may not be repaid until all non-subordinated creditors have been satisfied.

The item liabilities amounting to EUR 4,693 million (previous year: EUR 5,524 million) had a term of over twelve months as at the reporting date.

31/12/2020 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Borrower's note loans	316	24
Securitized liabilities	93	– 14
Subordinated liabilities	88	17
Other	258	27
Total	*755*	*54*

31/12/2019 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Borrower's note loans	301	16
Securitized liabilities	113	– 18
Subordinated liabilities	108	– 17
Other	239	23
Total	*761*	*5*

The method for separating the share of the change in fair value attributable to the change in the default risk is described in Note 42.

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

EUR million	31/12/2020	31/12/2019
Negative fair values from derivative hedging instruments	2,867	2,537
Trading liabilities	25,948	24,422
Total	*28,815*	*26,959*

Negative fair values from derivative hedging instruments

EUR million	31/12/2020	31/12/2019
Negative fair values from portfolio fair value hedges	2,089	1,760
Negative fair values from micro fair value hedges	775	777
Negative fair values from group fair value hedges	4	0
Total	*2,867*	*2,537*

The change in »Negative fair values from portfolio fair value hedges« reflects the trading book derivatives assigned as part of hedge accounting.

»Negative fair values from derivative hedging instruments« amounting to EUR 2,730 million (previous year: EUR 2,387 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	31/12/2020	31/12/2019
Assets		
Derivative hedging instruments on loans and advances to banks	23	22
Derivative hedging instruments on loans and advances to customers	190	196
Derivative hedging instruments on debt instruments (FVOCR)	480	473
Derivative hedging instruments on debt instruments (AC)	80	85
Derivative hedging instruments on group fair value hedges	4	0
Equity and liabilities		
Derivative hedging instruments on securitized liabilities	2	1
Derivative hedging instruments on portfolio fair value hedges	2,089	1,760
Total	*2,867*	*2,537*

Trading liabilities

EUR million	31/12/2020	31/12/2019
Negative fair values from derivatives	*19,030*	*17,035*
Other trading liabilities	*6,918*	*7,387*
Delivery obligations from short sales of securities	252	827
Securitized liabilities	6,194	6,368
Borrower's note loans	236	192
Money market transactions	236	0
Total	*25,948*	*24,422*

»Trading liabilities« amounting to EUR 18,985 million (previous year: EUR 18,365 million) had a term of over twelve months as at the reporting date.

39. 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 balance sheet.

Financial liabilities according to contractually agreed maturity structures in accordance with IFRS 7.39 as at the balance sheet date are as follows:

31/12/2020 EUR million	up to 1 month	>1 to 3 months	>3 to 12 months	>1 year to 5 years	>5 years
Financial liabilities	52,120	18,749	23,847	52,475	26,798
Liabilities from derivatives	50	119	254	747	250
Total	*52,170*	*18,868*	*24,101*	*53,222*	*27,048*
Irrevocable loan commitments and guarantees[1]	59,206	508	2,517	1,656	1,834
Savings and demand deposits, securitization from interbank accounts	64,825				

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.

31/12/2019 EUR million	up to 1 month	>1 to 3 months	>3 to 12 months	>1 year to 5 years	>5 years
Financial liabilities	57,735	13,890	24,610	38,954	24,910
Liabilities from derivatives	250	256	1,086	4,492	3,116
Total	*57,985*	*14,146*	*25,696*	*43,446*	*28,026*
Irrevocable loan commitments and guarantees[1]	56,401	146	1,122	306	665
Savings and demand deposits, securitization from interbank accounts	53,757				

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.

40. Issuing activities

EUR million	31/12/2020	31/12/2019
Securitized liabilities	41,834	38,815
Securitized liabilities designated at fair value	3,920	4,011
Securitized liabilities mandatorily measured at fair value through profit or loss	6,194	6,368
Total	*51,949*	*49,195*

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 989,620 million (previous year: EUR 984,441 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 4,337 million (previous year: EUR 4,380 million) and the volume of repayments to a nominal of EUR 683,350 million (previous year: EUR 621,473 million).

41. Offsetting financial assets and liabilities

The featured transactions are usually closed on the basis of master agreements, 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 balance sheet 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

31/12/2020 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	0	0	0	0	0	0	0
Receivables from securities repurchase and lending agreements	25,657	– 6,688	18,970	– 691	– 18,212	– 8	59
Derivatives	64,967	– 42,966	22,001	– 11,123	– 17	– 4,128	6,734
Total	*90,624*	*– 49,653*	*40,971*	*– 11,814*	*– 18,229*	*– 4,136*	*6,793*

31/12/2019 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	0	– 0	0	0	0	0	0
Receivables from securities repurchase and lending agreements	25,303	– 4,109	21,193	– 675	– 20,488	– 26	5
Derivatives	48,535	– 29,161	19,374	– 10,589	– 2	– 3,173	5,611
Total	*73,837*	*– 33,270*	*40,567*	*– 11,263*	*– 20,489*	*– 3,199*	*5,616*

Equity and liabilities

31/12/2020 EUR million	Gross amount of financial liabilties	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	163	0	163	0	0	0	163
Liabilities from securities repurchase and lending agreements	8,184	– 6,688	1,496	– 691	– 805	0	– 0
Derivatives	61,830	– 42,966	18,865	– 11,123	– 8	– 6,203	1,531
Total	*70,177*	*– 49,653*	*20,524*	*– 11,814*	*– 813*	*– 6,203*	*1,694*

31/12/2019 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	90	– 0	89	0	0	0	89
Liabilities from securities repurchase and lending agreements	7,957	– 4,109	3,848	– 675	– 3,170	– 3	– 0
Derivatives	46,247	– 29,161	17,086	– 10,589	– 0	– 5,491	1,006
Total	*54,293*	*– 33,270*	*21,023*	*– 11,263*	*– 3,170*	*– 5,494*	*1,095*

42. Fair value of financial instruments

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

Assets

EUR million	31/12/2020 Carrying amount	31/12/2020 Fair value	31/12/2019[1] Carrying amount	31/12/2019[1] Fair value
Financial assets measured at amortized cost				
Cash and cash equivalents	13,650	13,650	18,331	18,331
Loans and advances to banks	68,465	68,860	55,801	56,865
Loans and advances to customers	108,116	112,465	110,320	119,461
Debentures and other fixed-income securities	921	924	1,082	1,083

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

Equity and liabilities

EUR million	31/12/2020 Carrying amount	31/12/2020 Fair value	31/12/2019[1] Carrying amount	31/12/2019[1] Fair value
Financial liabilities measured at amortized cost				
Deposits from banks	78,765	79,802	66,633	67,869
Deposits from customers	95,288	96,362	90,319	91,457
Securitized liabilities	41,834	42,730	38,815	39,541
Subordinated capital	5,740	7,067	6,123	6,483

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

43. Fair value hierarchy

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

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

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

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

Assets

EUR million	Prices traded on active markets (Level I) 31/12/2020	Prices traded on active markets (Level I) 31/12/2019[1]	Measurement method – on the basis of externally observable parameters (Level II) 31/12/2020	Measurement method – on the basis of externally observable parameters (Level II) 31/12/2019[1]	Measurement method – on the basis of externally unobservable parameters (Level III) 31/12/2020	Measurement method – on the basis of externally unobservable parameters (Level III) 31/12/2019[1]
Financial assets measured at fair value						
Financial assets mandatorily measured at fair value through profit or loss	1,099	1,440	40,006	30,611	1,080	963
Trading assets	1,092	1,419	37,434	28,331	879	671
Derivatives	0	0	22,577	19,506	80	328
Equity instruments	242	321	472	589	0	0
Debentures and other fixed-income securities	850	1,097	4,069	3,655	0	0
Receivables	0	0	10,315	4,581	799	343
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	7	21	900	905	201	292
Equity instruments	7	15	275	304	161	175
Debentures and other fixed-income securities	0	5	0	5	5	5
Receivables	0	0	625	596	35	112
Positive fair values from hedging derivatives	0	0	1,673	1,374	0	0
Financial assets designated at fair value	15	36	965	981	152	153
Debentures and other fixed-income securities	15	36	43	25	0	0
Receivables	0	0	922	956	152	153
Financial assets measured at fair value through other comprehensive income	24,141	20,356	10,666	9,497	3	392
Equity instruments	56	95	0	0	3	392
Debentures and other fixed-income securities	24,085	20,261	6,954	6,381	0	0
Receivables	0	0	3,712	3,116	0	0
Non-current assets and disposal groups held for sale	0	0	0	0	2	57
Financial assets measured at amortized cost						
Cash and cash equivalents	213	151	13,437	18,180	0	0
Loans and advances to banks	0	0	47,931	37,658	20,929	19,208
Loans and advances to customers	0	0	15,619	20,981	96,846	98,480
Debentures and other fixed-income securities	0	– 0	924	681	0	402

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

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 of externally unobservable parameters (Level III)	
	31/12/2020	31/12/2019[1]	31/12/2020	31/12/2019[1]	31/12/2020	31/12/2019[1]
Financial liabilities measured at fair value						
Financial liabilities mandatorily measured at fair value through profit or loss	114	822	28,556	25,961	145	176
Trading liabilities	114	822	25,689	23,424	145	176
Derivatives	0	0	18,885	16,859	145	176
Delivery obligations from short sales of securities	114	822	138	5	0	0
Deposits	0	0	471	192	0	0
Securitized liabilities	0	0	6,194	6,368	0	0
Negative fair values from derivative hedging instruments	0	0	2,867	2,537	0	0
Financial liabilities designated at fair value	0	0	6,119	6,293	390	464
Securitized liabilities	0	0	4,317	4,408	259	330
Other financial liabilities	0	0	1,802	1,886	131	134
Financial liabilities measured at amortized cost						
Deposits from banks	0	0	78,398	66,491	1,405	1,378
Deposits from customers	0	0	95,635	90,843	727	614
Securitized liabilities	0	0	40,708	38,088	2,022	1,453
Subordinated capital	0	0	7,067	6,483	0	0

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

Transfers to 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 31/12/2020	Reclassification from Level I to Level II 31/12/2019	Reclassification from Level II to Level I 31/12/2020	Reclassification from Level II to Level I 31/12/2019
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	133	33	141	47
Trading assets	133	33	141	25
Derivatives	0	16	0	0
Equity instruments	64	0	7	0
Debentures and other fixed-income securities	69	17	134	25
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	0	0	0	22
Equity instruments	0	0	0	22
Financial assets designated at fair value	19	0	0	21
Debentures and other fixed-income securities	19	0	0	21
Financial assets measured at fair value through other comprehensive income	403	165	767	10
Debentures and other fixed-income securities	403	165	767	10

Equity and liabilities

EUR million	Reclassification from Level I to Level II 31/12/2020	Reclassification from Level I to Level II 31/12/2019
Financial liabilities measured at fair value		
Financial liabilities mandatorily measured at fair value through profit or loss	9	33
Trading liabilities	9	33
Delivery obligations from short sales of securities	0	33
Securitized liabilities	9	0

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 profit and loss on Level III financial instruments is based on both observable and unobservable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

Assets

EUR million	Financial assets measured at fair value through other comprehensive income		Financial assets designated at fair value
	Equity instruments	Debentures and other fixed-income securities	Receivables
Carrying amount as at 1 January 2020	*392*	*0*	*153*
Gains and losses recognized in net consolidated profit/loss	0	0	– 1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	1
Other earnings items	0	0	0
Income and expenses recognized in »Other comprehensive income«[1]	– 46	0	0
Additions through acquisitions	0	0	0
Disposals through sales	– 343	0	0
Repayments/offsetting	0	0	0
Other changes	0	0	0
Reclassification to Level III	0	0	0
Reclassification from Level III	0	0	0
Transfers in accordance with IFRS 5	0	0	0
Carrying amount as at 31 December 2020	*3*	*0*	*152*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	– 1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	1
Other earnings items	0	0	0

1 Amounts recognized under »Revaluation reserve«.

Financial assets mandatorily measured at fair value through profit or loss					Non-current assets and disposal groups held for sale	Total
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		
328	*343*	*175*	*5*	*112*	*57*	*1,566*
93	10	- 8	0	4	- 0	*98*
0	4	0	0	2	0	*4*
93	6	- 8	0	2	0	*94*
0	0	0	0	0	- 0	- 0
0	0	0	0	0	0	*- 46*
0	691	6	0	0	0	*697*
0	0	- 12	0	0	- 44	*- 399*
- 202	- 297	0	0	- 56	0	*- 555*
0	0	0	0	0	- 13	*- 13*
0	52	0	0	0	0	*52*
- 139	- 1	0	0	- 25	0	- 164
0	0	0	0	0	2	*2*
80	*799*	*161*	*5*	*35*	*2*	*1,237*
- 13	6	- 8	0	1	- 0	- 15
0	2	0	0	- 1	0	*- 2*
- 13	5	- 8	0	2	0	- 13
0	0	0	0	0	- 0	*- 0*

EUR million	Financial assets measured at fair value through other comprehensive income – Equity instruments	Financial assets measured at fair value through other comprehensive income – Debentures and other fixed-income securities	Financial assets designated at fair value – Receivables
Carrying amount as at 31 December 2018	*425*	*0*	*153*
Restatement of prior year amounts	0	0	0
Carrying amount as at 1 January 2019	*425*	*0*	*153*
Gains and losses recognized in net consolidated profit/loss	0	0	1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through other comprehensive income	0	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	3
Other earnings items	0	0	0
Income and expenses recognized in »Other comprehensive income«[1]	– 33	0	0
Additions through acquisitions	0	0	0
Additions through issues	0	0	0
Disposals through sales	0	0	0
Repayments/offsetting	0	0	0
Changes in the scope of consolidation	0	0	0
Other changes	0	0	0
Reclassification to Level III	0	0	0
Reclassification from Level III	0	0	0
Transfers in accordance with IFRS 5	0	0	0
Carrying amount as at 31 December 2019	*392*	*0*	*153*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through other comprehensive income	0	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	3
Other earnings items	0	0	0

1 Amounts recognized under »Revaluation reserve«.

Financial assets mandatorily measured at fair value through profit or loss					Non-current assets and disposal groups held for sale	Total
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		
157	*1,012*	*186*	*5*	*339*	*23*	*2,300*
0	0	0	0	0	0	0
157	*1,012*	*186*	*5*	*339*	*23*	*2,300*
3	– 11	21	0	3	1	17
1	0	0	0	0	0	– 1
0	0	0	0	0	0	*0*
1	– 11	21	0	3	1	18
0	0	0	0	0	0	0
0	0	0	0	0	0	*– 33*
0	300	11	0	0	0	311
0	0	0	0	0	0	0
0	0	– 38	0	0	– 82	*– 120*
– 43	– 950	– 0	0	– 231	0	– 1,225
0	0	0	0	0	0	0
0	0	0	0	0	0	*0*
214	0	0	0	0	0	214
– 2	– 8	0	0	0	0	– 10
0	0	– 4	0	0	116	*112*
328	*343*	*175*	*5*	*112*	*57*	*1,566*
3	– 24	9	0	3	0	– 8
1	0	0	0	0	0	*– 1*
0	0	0	0	0	0	0
1	– 24	9	0	3	0	– 7
0	0	0	0	0	0	*0*

Equity and liabilities

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

1 Amounts recognized under »Revaluation reserve«.

EUR million	Financial liabilities designated at fair value		Financial liabilities mandatorily measured at fair value through profit or loss	Total
	Securitized liabilities	Other financial liabilities	Trading liabilities	
			Derivatives	
Carrying amount as at 1 January 2019	*385*	*116*	*200*	*701*
Gains and losses recognized in net consolidated profit/loss	– 6	1	17	12
Net interest income and current net income from equity instruments	2	– 0	2	4
Net gains/losses from financial instruments measured at fair value through profit or loss	– 8	1	15	9
Income and expenses recognized in »Other comprehensive income«[1]	0	0	0	0
Disposals through sales	– 41	0	0	– 41
Repayments/offsetting	– 9	0	– 37	– 46
Reclassification to Level III	0	17	0	17
Reclassification from Level III	0	0	– 4	– 4
Carrying amount as at 31 December 2019	*330*	*134*	*176*	*640*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 6	1	18	13
Net interest income and current net income from equity instruments	2	– 0	2	4
Net gains/losses from financial instruments measured at fair value through profit or loss	– 8	1	16	9

1 Amounts recognized under »Revaluation reserve«.

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 31/12/2020	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 31/12/2019	Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 31/12/2020	Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 31/12/2019
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	18.3	19.6	– 16.7	– 19.0
Trading assets	11.6	8.8	– 11.7	– 8.2
Derivatives	0.8	3.4	– 0.9	– 2.8
Receivables	10.8	5.4	– 10.8	– 5.4
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	6.7	10.8	– 5.0	– 10.7
Equity instruments	4.7	4.6	– 3.1	– 4.6
Receivables	1.9	6.2	– 1.9	– 6.1
Financial assets measured at fair value through other comprehensive income	0.0	26.4	0.0	– 23.5
Equity instruments	0.0	26.4	0.0	– 23.5
Total	*18.3*	*46.0*	*– 16.7*	*– 42.5*

Equity and liabilities

EUR million	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 31/12/2020	31/12/2019	Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 31/12/2020	31/12/2019
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss	2.6	3.6	– 2.7	– 4.5
Trading liabilities	2.6	3.6	– 2.7	– 4.5
Derivatives	2.6	3.6	– 2.7	– 4.5
Financial liabilities designated at fair value	0.4	0.6	– 0.3	– 0.3
Securitized liabilities	0.4	0.6	– 0.3	– 0.3
Total	*3.0*	*4.2*	*– 3.0*	*– 4.9*

Significant unobservable Level III parameters

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

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

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

Assets

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	– 81% – 100%	relative – 20% / + 10%
Receivables	Net present value method	Credit spread (bp)	73 – 472	relative – 10 – 30% / + 10 – 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	0.77% – 3.43%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.23	relative + 5% / – 5%
Receivables	Net present value method	Credit spread (bp)	233 – 238	relative – 30% / + 30%
Financial assets designated at fair value				
Receivables				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a

31/12/2019 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	– 82% – 99%	relative – 20% /+ 10%
		Currency correlation	28%	absolute – 30% / + 30%
		further model parameters	– 0.67 – 3.22	relative – 22% / 22%
Receivables	Net present value method	Credit spread (bp)	73 – 325	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	2.32% – 4.15%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.19	relative + 5% / – 5%
Receivables	Net present value method	Credit spread (bp)	329 – 799	relative – 30% / 30%
Financial assets designated at fair value				
Receivables	Option price models	Interest rate correlation	21% – 99%	relative – 20% / + 10%
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	Beta factor	1.05	relative + 5% / – 5%

Equity and liabilities

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81% – 100%	relative – 20% / + 10%
	Net present value method	Probability of premature termination	15%	absolute – 10% /+ 10%
	TRS model	Discount curve (bp)	27 – 94	relative – 30% / + 30%
Delivery obligations from short sales of securities				
Deposits				
Securitized liabilities				
Negative fair values from derivative hedging instruments				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – 100%	relative – 20% /+ 10%
Other financial liabilities				

31/12/2019 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	- 82% - 99%	relative - 20% /+ 10%
		Currency correlation	28%	absolute - 30% /+ 30%
		further model parameters	- 0.67 - 3.22	relative - 22% / + 22%
	TRS model	Discount curve (bp)	42 - 91	relative - 30% / + 30%
Delivery obligations from short sales of securities				
Deposits				
Securitized liabilities				
Negative fair values from derivative hedging instruments				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	10% - 99%	relative - 20% /+ 10%
		Currency correlation	28%	absolute - 30% / + 30%
Other financial liabilities				

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

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 2020 financial year in comparison to the end of 2019, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	2020	2019
Balance as at 1 January	*1*	*0*
New transactions (allocations)	1	1
Balance as at 31 December	*2*	*1*

44. Hedge accounting

The amount, timing and uncertainty of future cash flows

31/12/2020 EUR million	up to 3 months	3 months to 1 year	>1 year to < 5 years	>5 years	indefinite term
Fair value hedge					
Interest rate risks (PFVHA + MFVHA)[1]					
Nominal amount	13,086	34,912	152,109	147,633	0
Average hedged interest rate (MFVHA, in %)					
CHF	0.0	0.0	0.0	0.0	0.0
EUR	0.0	3.3	4.8	5.2	0.0
GBP	0.0	0.0	0.0	0.0	0.0
USD	6.5	0.0	7.6	6.9	0.0
Foreign currency risks (MFVHA + GFVHA)[1]					
Nominal amount	6	23	153	204	0
Average hedged rate (exchange rate)					
CZK	0.0	0.0	27.2	0.0	0.0
HKD	0.0	10.4	0.0	0.0	0.0
NOK	8.6	8.5	0.0	0.0	0.0
USD	0.0	0.0	1.3	0.0	0.0

1 PFVHA – portfolio fair value hedge accounting; MFVHA – micro fair value hedge accounting; GFVHA – group fair value hedge accounting.

31/12/2019 EUR million	up to 3 months	3 months to 1 year	>1 year to < 5 years	>5 years	indefinite term
Fair value hedge					
Interest rate risks (PFVHA + MFVHA)[1]					
Nominal amount	1,768	17,183	88,141	82,051	0
Average hedged interest rate (MFVHA, in %)					
CHF	0.0	4.2	0.0	0.0	0.0
EUR	4.3	5.9	4.4	5.7	0.0
GBP	0.0	1.5	0.0	0.0	0.0
USD	8.1	0.0	7.4	6.9	0.0
Foreign currency risks (MFVHA + GFVHA)[1]					
Nominal amount	0	0	108	211	0
Average hedged rate (exchange rate)					
AUD	0.0	0.0	0.0	1.5	0.0
HKD	0.0	0.0	10.4	0.0	0.0
NOK	0.0	0.0	8.5	0.0	0.0
USD	0.0	0.0	1.4	0.0	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 balance sheet as at the reporting date:

31/12/2020 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 hedging transactions are recognized	Change in fair value to measure ineffectiveness in the reporting period
Fair Value Hedges					
Interest rate risks hedges	1,652	2,860	303,021	Various[1]	– 297
Micro fair value hedge accounting	359	771	– 170	Various[1]	31
Portfolio fair value hedge accounting	1,293	2,089	303,190	Various[1]	– 328
Foreign currency risks hedges	20	8	68	Various[1]	19
Micro fair value hedge accounting	20	4	157	Various[1]	10
Group fair value hedge accounting	0	4	– 89	Various[1]	9

1 Financial assets and liabilities mandatorily measured at fair value through profit or loss

31/12/2019 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 hedging transactions are recognized	Change in fair value to measure ineffectiveness in the reporting period
Fair Value Hedges					
Interest rate risks hedges	1,362	2,527	145,246	Various[1]	– 528
Micro fair value hedge accounting	376	767	– 252	Various[1]	– 84
Portfolio fair value hedge accounting	986	1,760	145,498	Various[1]	– 444
Foreign currency risks hedges	12	10	123	Various[1]	14
Micro fair value hedge accounting	12	10	123	Various[1]	14
Group fair value hedge accounting	0	0	0	Various[1]	0

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 balance sheet as at the reporting date:

31/12/2020 EUR million	Carrying amount of hedged items Assets	Carrying amount of hedged items Equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item equity and liabilities Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item equity and liabilities Equity and liabilities	Balance sheet items under which the hedged items are recognized	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	33,895	25,942	62	44	0	326	1,341
Micro fair value hedge accounting	1,976	1,160	62	44	Various[1]	– 18	338
Portfolio fair value hedge accounting	31,920	24,783	0	0	Various[1]	344	1,003
Foreign currency risks hedges	61	252	– 0	29	0	– 18	– 4
Micro fair value hedge accounting	61	252	– 0	29	Various[1]	– 10	– 4
Group fair value hedge accounting	0	0	0	0	Various[1]	– 9	0
Discontinued hedging relationships	0	0	49	– 0	0	0	0

1 Financial assets and liabilities measured at amortized cost; financial assets measured at fair value through other comprehensive income.

31/12/2019 EUR million	Carrying amount of hedged items Assets	Carrying amount of hedged items Equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item equity and liabilities Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item equity and liabilities Equity and liabilities	Balance sheet items under which the hedged items are recognized	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	35,479	32,714	33	– 20	Various[1]	496	1,088
Micro fair value hedge accounting	1,955	1,436	33	– 20	Various[1]	82	321
Portfolio fair value hedge accounting	33,524	31,278	0	0	Various[1]	414	767
Foreign currency risks hedges	89	247	0	20	Various[1]	– 14	– 5
Micro fair value hedge accounting	89	247	0	20	Various[1]	– 14	– 5
Group fair value hedge accounting	0	0	0	0	Various[1]	0	0
Discontinued hedging relationships	0	0	11	6	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:

31/12/2020 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)	24	Net gains/losses from hedging transactions
Foreign currency risks hedges (MFVHA + GFVHA + PFVHA)	1	Net gains/losses from hedging transactions
Other price risks hedges (MFVHA + GFVHA + PFVHA)	0	Net gains/losses from hedging transactions

31/12/2019 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)	– 32	Net gains/losses from hedging transactions
Foreign currency risks hedges (MFVHA + GFVHA + PFVHA)	0	Net gains/losses from hedging transactions
Other price risks hedges (MFVHA + GFVHA + PFVHA)	0	Net gains/losses from hedging transactions

F. Other information

45. 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 balance sheet. 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 balance sheet 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 balance sheet 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«.

Additional information

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:

- Sales talks began for two investment properties in the second half of 2019. Both properties were sold in the first half of 2020. This affects the »Corporate Items« segment.
- In addition, sales negotiations began for two investment properties in the second half of 2020. The contract has already been signed for both properties. This relates to the »Corporate Items« reporting segment.
- One disposal group for which sales talks began in the second half of 2019 was sold in the first half of 2020. The disposal group was assigned to the »Corporate Items« reporting segment.
- Sales negotiations for one property reported as property and equipment were conducted in the second half of 2019. The property was sold in the first half of 2020. This affects the »Corporate Items« segment.
- In addition, sales negotiations for another property reported as property and equipment were conducted in the second half of 2020. This affects the »Corporate Items« segment.

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

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

EUR million	31/12/2020	31/12/2019
Assets		
Investment property	2	57
Property and equipment	0	8
Total	*2*	*65*
Equity and liabilities		
Other liabilities	0	4
Total	*0*	*4*

46. Intangible assets

Accounting policies

Mainly software acquired or developed in-house is 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, excluding goodwill due to prohibition of reversal, 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«.

Additional information

The changes in »Intangible assets« are shown in the following tables for 2020 and 2019:

EUR million	Purchased software	Goodwill	Advance payments and cost for developmen t and preparation	Other intangible assets	Internally generated intangible assets	Total
Historical cost						
Balance as at 1 January 2020	*824*	*0*	*17*	*87*	*102*	*1,030*
Additions	14	0	10	10	10	44
Transfers	4	0	- 7	0	3	0
Disposals	- 11	0	0	0	0	- 11
Balance as at 31 December 2020	*831*	*0*	*20*	*97*	*114*	*1,062*
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2020	*- 740*	*0*	*0*	*- 44*	*- 48*	*- 832*
Scheduled amortization	- 39	0	0	- 4	- 19	- 62
Unscheduled write-downs	0	0	0	0	0	0
Disposals	10	0	0	- 0	0	10
Balance as at 31 December 2020	*- 769*	*0*	*0*	*- 48*	*- 67*	*- 884*
Carrying amounts						
Balance as at 1 January 2020	84	0	17	43	53	198
Balance as at 31 December 2020	62	0	20	49	47	178

EUR million	Purchased software	Goodwill	Advance payments and cost for developmen t and preparation	Other intangible assets	Internally generated intangible assets	Total
Historical cost						
Balance as at 1 January 2019	*862*	*0*	*20*	*87*	*70*	*1,039*
Additions	10	0	13	0	21	43
Transfers	3	0	- 16	0	13	- 0
Disposals	- 51	0	0	0	- 2	- 53
Balance as at 31 December 2019	*824*	*0*	*17*	*87*	*102*	*1,030*
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2019	*- 744*	*0*	*0*	*- 40*	*- 31*	*- 815*
Scheduled amortization	- 44	0	0	- 4	- 16	- 64
Unscheduled write-downs	0	0	0	0	- 3	- 3
Disposals	49	0	0	0	2	50
Balance as at 31 December 2019	*- 740*	*0*	*0*	*- 44*	*- 48*	*- 832*
Carrying amounts						
Balance as at 1 January 2019	118	0	20	47	39	224
Balance as at 31 December 2019	84	0	17	43	53	198

Intangible assets of EUR 110 million (previous year: EUR 127 million) had a remaining useful life of more than twelve months as at the reporting date.

47. Investment property

Accounting policies

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

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

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

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

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

Additional information

Development of carrying amount

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

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2019	*688*	*35*	*723*
Additions	4	0	4
Disposals	– 2	0	– 2
Reclassification to non-current assets or disposal groups held for sale	– 108	– 4	– 112
Currency translation differences	5	1	6
Changes in fair value from assets (through profit or loss)	37	– 2	34
Reclassification from/to inventories and property and equipment	1	0	1
Carrying amount as at 31 December 2019	*624*	*30*	*655*

»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 tables below show the significant unobservable parameters of the investment property. Corresponding statements on financial instruments (see Note 43) also apply.

Investment property is measured on the basis of externally unobservable parameters (Level III):

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/ indexing	1.50%	
		Discount rate	3.00% – 8.76%	
		Risk of loss of rent	0.00% – 4.00%	
		Basic maintenance costs	EUR 4.00 – EUR 19.00/m²	
		Administrative costs (% of target rent)	1.00% – 10.00%	

31/12/2019 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/ indexing	1.50%	
		Discount rate	3.45% – 9.20%	
		Risk of loss of rent	0.75% – 4.00%	
		Basic maintenance costs	EUR 5.00 – EUR 17.90/m²	
		Administrative costs (% of target rent)	1.00% – 6.50%	

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	Investment property 01/01 – 31/12/2020	Investment property 01/01 – 31/12/2019
Carrying amount (closing balance of previous year)	*655*	*697*
Initial adoption of IFRS 16		*26*
Carrying amount (opening balance)	*655*	*723*
Gains and losses recognized in net consolidated profit/loss	29	27
Other earnings items	29	27
Additions through acquisitions	52	4
Disposals through sales	– 2	– 2
Other changes	63	14
Transfers in accordance with IFRS 5	– 2	– 112
Carrying amount (closing balance)	*796*	*655*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	29	27
Net interest income and current net income from equity instruments	0	0
Net gains/losses from financial instruments measured at fair value through other comprehensive income	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0
Other earnings items	29	27

48. Property and equipment

Accounting policies

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.

	Estimated useful life in years 31/12/2020	Estimated useful life in years 31/12/2019
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

The determination of the 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 balance sheet 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«.

Additional information

The following table shows the changes in »Property and equipment« in the year under review and the previous year:

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 2020	*942*	*133*	*251*	*25*	*208*	*376*	*1,934*
Currency translation differences	0	0	– 1	0	0	0	– 1
Additions	4	0	9	8	53	7	82
Transfers	– 14	0	1	– 22	35	0	0
Disposals	0	0	– 14	0	– 5	– 25	– 44
Transfers to non-current assets and disposal groups held for sale	0	0	0	0	0	0	0
Balance as at 31 December 2020	*931*	*133*	*246*	*11*	*291*	*357*	*1,971*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2020	*– 640*	*– 122*	*– 176*	*0*	*– 144*	*– 38*	*– 1,120*
Currency translation differences	0	0	1	0	0	0	1
Scheduled amortization	– 17	– 2	– 11	0	– 5	– 42	– 77
Transfers	6	0	0	0	– 6	0	1
Disposals	0	0	13	0	1	2	16
Transfers to non-current assets and disposal groups held for sale	0	0	0	0	0	0	0
Balance as at 31 December 2020	*– 650*	*– 124*	*– 174*	*0*	*– 154*	*– 78*	*– 1,180*
Carrying amounts							
Balance as at 1 January 2020	302	10	75	25	64	338	814
Balance as at 31 December 2020	281	9	72	11	137	279	790

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 2019	*949*	*132*	*252*	*2*	*197*	*354*	*1,886*
Currency translation differences	1	0	1	0	0	0	2
Additions	11	1	13	24	13	27	89
Transfers	– 7	0	0	– 1	1	0	– 6
Disposals	0	– 1	– 14	– 1	0	– 6	– 21
Transfers to »Non-current assets and disposal groups held for sale«	– 12	0	0	0	– 3	0	– 15
Balance as at 31 December 2019	*942*	*133*	*251*	*25*	*208*	*376*	*1,934*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2019	*– 627*	*– 121*	*– 180*	*0*	*– 143*	*0*	*– 1,070*
Scheduled amortization	– 21	– 2	– 9	0	– 4	– 40	– 78
Transfers	4	0	0	0	1	0	5
Disposals	0	1	13	0	0	2	16
Transfers to »Non-current assets and disposal groups held for sale«	5	0	0	0	2	0	7
Balance as at 31 December 2019	*– 640*	*– 122*	*– 176*	*0*	*– 144*	*– 38*	*– 1,120*
Carrying amounts							
Balance as at 1 January 2019	322	11	72	2	54	354	816
Balance as at 31 December 2019	302	10	75	25	64	338	814

More details on leases can be found in Note 49.

As at the reporting date, »property and equipment« in the amount of EUR 655 million (previous year: EUR 711 million) had a remaining useful life of more than twelve months.

49. Leasing business

Accounting policies

LBBW as the 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 balance sheet 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 balance sheet.

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.

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.

Additional information

LBBW as the lessor

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	31/12/2020	31/12/2019
Future lease payments	*5,700*	*6,124*
Up to 1 year	1,905	1,897
More than 1 year to 2 years	1,416	1,419
More than 2 years to 3 years	1,086	1,135
More than 3 years to 4 years	685	734
More than 4 years to 5 years	336	391
More than 5 years	272	548
= Gross investment value	*5,700*	*6,124*
./. unguaranteed residual values	8	7
./. unrealized financial income	258	290
= Net investment value	*5,433*	*5,828*
Up to 1 year	1,821	1,837

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 231 million (previous year: EUR 246 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	Office equipment	Vehicles	Technical equipment and machinery	Other leased assets	Total
Cost							
Balance as at 1 January 2020	*28*	*167*	*0*	*0*	*5*	*8*	*208*
Additions	0	0	0	0	2	51	53
Transfers	2	11	0	0	0	22	35
Disposals	0	– 0	0	0	– 5	0	– 5
Transfers to »Non-current assets and disposal groups held for sale«	– 0	– 0	0	0	0	0	– 0
Balance as at 31 December 2020	*30*	*178*	*0*	*0*	*2*	*81*	*291*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2020	*– 4*	*– 140*	*0*	*0*	*– 0*	*– 0*	*– 144*
Scheduled amortization	0	– 3	0	0	– 1	– 2	– 6
Transfers	– 0	– 5	0	0	0	0	– 5
Disposals	0	0	0	0	1	0	1
Transfers to »Non-current assets and disposal groups held for sale«	0	0	0	0	0	0	0
Balance as at 31 December 2020	*– 4*	*– 149*	*0*	*0*	*– 0*	*– 2*	*– 154*
Carrying amounts							
Balance as at 1 January 2020	24	27	0	0	5	8	64
Balance as at 31 December 2020	26	30	0	0	2	79	137

EUR million	Land	Buildings	Office equipment	Vehicles	Technical equipment and machinery	Other leased assets	Total
Cost							
Balance as at 1 January 2019	*28*	*169*	*0*	*0*	*0*	*0*	*197*
Additions	0	0	0	0	5	8	13
Transfers	- 0	1	0	0	0	0	1
Disposals	0	- 0	0	0	0	0	- 0
Transfers to non-current assets and disposal groups held for sale	- 0	- 2	0	0	0	0	- 3
Balance as at 31 December 2019	*28*	*167*	*0*	*0*	*5*	*8*	*208*
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2019	*- 3*	*- 140*	*0*	*0*	*0*	*0*	*- 143*
Scheduled amortization	- 0	- 4	0	0	- 0	- 0	- 4
Transfers	- 0	1	0	0	0	0	1
Disposals	0	0	0	0	0	0	0
Transfers to »Non-current assets and disposal groups held for sale«	0	2	0	0	0	0	2
Balance as at 31 December 2019	*- 4*	*- 140*	*0*	*0*	*- 0*	*- 0*	*- 144*
Carrying amounts							
Balance as at 1 January 2019	25	29	0	0	0	0	54
Balance as at 31 December 2019	24	27	0	0	5	8	64

The carrying amounts of the investment property that is rented within the scope of operating lease agreements amounted to EUR 778 million (previous year: EUR 635 million). Changes to the carrying amounts are shown in Note 47.

In the year under review, lease income from operating leases was generated from fixed lease payments in the amount of EUR 64 million (previous year: EUR 72 million) and from variable lease payments that are not dependent on an index or (interest) rate in the amount of EUR 3 million (previous year: EUR 3 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	31/12/2020	31/12/2019
Up to 1 year	51	49
More than 1 year to 2 years	48	43
More than 2 years to 3 years	37	36
More than 3 years to 4 years	33	29
More than 4 years to 5 years	30	25
More than 5 years	142	111
Future lease payments from operating leases	*341*	*293*

LBBW as the lessee

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 2020	*355*	*9*	*11*	*376*
Additions	2	3	2	7
Disposals	- 24	- 1	- 0	- 25
Balance as at 31 December 2020	*333*	*12*	*13*	*357*
Amortization and impairment losses/reversals of impairment losses				
Balance as at 1 January 2020	*- 32*	*- 3*	*- 1*	*- 37*
Scheduled amortization	- 38	- 4	- 2	- 43
Disposals	1	1	0	2
Balance as at 31 December 2020	*- 70*	*- 6*	*- 3*	*- 78*
Carrying amounts				
Balance as at 1 January 2020	323	6	10	339
Balance as at 31 December 2020	263	6	10	279

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 2019	*340*	*8*	*6*	*354*
Additions	20	2	5	27
Disposals	- 5	- 1	- 0	- 6
Balance as at 31 December 2019	*355*	*9*	*11*	*376*
Amortization and impairment losses/reversals of impairment losses				
Balance as at 1 January 2019	*0*	*0*	*0*	*0*
Scheduled amortization	- 35	- 4	- 1	- 40
Disposals	2	1	0	2
Balance as at 31 December 2019	*- 34*	*- 3*	*- 1*	*- 38*
Carrying amounts				
Balance as at 1 January 2019	340	8	6	354
Balance as at 31 December 2019	322	6	10	338

Changes to the rights-of-use from investment property are shown in Note 35. They totaled EUR 28 million as at the reporting date (previous year: EUR 30 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	31/12/2020	31/12/2019
Up to 1 year	47	47
More than 1 year to 5 years	126	145
More than 5 years	174	213
Total undiscounted future lease payments	*347*	*405*
Up to 1 year	44	39
More than 1 year to 5 years	119	133
More than 5 years	163	208
Carrying amount of lease liabilities	*326*	*381*

The lease liabilities did not take into account potential future lease payments from existing leases in the amount of EUR 55 million (previous year: EUR 34 million) from renewal options and EUR 6 million (previous year: EUR 6 million) from termination options.

In the year under review, EUR – 2 million (previous year: EUR – 3 million) was incurred in interest expenses for lease liabilities, essentially due to leases for land and buildings.

The expense for leases of a low-value asset came to EUR – 2 million (previous year: EUR – 2 million).

50. Income taxes

Accounting policies

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 balance sheet date.

Income tax assets

EUR million	31/12/2020	31/12/2019[1]
Current income tax assets	118	126
Domestic	107	110
Abroad	11	16
Deferred income tax assets	1,107	1,126
Total	*1,225*	*1,251*

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

Of the current income tax assets, EUR 118 million (previous year: EUR 124 million) is due within one year.

Income tax liabilities

EUR million	31/12/2020	31/12/2019
Current income tax liabilities	49	55
of which provisions for income tax	44	52
of which income tax liabilities to tax authorities	5	4
Deferred income tax liabilities	24	33
Total	*73*	*89*

Of the current income tax liabilities, EUR 48 million (previous year: EUR 55 million) is due within one year.

51. Provisions

Accounting policies

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 2020. 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.

As at 31 December 2020, LBBW (Bank) transferred most of its existing pension obligations, against a one-time payment, to a non-insurance-based pension fund under German law as a legally independent entity. The allocation to the pension fund created plan assets within the meaning of IAS 19 of EUR 2.2 billion, intended to meet the benefit entitlements transferred. Assets will not be transferred back to the sponsoring undertaking. All entitled beneficiaries were granted an irrevocable right to draw from the pension fund.

A fund-based direct pension plan – LBBW VorsorgeFonds Plus – is currently in place for new entrants at LBBW. 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) and invested in lifecycle-based investments. 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 plan 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 balance sheet

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 balance sheet date, but also the future expected rates of increase of pensionable salaries and pensions, the expected benefit cases (old 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. Mortality 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 balance sheet, liquidity and investment risks. In accordance with IAS 19, balance sheet 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 is recognized under »Other comprehensive income« and leads to changes in equity. The basis and amount of balance sheet risk determine the aforementioned actuarial gains or losses. They can therefore provide relief or be a burden. The main factor in relation to balance sheet 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 general lowering of interest rates in the last two years resulted in a markedly lower calculatory interest rate and therefore to a sharp increase 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 balance sheet 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 annunitization. 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 balance sheet 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. The allocation to the pension fund also resulted in a liquidity outflow. Save for the calculatory interest rate, which does not impact on the amount of benefit payments, the balance sheet 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. 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.

Other provisions

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 balance sheet 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.

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.

Furthermore, there are provisions for off-balance-sheet credit risks and »Other provisions«, which include provisions for restructuring and legal risks. Please see the risk and opportunity report for further details of the legal risks.

Additional information

Provisions

EUR million	31/12/2020	31/12/2019[1]
Provisions for pensions	1,667	3,772
Provisions for litigation and recourse risk	210	222
Provisions for lending business	277	146
Other personnel-related provisions	126	140
Other provisions	243	251
Total	*2,523*	*4,530*

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

As at the reporting date, »Provisions« of EUR 1,955 million (previous year: EUR 4,119 million) had a remaining term to maturity of over twelve months.

Provisions for pensions

The present value of the defined benefit obligations is broken down into the following components:

EUR million	2020	2019[1]
Balance as at 31 December	3,967	3,435
Restatement of prior year amounts including changes in the scope of consolidation	0	82
Balance as at 1 January	*3,967*	*3,517*
Changes recognized in the income statement	*106*	*121*
Interest expense/income	38	60
Current service cost including the release of pension liabilities	68	61
Changes recognized in Other comprehensive income	*113*	*446*
Actuarial gains(+)/losses(-) from changes to the demographic assumptions	34	0
Actuarial gains(+)/losses(-) from changes to the financial assumptions	109	440
Experience-based actuarial gains(+)/losses(-)	– 30	4
Changes in exchange rates	– 0	2
Other changes	*– 115*	*– 118*
Pension benefits paid	– 115	– 117
Balance as at 31 December	*4,072*	*3,967*

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

Current interest rate developments caused the interest rate for discounting pension obligations to fall again year on year, decreasing from 0.97% to 0.56% and resulting in an increase in pension provisions.

The present value of the defined pension obligations was classified as follows by the type of beneficiary:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Present value of the pension obligations for active employers	1,594	1,555
Present value of the pension obligations for candidates	625	593
Present value of the pension obligations for retirees	1,853	1,820
Total	*4,072*	*3,967*

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

This present value was broken down as follows by type of benefit:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Present value of the accrued but non-vested pension obligations	1,467	288
Present value of the vested pension obligations	2,605	3,679
Total	*4,072*	*3,967*

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

The present value of the defined benefit plans arose from the following commitments or benefits:

EUR million	01/01 – 31/12/2020	01/01 – 31/12/2019[1]
Present value of the pension obligations based on conditional benefits	4	4
Present value of the pension obligations based on future salary increases	204	291
Present value of the pension obligations based on other benefits	3,864	3,671
Total	*4,072*	*3,967*

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

Obligations under defined benefit plans were calculated using the following actuarial assumptions:

in %	31/12/2020	31/12/2019
Fluctuation	4.00	4.00
Discount rate	0.56	0.97
Expected change in income	1.45	1.85
Expected change in pensions	1.30	1.70
Career dynamics	0.50	0.50
Retirement probability	50.00	50.00

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 balance sheet 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:

31/12/2020 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in discount rate	– 316	360
Change in expected income development	104	– 87
Change in expected pension growth	85	– 77
Change in career dynamics	3	– 3
Change in fluctuation	– 0	0
Change in probability of annunitization	2	– 2

31/12/2019[1] EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in discount rate	– 306	348
Change in expected income development	114	– 100
Change in expected pension growth	86	– 77
Change in career dynamics	4	– 4
Change in fluctuation	– 1	1
Change in probability of annuitization	1	– 1

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

A one-year increase in life expectancy would lead to a EUR 142 million (previous year: EUR 149 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	31/12/2020	31/12/2019
Time deposits and other cash and cash equivalents	*9*	*8*
Level I measurement	5	4
Level II measurement	4	4
Securities	*176*	*185*
Securities – equity instruments	*45*	*45*
Equity instruments from financial institutions	*33*	*45*
Level I measurement	33	32
Level II measurement	0	13
Equity instruments from other financial corporations	*11*	*0*
Level II measurement	11	0
Securities – debt instruments	*131*	*139*
Debt instruments from financial institutions	*119*	*139*
Level I measurement	119	129
Level II measurement	0	10
Debt instruments from other financial corporations	*12*	*0*
Level II measurement	12	0
Real estate	*1*	*3*
Investment fund	*2,219*	*0*
Level I measurement	2,219	0
Plan assets	*2,405*	*195*

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	2020	2019
Balance as at 1 January	*197*	*199*
Changes recognized in the income statement	*2*	*4*
Interest income/expense	2	4
Changes recognized in Other comprehensive income	*– 2*	*4*
Income/expense from the plan assets (less the income included in net interest income)	– 1	2
Changes in exchange rates	– 2	2
Other changes	*2,208*	*– 12*
Employer contributions	2,224	7
Pension benefits paid	– 16	– 19
Balance as at 31 December	*2,405*	*195*

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 balance sheet as follows:

EUR million	31/12/2020	31/12/2019[1]
Present value of defined benefit obligations	4,072	3,967
of which present value of defined benefit obligations from unfunded plans	3,577	3,498
of which present value of defined benefit obligations from wholly or partially funded plans	495	469
Fair value of plan assets	– 2,405	– 195
Obligations not covered by plan assets	1,667	3,772
Provisions for pensions	*1,667*	*3,772*

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

The weighted average maturity of the defined benefit obligation is 16.8 years (previous year: 15.9 years).

The following table shows the maturity analysis of the benefit payments in the current financial year:

EUR million	31/12/2020	31/12/2019[1]
Maturity analysis		
Up to 1 year	125	117
More than 1 year to 5 years	531	548
More than 5 years to 10 years	738	777
More than 10 years to 15 years	778	788
More than 15 years	2,796	2,551

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

Other provisions

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 2020	*140*	*222*	*251*	*612*
Additions	57	47	139	242
Reversals	– 11	– 51	– 91	– 153
Utilization	– 57	– 5	– 60	– 122
Discounting of non-current provisions	0	1	1	3
Compounding of non-current provisions	– 0	– 1	– 0	– 1
Other changes	– 2	– 2	2	– 2
Balance as at 31 December 2020	*126*	*210*	*243*	*579*

The other personnel-related provisions included mainly provisions for staff anniversaries and provisions for performance-related remuneration.

LBBW was faced with various legal proceedings and court actions 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 417 million were discounted. Negative interest rates could also be used here. Average maturities for »Other provisions« range from one year to 13 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 credit risks (for information on calculating allowances for losses on loans see Note 20).

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

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

52. Other assets and other liabilities

Accounting policies

Other assets include assets which, considered separately, are not significant for the disclosure of balance sheet assets and cannot be allocated to any other balance sheet 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 0.85% p.a. and 2.50% p.a. (previous year: 0.85% and 2.50% p.a.) were applied.

Other liabilities include accruals and obligations which, considered separately, are not significant for the disclosure of balance sheet liabilities and cannot be allocated to any other balance sheet item.

Assets and liabilities in these items are measured at amortized cost.

Additional information

Other assets

Scheduled and unscheduled impairments are reported under the item »Other operating income/expenses«.

EUR million	31/12/2020	31/12/2019
Inventories	802	762
Receivables from tax authorities	71	61
Other miscellaneous assets	2,006	1,797
Total	*2,878*	*2,619*

»Other assets« included assets amounting to EUR 336 million (previous year: EUR 610 million) with a remaining useful life of more than twelve months.

»Inventories« increased primarily due to additions to various real estate projects and can be broken down as follows:

EUR million	31/12/2020	31/12/2019
Land and land rights, with unfinished buildings	421	434
Work in progress and development measures	91	89
Land and land rights, without buildings	161	110
Other inventories	129	128
Total	*802*	*762*

The carrying amount of »Inventories« recognized at fair value less costs to sell was EUR 44 million (previous year: EUR 46 million).

The carrying amount of »Inventories« pledged as collateral for liabilities amounted to EUR 283 million (previous year: EUR 289 million).

Borrowing costs of EUR 6 million (previous year: EUR 11 million) were capitalized.

LBBW recognizes precious metal portfolios, among other things, under »Other inventories«.

Other liabilities

EUR million	31/12/2020	31/12/2019
Liabilities from		
other taxes	40	51
Employment	15	37
Trade payables	63	71
Non-controlling interests	3	3
Leasing	326	381
Advances received	198	146
Other miscellaneous liabilities	1,571	1,424
Total	*2,217*	*2,113*

Other liabilities with maturities of more than twelve months amounted to EUR 285 million (previous year: EUR 347 million) as at the reporting date.

For a detailed description of leasing business, see Note 49.

53. Off-balance-sheet transactions

Contingent liabilities

EUR million	31/12/2020	31/12/2019
Sureties and guarantee agreements	7,232	7,777
Other contingent liabilities	151	113
Total	*7,383*	*7,890*

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 credit risks«.

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

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

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 57).
- 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 following credit institutions, provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions:

the former Landesbank Schleswig-Holstein Girozentrale, Kiel, and the former LRP Landesbank Rheinland-Pfalz, Mainz.

Other obligations

EUR million	31/12/2020	31/12/2019
Irrevocable loan commitments	32,677	28,961
Total	*32,677*	*28,961*

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 20 for information on allowances for losses on loans and securities).

Further transactions not included in the balance sheet and other financial obligations

EUR million	31/12/2020	31/12/2019
Payment obligations and joint liability	894	617
Obligations from investment projects started	203	273
Revocable loan commitments	22,946	20,380
Miscellaneous	39	31
Total	*24,082*	*21,300*

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 805 million (previous year: EUR 531 million). In addition to the items shown in the table, obligations of EUR 213 million (previous year: EUR 197 million) arise each year from rental and lease agreements.

Contingent claims

EUR million	31/12/2020	31/12/2019
Legal disputes	7	7
Total	*7*	*7*

Fiduciary transactions

The trust activities which are not carried in the balance sheet involve the following types of assets and liabilities and break down as follows:

EUR million	31/12/2020	31/12/2019
Loans and advances to banks	755	234
Loans and advances to customers	174	94
Financial investments	1	1
Other assets	32	28
Total trust assets[1]	*962*	*358*
Deposits from banks	960	355
Deposits from customers	1	1
Other liabilities	0	2
Total trust liabilities[1]	*962*	*358*

1 Including receivables and liabilities on behalf of others for the account of a third party (administrative loans).

54. 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 59.

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:

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

31/12/2019 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	548	3	3	200	0	1,322
Financial assets measured at fair value through other comprehensive income	526	0	22	171	0	99
Financial assets designated at fair value	18	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,904	0	6	118	6	421
Other assets	0	0	1	0	0	0
Total assets	*2,997*	*3*	*33*	*489*	*6*	*1,842*
Financial liabilities measured at amortized cost	2,687	10	45	154	10	11,662
Financial liabilities designated at fair value	0	0	0	0	0	22
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	53	0	201
Provisions	0	0	0	0	3	0
Total equity and liabilities	*2,688*	*10*	*46*	*207*	*13*	*11,885*
Off-balance-sheet transactions	*331*	*1*	*10*	*86*	*4*	*930*

Related party transactions resulted in material effects in net interest income of EUR 231 million (previous year: EUR 132 million).

LBBW did not exercise the exemption in accordance with IAS 24.25.

With effect from 31 December 2020, LBBW (Bank) transferred EUR 2,218 million in direct pension obligations to a non-insurance-based pension fund under German law, together with the corresponding funding.

55. Equity

Accounting policies

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) and the associated deferred taxes.

The breakdown of »Other comprehensive income« is shown in the statement of changes in equity.

Additional information

EUR million	31/12/2020	31/12/2019[1]
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,243	744
Other comprehensive income	74	152
Consolidated profit/loss	172	442
Shareholders' equity	*13,214*	*13,063*
Additional equity components	*745*	*745*
Equity attributable to non-controlling interests	33	32
Total	*13,992*	*13,840*

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

»Retained earnings« included cumulative actuarial gains/losses after tax of EUR – 1,303 million (previous year: EUR – 1,223 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 38 million (previous year: EUR 4 million) in connection with the measurement of LBBW's own credit rating was included in other comprehensive income. This in part reflected the increase in own credit spread (OCS) due to the coronavirus pandemic.

»Equity« includes taxes recognized in other comprehensive income of EUR 538 million (previous year: EUR 555 million).

Due to the coronavirus pandemic, in 2020 the EBA as the superordinate regulator and the ECB as the relevant supervisory authority recommended provisionally refraining from making distributions out of 2019 and 2020 net profit. In the middle of December 2020, ECB stated that in the period to 30 September 2021 a distribution of up to 15% of the cumulated consolidated profits (according to the supervisory definition and after taxes / servicing of additional equity components) of the two financial years, but combined not higher than 20 basis points on the common equity Tier 1 capital ratio is deemed appropriate. For this reason LBBW notified the ECB of a distribution intention for 2019 and the ECB did not raise any objections against a distribution within the framework it had defined. The resolution on the appropriation of profit is the responsibility of the annual general meeting. In February 2021 – in compliance with the guidelines issued by the ECB – it resolved to make a distribution from the net profit of 2019 to its owners of EUR 70 million. This did not impact the common equity Tier I (CET 1) as the amount earmarked for distribution purposes was not allocated to CET 1.

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 viability 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 state of the coronavirus pandemic 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 analyzed, reported and, where necessary, measures to achieve the targets are agreed, implemented and monitored. This is carried out by those responsible/the committees within the steering groups.

In addition, compliance with the internal targets also in case of adverse development of the coronavirus pandemic over the same time horizon is ensured.

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 auditing, the head of finance/strategy and divisional man-agers from Group Risk Controlling, Compliance, Finance Controlling, Treasury and Back Office. 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 auditing, the head of finance/strategy and the divisional managers from Financial Controlling and Treasury. Group Risk Controlling and Finance also participate in the meetings.

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/compliance and auditing and heads of information technology and finance/strategy, in addition to divisional managers from the Legal division, Group Risk Controlling, Compliance, Finance, Finance Controlling, Group Auditing, Treasury and Back Office.

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 developments in the coronavirus pandemic compared to other possible 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 Group 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 1.75% in 2020. In contrast to the previous year, a CET 1 capital ratio of 8.98% had to be maintained on a consolidated basis from April 2020 onwards (until April 2020: 9.75%). The 0.77 percentage point reduction reflects the changed requirement regarding the quality of capital to be held. The relief granted due to the pandemic means that the remaining share of 0.77 percentage points can be held in the form of AT1 or T2 capital. A further 0.25 percentage point decline is a result of the change to the decision on the buffer for other systemically relevant bank, putting the capital requirement for CET 1 at 8.73% from November 2020 onwards. This ratio includes the statutory minimum requirements for the common equity Tier 1 capital ratio and the capital conservation buffer, the buffer for other systemically relevant banks and the additional regulatory capital requirements within the scope of the SREP process.

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 2020 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 income«.

The additional Tier 1 capital comprises the AT 1 bond issued in 2019 and the silent partners' contributions. Due to the transitional provisions that will be in place until the end of 2021, they may continue to be included this capital heading within the ranges applicable in accordance with Article 486 CRR in conjunction with Article 31 SolvV. Amounts that are no longer included in these ranges may be included in this capital heading, provided the conditions for consideration as supplementary capital are met.

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. Furthermore, the »Silent partners' contributions« that can no longer be counted as AT 1 capital due to the transitional provisions are counted as part of the supplementary capital. The supplementary capital instruments are subject to a day specific reduction in the last five years of their term.

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. Additional deductible items include irrevocable payment obligations towards the deposit guarantee system of the German Savings Bank Association (Deutscher Sparkassen- und 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 in 2020.

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 2020:

EUR million	31/12/2020	31/12/2019
Own funds	*18,732*	*18,492*
Tier 1 capital	13.632	13.257
of which common equity Tier 1 capital (CET 1)	12,406	11,790
of which additional Tier 1 capital (AT 1)	1,226	1,467
Supplementary capital (Tier 2)	5,100	5,235
Total amount at risk	*82,042*	*80,484*
Risk weighted exposure amounts for credit, counterparty and dilution risk, advance payments and other risk exposure amounts	70,207	69,347
Risk exposure amount for settlement and supply risks	2	19
Total exposure amount for position, foreign exchange and commodity risk	5,951	5,282
Total risk exposure amount for operational risks	4,745	4,661
Total amount of risk due to CVA	1,137	1,175
Total capital ratio (in %)	*22.8*	*23.0*
Tier 1 capital ratio (in %)	*16.6*	*16.5*
Common equity Tier 1 (CET 1) capital ratio (in %)	*15.1*	*14.6*

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".

EUR million	31/12/2020	31/12/2019
Tier 1 capital	*13.632*	*13.257*
Paid-in capital instruments	3,485	3,485
Premium	8,240	8,240
Additional Tier 1 capital (AT 1)	1,226	1,467
Retained profits, cumulative result and other reserves	1,144	1,030
Deductibles from CET 1 capital in accordance with CRR, taking into account transitional provisions	– 462	– 965

Explanation of the changes in 2019 versus 2020

The common equity Tier I (CET 1) of the LBBW Group increased as against the previous year. This was the result chiefly of including net profit/loss for the year in 2019 in common equity Tier 1 capital and deducting the amount intended for distribution. Furthermore, the reduction in the IRB shortfall and intangible assets when approving the 2019 annual financial statements also increased CET 1. The rise in actuarial losses was offset by a higher revaluation reserve at equity investments. This year, a request was made to include year-end gains in the 2020 financial year in accordance with Article 26 (2) CRR. Accordingly, the deductible items intangible assets saw a particular decrease on the previous year. On balance, applying the transitional provisions for the effects of first-time adoption under IFRS 9 and the transitional provisions for the revaluation reserves of central state debt instruments recognized at fair value also increased common equity Tier 1.

Additional tier 1 capital (AT1) declined due to the transitional provisions in place, which allow silent partners' contributions to be offset only to a limited degree. Supplementary capital (T2) also decreased. This was due chiefly to maturities and the amortization of Tier 2 capital components on the basis of the number of days that have passed. Other factors included the development of USD and SGD exchange rates and the effects of first-time adoption to be deducted from supplementary capital as per IFRS 9. By contrast, offsetting silent partners' contributions under transitional provisions that, in accordance with CRR, no longer fulfill the conditions for AT 1 and instead meet only the conditions for T 2, had the opposite effect. The value adjustment surplus also increased supplementary capital.

The changes impacting on CET 1 capital have an effect on all capital ratios. An increase in AT 1 capital influences the Tier 1 capital ratio and the total capital ratio, while the issue of Tier 2 capital only has a positive effect on the total capital ratio.

The total amount of risk increased slightly compared to the end of the previous year. For credit risk, this was driven chiefly by general business performance, new transactions and ratings premiums as a result of the economy for receivables measured using the internal rating approach. This was countered by the disposal of a strategic equity investment in the first half of the year. The upturn in the total exposure amount for position, foreign exchange and commodity risk also reflects new transactions.

G. Additional disclosures in accordance with Section 315e HGB

57. 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 8.

LBBW Immobilien-Holding GmbH, Stuttgart, LBBW Service GmbH, Stuttgart, ALVG Anlagenvermietung GmbH, Stuttgart, SüdFactoring GmbH, Stuttgart, and SüdLeasing GmbH, Stuttgart, availed of the exemption according to Section 264 (3) HGB.

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	ALVG Anlagenvermietung GmbH [1, 6, 7, 26]	Stuttgart	100.00		EUR	19,000.00	0.00
2	Austria Beteiligungsgesellschaft mbH [26]	Stuttgart	66.67		EUR	36,308.16	171.47
3	Berlin Lützowstraße GmbH & Co. KG [1, 26]	Stuttgart	60.00		EUR	– 2,955.43	– 2,777.52
4	Centro Alemán de Industria y Comercio de México S.de R.L.de C.V. [2, 26]	Mexico City, Mexico	100.00		MXN	– 8,644.54	2,122.31
5	Dritte Industriehof Objekt-GmbH [1, 6, 26]	Stuttgart	100.00		EUR	701.91	0.00
6	Eberhardstraße Stuttgart GmbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	– 3,603.78	240.27
7	Employrion Komplementär GmbH [1, 8, 26]	Weil	100.00		EUR	33.40	0.92
8	Entwicklungsgesellschaft Grunewaldstraße 61 - 62 mbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	– 3,405.34	– 7.08
9	Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	– 2,210.79	– 7.02
10	Erste IMBW Capital & Consulting Komplementär GmbH [1, 8, 23]	Weil	100.00		EUR	26.80	1.29
11	Erste Industriehof Objekt-GmbH [1, 6, 26]	Stuttgart	100.00		EUR	474.96	0.00
12	EuroCityCenterWest GmbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	3,989.74	9,055.60
13	EuroCityCenterWest Verwaltungs-GmbH [1, 26]	Stuttgart	100.00		EUR	35.01	– 0.10
14	FLANTIR PROPERTIES LIMITED [1, 26]	Nicosia, Cyprus	100.00		RUB	– 8,843.92	1,698.87
15	FOM / LEG Generalübernehmer GmbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	– 7,188.70	1,284.85
16	Fünfte Industriehof Objekt-GmbH [1, 6, 26]	Stuttgart	100.00		EUR	575.02	0.00
17	German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft [5, 26]	Stuttgart	100.00		EUR	7,720.60	0.00
18	German Centre for Industry and Trade Pte. Ltd. [1, 26]	Singapore, Singapore	100.00		SGD	20,474.91	2,164.18
19	IMBW Capital & Consulting GmbH [1, 6, 26]	Stuttgart	100.00		EUR	250.00	0.00
20	Immobilienvermittlung BW GmbH [26]	Stuttgart	100.00		EUR	3,501.74	795.41
21	Industriehof-Aktiengesellschaft [1, 6, 26]	Stuttgart	93.63		EUR	23,281.64	0.00
22	Kiesel Finance Management GmbH [1, 26]	Baienfurt	90.00		EUR	44.24	2.10
23	Kommunalbau Rheinland-Pfalz GmbH [1, 26]	Stuttgart	100.00		EUR	1,994.98	– 48.36
24	Landesbank Baden-Württemberg Capital Markets Plc [26]	London, Great Britain	100.00		EUR	896.00	– 31.00
25	LBBW Asset Management Investmentgesellschaft mbH [3, 7, 26]	Stuttgart	100.00		EUR	38,380.00	18,578.87
26	LBBW Corporate Real Estate Management GmbH [26]	Stuttgart	100.00		EUR	2,612.43	– 205.28

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
27	LBBW Immobilien Asset Management GmbH [1, 6, 26]	Stuttgart	100.00		EUR	1,305.03	0.00
28	LBBW Immobilien Capital Fischertor GmbH & Co. KG [1, 26]	Munich	93.98	94.00	EUR	– 5,209.39	37.74
29	LBBW Immobilien Capital GmbH [1, 26]	Stuttgart	100.00		EUR	– 2,199.49	13.07
30	LBBW Immobilien Development GmbH [1, 4, 6, 7, 26]	Stuttgart	94.90		EUR	15,394.95	0.00
31	LBBW Immobilien Development Komplementär GmbH [1, 26]	Stuttgart	100.00		EUR	– 731.65	– 123.06
32	LBBW Immobilien Investment Management GmbH [1, 26]	Stuttgart	100.00		EUR	– 13.87	– 46.95
33	LBBW Immobilien Kommunalentwicklung GmbH [1, 4, 6, 7, 26]	Stuttgart	81.62		EUR	2,016.51	0.00
34	LBBW Immobilien Management Gewerbe GmbH [1, 6, 26]	Stuttgart	94.90		EUR	3,303.97	0.00
35	LBBW Immobilien Management GmbH [1, 6, 26]	Stuttgart	100.00		EUR	375,690.52	0.00
36	LBBW Immobilien Romania S.R.L. [1, 26]	Bucharest, Romania	100.00		RON	– 34,494.94	– 848.01
37	LBBW Immobilien Süd GmbH & Co. KG [1, 4, 26]	Munich	100.00		EUR	– 33,946.85	2,490.76
38	LBBW Immobilien-Holding GmbH [5, 26]	Stuttgart	100.00		EUR	402,050.54	0.00
39	LBBW Leasing GmbH i. L. [26]	Mannheim	100.00		EUR	25,004.42	– 19.96
40	LBBW México [2, 26]	Mexico City, Mexico	100.00		MXN	3,433.75	1,181.38
41	LBBW Service GmbH [5, 26]	Stuttgart	100.00		EUR	224.67	0.00
42	LBBW US Real Estate Investment LLC [28]	Wilmington, USA	100.00		USD	54,363.91	2,180.15
43	LBBW Venture Capital Gesellschaft mit beschränkter Haftung [26]	Stuttgart	100.00		EUR	33,945.34	1,001.02
44	LEG Projektgesellschaft 2 GmbH & Co. KG [1, 26]	Stuttgart	100.00		EUR	4,726.47	– 2,227.16
45	LEG Verwaltungsgesellschaft 2 mbH [1, 26]	Stuttgart	100.00		EUR	27.21	– 1.40
46	LIAM Horizont Stuttgart GmbH [1, 26]	Stuttgart	100.00		EUR	31.44	0.21
47	LOOP GmbH [1, 26]	Stuttgart	100.00		EUR	192.74	– 7.68
48	Löwentor Stuttgart Komplementär GmbH [1, 26]	Stuttgart	100.00		EUR	28.18	1.20
49	Löwentor Stuttgart Projekt GmbH & Co. KG [1, 26]	Stuttgart	70.00		EUR	8,676.60	4,963.93
50	LRP Capital GmbH [1, 26]	Stuttgart	100.00		EUR	3,408.63	– 51.67
51	Lyoner Quartier GmbH & Co. KG [1, 26]	Frankfurt am Main	100.00		EUR	– 6,806.81	– 2,321.17
52	Mainz Marina A + B GmbH & Co. KG [1]	Stuttgart	100.00			Not specified	Not specified
53	MMV Bank GmbH [7, 26]	Koblenz	100.00		EUR	51,248.38	10,467.18
54	MMV Leasing Gesellschaft mit beschränkter Haftung [1, 6, 7, 26]	Koblenz	100.00		EUR	21,000.00	0.00
55	MMV Versicherungsdienst GmbH [1, 6, 26]	Koblenz	100.00		EUR	27.05	0.00

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
56	MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH [1,6,7,26]	Koblenz	100.00		EUR	26.00	0.00
57	Nymphenburger Straße München GmbH & Co. KG [1,26]	Stuttgart	100.00		EUR	202.94	163.05
58	Nymphenburger Straße München Komplementär GmbH [1,26]	Stuttgart	100.00		EUR	20.33	– 0.63
59	Pasing Projekt GmbH & Co. KG [1,26]	Stuttgart	100.00		EUR	– 5,393.21	10,291.69
60	Projekt 20 Verwaltungs GmbH [1,26]	Munich	100.00		EUR	43.01	1.35
61	Projektgesellschaft SMK 69 mbH [1,26]	Eschborn	60.00		EUR	– 63.30	163.45
62	Revaler Straße Grundbesitz GmbH [1]	Stuttgart	100.00			Not specified	Not specified
63	Schlossgartenbau Objekt-GmbH [1,6,26]	Stuttgart	100.00		EUR	18,560.61	0.00
64	Schlossgartenbau-Aktiengesellschaft [1,6,26]	Stuttgart	92.68		EUR	6,592.42	0.00
65	SG Management GmbH [1,26]	Stuttgart	100.00		EUR	13,735.43	427.30
66	Signaris GmbH [1,26]	Stuttgart	94.90		EUR	7,152.81	– 2,818.66
67	SLN Maschinen-Leasing Verwaltungs-GmbH [1,26]	Stuttgart	100.00		EUR	1,844.09	710.42
68	SLP Mobilien-Leasing Verwaltungs GmbH [1,26]	Mannheim	100.00		EUR	368.43	82.76
69	Süd Beteiligungen GmbH [26]	Stuttgart	100.00		EUR	153,283.63	13,438.63
70	Süd KB Sachsen GmbH [1,26]	Leipzig	100.00		EUR	11,044.19	687.27
71	Süd KB Unternehmensbeteiligungsgesellschaft mbH [1,26]	Stuttgart	100.00		EUR	46,915.71	– 1,096.63
72	SüdFactoring GmbH [3,5,7,26]	Stuttgart	100.00		EUR	70,000.00	0.00
73	Süd-Kapitalbeteiligungs-Gesellschaft mbH [1,6,26]	Stuttgart	100.00		EUR	61,181.87	0.00
74	SüdLeasing Agrar GmbH [1,7,26]	Mannheim	100.00		EUR	2,678.78	877.29
75	SüdLeasing GmbH [5,7,26]	Stuttgart	100.00		EUR	33,999.56	0.00
76	targens GmbH [26]	Stuttgart	100.00		EUR	5,357.92	2,031.98
77	Turtle Portfolio GmbH & Co. KG [1,26]	Frankfurt am Main	100.00		EUR	– 24,029.57	– 567.24
78	Turtle Vermögensverwaltungs-GmbH & Co. KG [1,26]	Frankfurt am Main	100.00		EUR	– 20,704.86	1,317.10
79	Turtle 1. Verwaltungs-GmbH [1,26]	Frankfurt am Main	100.00		EUR	1.78	3.80
80	Ungererstraße München GmbH & Co. KG [1]	Stuttgart	100.00			Not specified	Not specified
81	Vierte Industriehof Objekt-GmbH [1,6,26]	Stuttgart	100.00		EUR	1,176.78	0.00
82	zob Esslingen Grundbesitz GmbH [1,26]	Stuttgart	100.00		EUR	1,276.95	737.14
83	Zweite IMBW Capital & Consulting Komplementär GmbH [1,26]	Stuttgart	100.00		EUR	23.22	1.19
84	Zweite Industriehof Objekt-GmbH [1,6,26]	Stuttgart	100.00		EUR	19,825.72	0.00
85	Zweite LBBW US Real Estate GmbH [26]	Leipzig	100.00		EUR	51,887.47	1,536.04

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)							
86	Employrion Immobilien GmbH & Co. KG [1, 26]	Weil	35.00	50.00	EUR	8.00	0.00
87	Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG [1, 23]	Weil	40.00	50.00	EUR	– 34.14	0.00
88	Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG [1, 26]	Berlin	39.94	50.00	EUR	– 8,755.33	– 230.41
89	Weinberg Capital Designated Activity Company [8, 28]	Dublin, Ireland			EUR	70.00	0.00
90	Weinberg Funding Ltd. [8, 28]	St.Helier, Jersey, United Kingdom			EUR	3.60	0.00
2. Joint ventures accounted for using the equity method							
91	ARGE ParkQuartier Berg [1, 26]	Stuttgart	50.00		EUR	403.63	– 10.26
92	Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) [1, 26]	Bad Kreuznach	50.00		EUR	3,372.75	235.18
93	GIZS GmbH & Co. KG [26]	Frankfurt am Main	33.33		EUR	19,041.82	– 3,178.01
94	OVG MK6 Komplementär GmbH [1, 26]	Berlin	50.00		EUR	28.43	1.47
95	Parcul Banatului SRL [1, 26]	Bucharest, Romania	50.00		RON	198.28	– 87.45
3. Associates accounted for using the equity method							
96	Altstadt-Palais Immobilien GmbH & Co. KG [1, 26]	Weil	40.00	50.00	EUR	– 57.18	– 4.68
97	BWK GmbH Unternehmensbeteiligungsgesellschaft [26]	Stuttgart	40.00		EUR	246,025.88	19,598.71
98	BWK Holding GmbH Unternehmensbeteiligungsgesellschaft [26]	Stuttgart	40.00		EUR	11,416.48	852.61
99	EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG [1, 26]	Heidelberg	33.33		EUR	6,915.62	58.18
100	Hypo Vorarlberg Bank AG [1, 7, 26]	Bregenz, Austria	23.13		EUR	1,119,518.86	56,111.45

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
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)							
101	Baden-Württembergische Equity Gesellschaft mit beschränkter Haftung [26]	Stuttgart	100.00		EUR	1,717.79	461.86
102	Berlin Lützowstraße Komplementär GmbH [1, 26]	Stuttgart	100.00		EUR	31.74	1.76
103	DEBTVISION GmbH [1, 26]	Stuttgart	80.00		EUR	3,985.66	– 1,675.77
104	German Centre for Industry and Trade Beijing Co., Ltd. [26]	Beijing, China	100.00		CNY	6,083.72	1,137.17
105	Heurika Mobilien-Leasing GmbH [1, 4, 26]	Mannheim	100.00		EUR	244.38	– 9.72
106	Karin Mobilien-Leasing GmbH i. L. [1, 26]	Mannheim	100.00		EUR	884.31	0.00
107	KB Projekt GmbH [1, 26]	Frankfurt am Main	100.00		EUR	51.03	4.63
108	Kröpeliner-Tor-Center Rostock Verwaltungs gesellschaft mbH [1, 8, 26]	Berlin	100.00		EUR	30.25	1.78
109	Laurus Grundstücksverwaltungsgesellschaft mbH i. L. [26]	Stuttgart	100.00		EUR	1,268.84	– 3.96
110	LBBW Gastro Event GmbH [5, 26]	Stuttgart	100.00		EUR	130.00	0.00
111	LBBW Immobilien Verwaltung GmbH [1, 26]	Stuttgart	100.00		EUR	71.47	4.92
112	LBBW Pensionsmanagement GmbH [5, 26]	Stuttgart	100.00		EUR	25.00	0.00
113	LBBW REPRESENTAÇÃO LTDA. [2, 26]	Sao Paulo, Brazil	100.00		BRL	132.05	21.22
114	LBBW (Schweiz) AG [26]	Zurich, Switzerland	100.00		CHF	8,391.55	– 453.13
115	LEG Osiris 4 GmbH [1, 26]	Stuttgart	100.00		EUR	27.09	– 0.99
116	LGZ-Anlagen-Gesellschaft mit beschränkter Haftung i. L. [26]	Mainz	100.00		EUR	2,858.60	814.25
117	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG i. L. [26]	Erfurt	99.77	24.00	EUR	– 3,409.86	2,738.42
118	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG [26]	Dusseldorf	100.00	15.00	EUR	– 3,420.70	709.26
119	LLC German Centre for Industry and Trade [26]	Moscow, Russia	100.00		RUB	1,851.77	– 56.54
120	MLP Verwaltungs GmbH i. L. [1, 26]	Mannheim	100.00		EUR	106.31	0.00
121	MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung [1, 6, 26]	Koblenz	100.00		EUR	26.43	0.00
122	Pollux Vierte Beteiligungsgesellschaft mbH [26]	Stuttgart	100.00		EUR	2,272.29	– 150.14
123	SL Bayern Verwaltungs GmbH i. L. [1, 26]	Mannheim	100.00		EUR	65.00	0.00
124	SL Bremen Verwaltungs GmbH [1, 26]	Mannheim	100.00		EUR	919.70	261.90
125	SL BW Verwaltungs GmbH i. L. [1, 26]	Mannheim	100.00		EUR	39.64	0.00
126	SL Düsseldorf Verwaltungs GmbH [1, 26]	Mannheim	100.00		EUR	601.38	– 3.21
127	SL Mobilien-Leasing GmbH & Co. Hafis KG [1, 8, 26]	Mannheim	0.00	51.00	EUR	1,986.07	– 6.30

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
128	SL Operating Services GmbH i. L. [1, 26]	Mannheim	100.00		EUR	80.41	0.00
129	SL RheinMainSaar Verwaltungs GmbH [1, 26]	Mannheim	100.00		EUR	57.53	– 0.66
130	SL Schleswig-Holstein Verwaltungs GmbH i. L. [1, 26]	Mannheim	100.00		EUR	91.56	0.00
131	SL Ventus GmbH & Co. KG i. L. [1, 26]	Mannheim	100.00		EUR	470.15	– 4.85
132	Städtische Pfandleihe Stuttgart GmbH [26]	Stuttgart	100.00		EUR	4,042.78	463.98
133	Süd Mobilien-Leasing GmbH i. L. [1, 26]	Stuttgart	100.00		EUR	28.28	0.00
134	Süd Verwaltung Schweiz GmbH [26]	Zurich, Switzerland	100.00		CHF	96.49	21.37
135	SüdLeasing Finance GmbH [1, 26]	Stuttgart	100.00		EUR	25.00	– 0.70
136	SüdLeasing Finance-Holding GmbH i. L. [1, 26]	Stuttgart	100.00		EUR	174.58	0.00
137	Yankee Properties II LLC [8]	Wilmington, USA	0.00	100.00		Not specified	Not specified
138	Yankee Properties LLC [16]	New York, USA	100.00		USD	528.85	– 21.47
139	Zenon Mobilien-Leasing GmbH i. L. [1, 26]	Mannheim	100.00		EUR	36.61	0.00
140	Zorilla Mobilien-Leasing GmbH i. L. [1, 26]	Mannheim	100.00		EUR	33.79	0.00
141	Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH [1, 26]	Munich	100.00		EUR	43.86	1.50
b. Subsidiaries not included (authority over contractual agreements)							
142	Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A i. L. [14]	Luxembourg, Luxembourg	100.00		EUR	5,897.89	– 248.71
143	LBBW AM-Start [8, 31]	Stuttgart			EUR	60,256.20	3,256.15
144	LBBW High Yield 2027 [8]	Stuttgart				Not specified	Not specified
145	LBBW Income Strategie [8, 27]	Stuttgart			EUR	11,974.49	275.15
146	LBBW Multi Asset Defensiv Nachhaltigkeit [8, 25]	Stuttgart			EUR	9,954.99	– 45.01
147	Pfalz Invest Nachhaltigkeit [8]	Stuttgart				Not specified	Not specified
148	Weinberg Capital LLC [8]	Wilmington, Delaware, USA				Not specified	Not specified
2. Joint ventures not accounted for using the equity method							
149	EPSa Holding GmbH [1, 26]	Saalfeld	45.00		EUR	3,700.66	272.99
150	German Centre for Industry and Trade India Holding-GmbH [1, 26]	Munich	50.00		EUR	42.98	– 17.99
151	GIZS Verwaltungs-GmbH [26]	Frankfurt am Main	33.33		EUR	33.98	8.42
152	Projektgesellschaft Hangweide GbR [1, 8]	Stuttgart	0.00	33.33		Not specified	Not specified
153	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG [1, 26]	Tübingen	75.02		EUR	3,869.01	– 3.62

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
3. Associates not accounted for using the equity method							
154	AGVS Holding GmbH [1,26]	Villingen-Schwenning	45.00		EUR	20,937.71	2,109.92
155	Deharde GmbH [1,26]	Varel	39.47		EUR	2,292.09	– 2,862.92
156	EURAMCO Immobilien GmbH [1,26]	Aschheim-Dornach	49.00		EUR	13.77	– 6.86
157	FABMATICS Holding GmbH [1,26]	Dresden	50.00		EUR	7,116.90	1,193.03
158	Grundstücks- Vermögens- und Verwaltungs-GbR Wolfstor 2, Esslingen i. L. [1,26]	Stuttgart	30.99		EUR	587.43	– 0.71
159	Grundstücks- Vermögens- und Verwaltungs-GbR Stuttgart/Leinfelden-Echterdingen [1,26]	Stuttgart	29.09		EUR	779.06	– 27.71
160	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart/Fellbach i. L. [1,26]	Stuttgart	42.63		EUR	475.91	118.57
161	Grundstücks-, Vermögens- und Verwaltungs-GbR Ludwigsburg »Am Schloßpark« i. L. [1,26]	Stuttgart	44.64		EUR	524.11	– 601.23
162	Janoschka AG [1,26]	Kippenheim	39.80		EUR	18,365.55	– 227.16
163	Kiesel Finance GmbH & Co. KG [1,8,26]	Baienfurt	0.00	75.00	EUR	– 495.31	– 192.20
164	KKL Holding GmbH [1,26]	Dusseldorf	48.27	47.20	EUR	17,467.00	2,113.95
165	Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	20.00		EUR	1,022.58	0.00
166	Mittelständische Beteiligungsgesellschaft Sachsen mbH [26]	Dresden	25.27		EUR	49,169.05	1,566.85
167	MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG [26]	Dusseldorf	94.00	49.00	EUR	– 1,228.49	442.40
168	Siedlungswerk GmbH Wohnungs- und Städtebau [7,26]	Stuttgart	25.00		EUR	260,866.68	21,215.32
169	SL Mobilien-Leasing GmbH & Co. ENERCON KG [1,8,26]	Mannheim	0.00	80.00	EUR	35,260.94	– 617.35
170	SLN Maschinen Leasing GmbH & Co. OHG [1,8,26]	Stuttgart	0.00	75.00	EUR	– 3,160.22	– 1,198.75
171	SLP Mobilien-Leasing GmbH & Co. OHG [1,8,26]	Mannheim	0.00	75.00	EUR	534.98	161.29
172	Xavin GmbH [1,26]	Stuttgart	29.94		EUR	– 9.44	– 316.61
173	1. yourTime Solutions AbwicklungsGmbH [1,13]	Potsdam	20.11		EUR	– 478.00	– 1,317.00
III. Equity investments within the meaning of Section 271 (1) HGB [10]							
174	ABE Clearing S.A.S., à capital variable [26]	Paris, France	2.04		EUR	31,181.00	3,267.00
175	Abingworth Bioventures III L. P. [1,26]	London, Great Britain	0.44		USD	884.02	Not specified
176	Acousia Therapeutics GmbH [1,26]	Tübingen	12.35		EUR	2,940.96	– 2,290.11
177	ADLATUS Robotics GmbH [1,26]	Ulm	0.75		EUR	– 606.93	– 1,117.55
178	African Export-Import Bank [28]	Cairo, Egypt	0.04		USD	2,279,403.73	256,499.63
179	AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung [26]	Frankfurt am Main	3.29		EUR	253,193.10	10,621.00

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
180	ALPHA CEE II L.P. [1, 26]	Grand Cayman, Cayman Islands	2.41		EUR	49,879.00	362.00
181	amcure GmbH [1, 26]	Eggenstein-Leopoldshafen	18.26		EUR	– 503.85	– 2,138.11
182	Bain Capital VIII L. P. [1, 26]	Grand Cayman, Cayman Islands	0.32		EUR	7,446.43	– 36.59
183	Biametrics GmbH i. I. [1, 19]	Tübingen	17.47		EUR	– 508.59	– 1,218.76
184	BS Abwicklungs-GmbH i. L. [1, 26]	Stuttgart	1.10		EUR	– 1.82	24.80
185	Bürgschaftsbank Sachsen GmbH [26]	Dresden	27.96	18.44	EUR	44,085.43	489.16
186	CCP Systems AG i. I. [1, 15]	Stuttgart	0.96		EUR	9,182.77	– 10,654.37
187	CME Group Inc.	Wilmington, USA	0.00			Not specified	Not specified
188	Code Intelligence GmbH [1, 26]	Bonn	13.33		EUR	451.00	– 280.00
189	Computomics GmbH [1, 26]	Tübingen	0.75		EUR	– 1,288.13	– 422.30
190	CorTec GmbH [1, 23]	Freiburg	5.95		EUR	– 112.12	– 2,702.65
191	crealytics GmbH [1, 26]	Passau	9.86		EUR	8,851.17	368.47
192	CVC European Equity Partners IV (A). L. P. [1, 26]	Grand Cayman, Cayman Islands	0.29		EUR	1,117.57	– 16.80
193	Depository Trust & Clearing Corporation	New York, USA	0.00	0.02		Not specified	Not specified
194	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung [7, 26]	Stuttgart	8.11		EUR	206,719.07	9,331.24
195	Doughty Hanson & Co. IV Partnership 2 [1, 26]	London, Great Britain	4.04		EUR	15,898.89	– 1,151.57
196	Dritte SHS Technologiefonds GmbH & Co. KG i. L. [1, 26]	Tübingen	4.94		EUR	26,633.41	462.81
197	Erste IFD geschlossener Immobilienfonds für Deutschland GmbH & Co. KG i. L. [1, 26]	Hamburg	0.18		EUR	1,662.08	Not specified
198	FL FINANZ-LEASING GmbH [23]	Wiesbaden	17.00		EUR	– 585.02	– 124.58
199	Fludicon GmbH i. I. [1, 15]	Darmstadt	7.88		EUR	516.90	– 2,184.41
200	GbR VÖB-ImmobilienAnalyse [30]	Bonn	25.00	20.00		Not specified	Not specified
201	GLB GmbH & Co. OHG [26, 29]	Frankfurt am Main	30.05		EUR	2,838.18	– 53.36
202	GLB-Verwaltungs-GmbH [26, 29]	Frankfurt am Main	30.00		EUR	57.65	1.98
203	Grundstücks- Vermögens- und Verwaltungs-GbR Leinfelden-Echterdingen/Stuttgart-Möhringen i. L. [1, 26]	Stuttgart	0.11		EUR	744.38	118.27
204	Grundstücks-, Vermögens- und Verwaltungs-GbR Sillenbucher Markt i. L. [1, 26]	Stuttgart	0.02		EUR	2,602.36	– 35.29
205	Grundstücks- Vermögens- und Verwaltungs-GbR Leonberg-Ditzingen i. L. [1, 26]	Stuttgart	0.37		EUR	1,467.64	– 0.65

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
206	Grundstücks-, Vermögens- und Verwaltungs-GbR Esslingen-Stuttgart i. L. [1, 26]	Stuttgart	13.57		EUR	518.32	– 8.63
207	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart-Mitte II i. L. [1, 26]	Stuttgart	0.13		EUR	484.60	– 0.27
208	HANSA TREUHAND Dritter Beteiligungsfonds GmbH & Co. KG i. L. [1, 26]	Hamburg	0.03		EUR	702.16	– 137.54
209	HANSA TREUHAND Zweiter Beteiligungsfonds GmbH & Co. KG i. I. [1, 17]	Hamburg	0.16		EUR	– 9,582.96	– 129.48
210	Heidelberg Innovation BioScience Venture II GmbH & Co. KG i. L. [1, 26]	Leimen	3.83		EUR	2,878.34	6,411.62
211	Humboldt Multi Invest B S.C.A., SICAV-FIS i. L. [1, 11, 14]	Luxembourg, Luxembourg	99.93		EUR	6,928.35	– 165.43
212	Icon Brickell LLC [1]	Miami, Florida, USA	13.35			Not specified	Not specified
213	ImmerSight GmbH [1, 26]	Ulm	0.90		EUR	– 163.77	– 251.75
214	KAMAU Grundstücksgesellschaft mbH & Co. KG i. L. [1, 18]	Grünwald	0.36		EUR	613.07	8.90
215	Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	4.76		EUR	153.39	0
216	Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	15.28		EUR	1,299.87	0
217	Kreditgarantiegemeinschaft des Gartenbaues Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	4.50		EUR	138.31	0
218	Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	9.14		EUR	1,021.91	0
219	Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH [26]	Stuttgart	9.76		EUR	1,001.05	0
220	Kunststiftung Baden-Württemberg gGmbH [26]	Stuttgart	2.00	0.61	EUR	10,432.48	283.76
221	Maehler & Kaege AG i. I. [1, 7]	Ingelheim	7.50	9.26	EUR	– 2,041.59	67.06
222	MAT Movies & Television Productions GmbH & Co. Project IV i. L. [1, 22]	Grünwald	0.22		EUR	512.71	– 17.54
223	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung [26]	Stuttgart	9.94	8.33	EUR	81,295.93	4,303.30
224	MFP Munich Film Partners New Century GmbH & Co. HAM Productions KG i. L. [26]	Grünwald	0.50	0.50	EUR	3,779.73	141.17
225	NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Villingen-Schwenningen KG i. L. [9, 26]	Dusseldorf	5.00	6.00	EUR	0	717.32
226	Notion Systems GmbH [1, 26]	Schwetzingen	0.75		EUR	261.18	68.00
227	Otego GmbH i. I. [1, 19]	Karlsruhe	6.25		EUR	375.85	– 151.80
228	PARAMOUNT GROUP, INC. [1, 26]	Lutherville, USA	0.50	0.54	USD	3,767,153.66	– 30,016.27
229	Paramount Group Operating Partnership LP [1]	Wilmington, USA	2.70	0.00		Not specified	Not specified
230	Phenex Pharmaceuticals AG [1, 26]	Heidelberg	8.90		EUR	– 11,048.75	– 20,359.35
231	Poldergesellschaft Neumühlen-Westkai mbH [1, 23]	Hamburg	16.67		EUR	133.78	Not specified

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
232	»PORT MENIER« GmbH & Co. KG [1,23]	Bramstedt	0.15		EUR	180.29	– 48.09
233	PressMatrix GmbH [1,26]	Berlin	14.08		EUR	– 536.12	730.64
234	Reha-Klinik Aukammtal GmbH & Co. Betriebs-KG i. I. [1]	Wiesbaden	5.54			Not specified	Not specified
235	RSU Rating Service Unit GmbH & Co. KG [26]	Munich	18.80		EUR	9,060.75	– 2,270.03
236	RWSO Grundstücksgesellschaft TBS der Württembergischen Sparkassenorganisation GbR [26]	Stuttgart	10.00	8.55	EUR	4,933.83	204.49
237	S CountryDesk GmbH [23]	Cologne	2.50		EUR	498.59	49.76
238	Schiffahrts-Gesellschaft »HS ALCINA« mbH & Co. KG i. L. [1,21]	Hamburg	0.04		EUR	351.16	– 3,497.26
239	Schiffahrts-Gesellschaft »HS MEDEA« mbH & Co. KG i. L. [1,21]	Hamburg	0.16		EUR	657.90	– 1,121.08
240	Schiffahrts-Gesellschaft »HS MOZART« mbH & Co. KG i. I. [1,16]	Hamburg	0.23		EUR	– 7,619.62	Not specified
241	Schiffahrts-Gesellschaft »HS OCEANO« mbH & Co. KG i. I. [1,20]	Hamburg	0.04		EUR	– 4,701.27	Not specified
242	Schiffahrts-Gesellschaft »HS ONORE« mbH & Co. KG i. I. [1,16]	Hamburg	0.04		EUR	16,149.92	– 2,643.64
243	SE.M.LABS GmbH i. I. [1,19]	Stuttgart	0.75		EUR	– 474.89	– 331.64
244	SI-BW Beteiligungsgesellschaft mbH & Co KG [26]	Stuttgart	4.00	3.96	EUR	43,739.54	1,192.84
245	SimuForm GmbH i. I. [1,13]	Dortmund	6.84		EUR	235.00	– 300.00
246	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.) [19]	La Hulpe, Belgium	0.14		EUR	394,698.39	81,079.47
247	stimOS GmbH [1,26]	Konstanz	1.05		EUR	– 814.41	– 364.51
248	Synapticon GmbH [1,26]	Schönaich	0.57		EUR	5,919.72	– 3,265.76
249	tado GmbH [1,26]	Munich	1.59		EUR	6,359.24	– 9,932.32
250	Technologiegründerfonds Sachsen Plus GmbH & Co. KG [1,26]	Leipzig	8.48		EUR	12,285.54	– 4,662.20
251	Technologiegründerfonds Sachsen Seed GmbH & Co. KG [1,26]	Leipzig	3.34		EUR	4,663.71	– 87.71
252	Technologiegründerfonds Sachsen Start up GmbH & Co. KG [1,26]	Leipzig	10.83		EUR	11,120.93	28,719.03
253	Teralytics AG [1,26]	Zurich, Switzerland	6.19		CHF	7,991.66	– 9,301.03
254	tocario GmbH i. I. [1,24]	Stuttgart	0.77		EUR	– 677.02	– 381.16
255	TradeIX Limited [1,23]	Cork, Ireland	2.33		USD	3,390.28	– 8,075.47
256	TuP 8 GmbH & Co. KG i. L. [1,26]	Berlin	0.46		EUR	6,965.95	– 3,862.31
257	TVM IV GmbH & Co. KG [1,26]	Munich	1.67		EUR	2,007.52	– 4,473.26
258	VCM Golding Mezzanine GmbH & Co. KG [1,26]	Munich	3.89		EUR	6,759.03	84.21

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
259	Visa Inc. [24]	San Francisco, USA	0.00		USD	28,214,430.98	9,826,730.66
260	VRP Venture Capital Rheinland-Pfalz GmbH & Co. KG i. L. [1, 26]	Mainz	16.65		EUR	1,381.17	16.00
261	VRP Venture Capital Rheinland-Pfalz Nr. 2 GmbH & Co. KG i. L. [1, 26]	Mainz	16.65		EUR	740.59	– 2.69
262	Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG [1, 26]	Leipzig	13.68	13.72	EUR	17,455.28	– 242.34
263	Wirtschaftsförderung Region Stuttgart GmbH [1, 26]	Stuttgart	16.06		EUR	2,240.37	– 3,109.59
264	Zweiundfünfzigste IFH geschlossener Immobilienfonds für Holland GmbH & Co. KG i. I. [1, 12]	Hamburg	1.05		EUR	25,654.00	– 14,921.34
265	1701 JFK Boulevard Philadelphia, L.P. i. L. [12]	Delaware, USA	0.03		USD	89,802.14	2,027.65
266	5Analytics GmbH i. L. [1, 23]	Köngen	0.75		EUR	77.20	– 629.99

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 No shareholdings within the meaning of section 285 no. 11 HGB.
9 Is a structured entity in accordance with IFRS 12 at the same time.
10 Financial instruments pursuant to IFRS.
11 Classification as equity investment, in liquidation: no relevant decisions are made any longer.
12 Data available only as at 31 December 2012.
13 Data available only as at 31 December 2013.
14 Data available only as at 31 July 2014.
15 Data available only as at 31 December 2014.
16 Data available only as at 31 December 2015.
17 Data available only as at 25 July 2016.
18 Data available only as at 31 December 2019. Liquidation final balance sheet.
19 Data available only as at 31 December 2017.
20 Data available only as at 4 April 2018.
21 Data available only as at 30 November 2018.
22 Data available only as at 31 December 2018. Liquidation final balance sheet.
23 Data available only as at 31 December 2018.
24 Data available only as at 30 September 2019.
25 Data available only as at 31 October 2019.
26 Data available only as at 31 December 2019.
27 Data available only as at 29 February 2020.
28 Data available only as at 31 December 2019 in accordance with IFRS.
29 Classification as equity investment, as no relevant decisions are made any longer and liquidation is expected.
30 Classification as equity investment, as the company does not generate any commercial activities.
31 Data available only as at 31 October 2020.

58. Employees

On average, the number of employees (heads) is as follows:

	2020			2019		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Full-time	4,645	2,589	7,234	4,484	2,626	7,110
Part-time	305	2,588	2,893	279	2,562	2,842
Trainees[1]	195	128	323	183	105	288
Total	*5,144*	*5,305*	*10,449*	*4,946*	*5,293*	*10,240*

1 Including students at universities of cooperative education.

59. Executive and supervisory bodies and positions held

Members of the executive and supervisory bodies

Board of Managing Directors

Chairman

RAINER NESKE
Central Divisions

Deputy Chairman

MICHAEL HORN
Private and Business Customers/Savings Banks
(until 30 April 2020)

Members

ANASTASIOS AGATHAGELIDIS
Risk Management and Compliance
(from 1 January 2021)

KARL MANFRED LOCHNER
Corporate Customers

STEFANIE MÜNZ
Finance and Operations
(from 1 January 2021)

DR. CHRISTIAN RICKEN
Capital Markets Business and Asset Management/International Business

THORSTEN SCHÖNENBERGER
Real Estate and Project Finance

VOLKER WIRTH
Risk Management, Operations and Process Management, Compliance and Auditing
(until 31 December 2020)

Supervisory Board

Chairman

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

Deputy Chairperson

EDITH SITZMANN MDL
Minister of Finance of the State of Baden-Wurttemberg

Members

JÖRG ARMBORST
(since 18 May 2020) Employee representative of Landesbank Baden-Württemberg

JENS BAUMGARTEN
(since 18 May 2020) Employee representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

UTA-MICAELA DÜRIG
(until 18 May 2020) Corporate and foundation consultant

WALTER FRÖSCHLE
(until 18 May 2020) Employee representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Lord Mayor (retired)

CHRISTIAN HIRSCH
(until 18 May 2020) Employee representative of Landesbank Baden-Württemberg

GABRIELE KELLERMANN
(since 18 May 2020) Member of Board of Managing Directors at BBBank eG

MARC-OLIVER KIEFER
(until 18 May 2020) Employee representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
(until 6 January 2021) Lord Mayor (retired)

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law

MARTIN PETERS
Managing Partner of the Eberspächer group of companies

PROF. WOLFGANG REINHART MDL
Chairman of parliamentary group, Attorney at law

CHRISTIAN ROGG
Employee Representative of Landesbank Baden-Württemberg

CLAUS SCHMIEDEL
(until 18 May 2020) CEO of Critalog GmbH

B. JUTTA SCHNEIDER
Executive Vice President Global Services Delivery, SAP SE & Co. KG

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

WIEBKE SOMMER
(from 18 May 2020)
Employee Representative of Landesbank Baden-Württemberg

DR. FLORIAN STEGMANN
(since 18 May 2020) State secretary at the Baden-Württemberg State Ministry, Head of the State Chancellery

DR. JUTTA STUIBLE-TREDER
Managing Partner of EversheimStuible Treuberater GmbH

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

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

The remuneration of and defined benefit pension commitments to members of the committees are broken down as follows:

	Board of Managing Directors		Supervisory Board	
EUR million	**2020**	**2019**	**2020**	**2019**
Remuneration				
Salaries, remuneration and short-term benefits[1]	6.5	6.7	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations)[2]	12.1	21.0	0.0	0.0
Remuneration for former members and their dependents				
Salaries, remuneration and short-term benefits	12.7	12.7	0.0	0.0
Post-employment benefits (total obligations from defined benefit obligations)[2]	175.6	169.5	0.0	0.0

1 Including attendance allowance.
2 Provisions for pensions including assistance provisions.

As at 31 December 2020, 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 3 million) of which EUR 3 million (previous year: EUR 2 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 4.96% and have a remaining term extending from a few months to 36 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 in the 2020 financial year.

Positions held

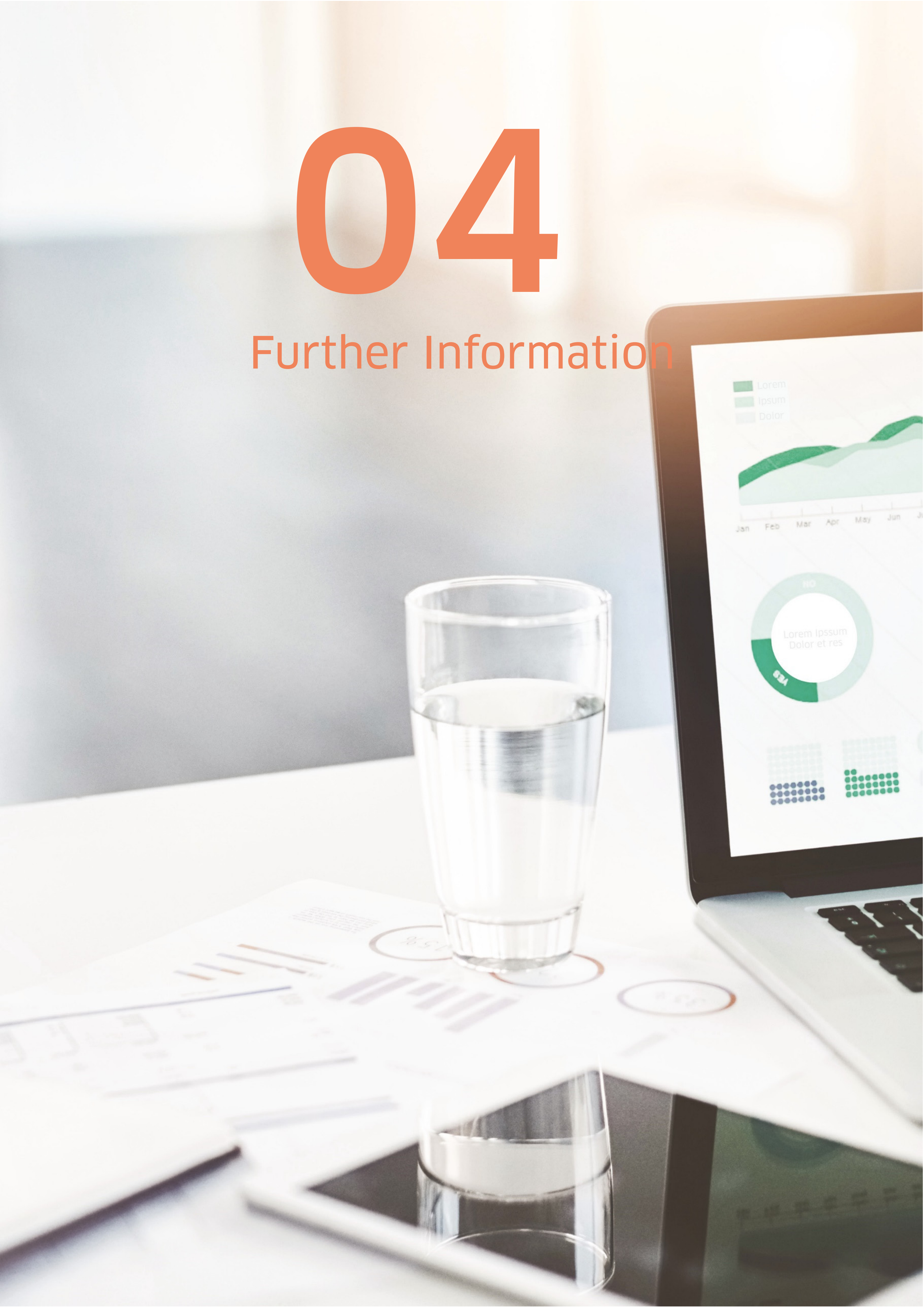
Offices held by legal representatives of LBBW and members of the AidA[1] Board of Managing Directors on statutory supervisory boards and similar supervisory bodies of large companies and banks, as well as offices held by employees of LBBW on statutory supervisory boards of large companies and banks are listed below:

Company	Position	Incumbent
Boerse Stuttgart GmbH, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Christian Ricken until 16 October 2020
Deutscher Sparkassenverlag GmbH, Stuttgart	Supervisory Board	Michael Horn until 30 April 2020
	Supervisory Board	Andreas Götz from 1 July 2020
EUREX Clearing Aktiengesellschaft, Frankfurt am Main	Supervisory Board	Dr. Thilo Roßberg
Euwax AG, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Christian Ricken
Grieshaber Logistik GmbH, Weingarten	Supervisory Board	Michael Horn until 30 April 2020
Hypo Vorarlberg Bank AG, Bregenz	Supervisory Board	Michael Horn until 30 April 2020
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken
	Supervisory Board	Cara Friederike Schulze from 1 August 2020
	Supervisory Board	Michael Nagel until 30 April 2020
	Supervisory Board	Thomas Rosenfeld until 31 July 2020
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	Volker Wirth until 31 Dec. 2020
	Supervisory Board	Peter Hähner
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board	Karl Manfred Lochner
	Deputy Chairman of the Advisory Board	Volker Wirth until 31 Dec. 2020
	Advisory Board	Peter Hähner
Siedlungswerk GmbH Wohnungs- und Städtebau, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn until 30 April 2020
	Deputy Chairman of the Supervisory Board	Thorsten Schönenberger
	Supervisory Board	Andreas Götz from 1 July 2020
	Supervisory Board	Thomas Christian Schulz
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Volker Wirth until 31 Dec. 2020
	Supervisory Board	Norwin Graf Leutrum von Ertingen
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Volker Wirth until 31 Dec. 2020
	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, 2 March 2021

The Board of Managing Directors

RAINER NESKE
Chairman

ANASTASIOS AGATHAGELIDIS

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 balance sheet as at 31 December 2020, and the income statement and 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 2020, 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 2020. In accordance with the German legal requirements, we have not audited the content of the combined non-financial report referred to in the »Group overview« 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) German Commercial Code (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 2020 and of its financial performance for the financial year from 1 January to 31 December 2020, 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 contents of the combined non-financial report stated above, which is referred to in the »Group overview« 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 2020. 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 in the lending business,
3. Transfer of pension obligations to a Pensionsfond and measurement of these pension obligations at Landesbank Baden-Württemberg

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 balance sheet items »Financial assets measured at fair value through other comprehensive income« (EUR 34.8 billion), »Financial assets designated at fair value« (EUR 1.1 billion), »Financial assets mandatorily measured at fair value through profit or loss« (EUR 42.2 billion), »Financial liabilities designated at fair value« (EUR 6.5 billion) and »Financial liabilities mandatorily measured at fair value through profit or loss« (EUR 28.8 billion), partly no market prices are observable on the main market determined by Landesbank Baden-Württemberg. If prices quoted on 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 reasonable ranges of the judgments and assumptions needed in measuring these trading transactions and loans. Consequently, we identified the determination of fair values using measurement models to be a key audit matter.

For information on accounting and measurement of trading transactions and loans, refer to the notes to the consolidated financial statements in section 21 »Calculating the fair value«, section 42 »Fair value of financial instruments« and section 43 »Fair value hierarchy«.

b) As part of our audit, we analyzed the trading transactions and loans measured at fair value using valuation 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. Using 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 in the lending business

a) As at 31 December 2020, 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 176.6 billion, corresponding to 64% of total assets. Of these loans and advances, existing allowances for credit losses totaling EUR 1,096.5 million have already been deducted. The allowances for credit losses contain both stage 3 specific valuation allowances of EUR 534.4 million and stage 1 and stage 2 valuation allowances calculated on a parameter basis of EUR 562.2 million. There are also contingent liabilities and other obligations of EUR 40.1 billion as well as revocable loan commitments and miscellaneous other obligations of EUR 24.3 billion. for which credit business-related provisions of EUR 276.7 million have been recognized. The allowances for credit losses (including credit business-related provisions) include net additions to model adjustments totaling EUR 276.0 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 analogous to stage 2 allowances for credit losses based on parameters. Relevant provisions may need to be recognized for off-balance-sheet transactions 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, the Bank derives allowances for credit losses for stage 1 financial instruments from 12-month credit losses estimated on the basis of internal procedures and the allowances for credit losses for financial instruments with a significant increase of the credit risk (stage 2) from the lifetime expected credit losses estimated on the basis of internal procedures. In deriving these allowances, the expected credit losses of the portfolio are determined on the basis of statistically calculated default probabilities and loss given default and the expected exposure at default taking account of the country risks in the form of transfer and conversion risks.

Landesbank Baden-Württemberg takes account of model 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 in section 20 »Allowances for losses on loans«.

b) In the context of our risk-based audit approach, we audited 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 (early detection of risks – BISA), 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 performed 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 so doing, we deployed internal specialists, who are part of the audit team, particularly for auditing the determination of allowances for credit losses for stage 1 and stage 2 financial instruments, the parameter-based determination of allowances for credit losses for stage 3 financial instruments and the model adjustments.

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 methodology for deriving the model adjustments established and the appropriateness of the amount of allowances on the basis of evidence.

In addition, we checked the disclosures in the notes for completeness and accuracy.

3. Transfer of pension obligations to a Pensionsfond and measurement of these pension obligations at Landesbank Baden-Württemberg

a) In the 2020 financial year, with the conclusion of a Pensionsfond agreement, in the wake of a change of the implementation vehicle, Landesbank Baden-Württemberg transferred a defined part of its accrued (»past service« within the meaning of Section 2 German Occupational Pension Act (BetrAVG)) domestic pension obligations from occupational pension commitments to a Pensionsfond. It thus created pension plan assets of EUR 2.2 billion as at 31 December 2020 which were offset against its pension obligations.

As at the reporting date, EUR 0.9 billion were recognized in the balance sheet as »Provisions« for the transferred pension obligations. The measurement was calculated using the Projected Unit Credit method on the basis of the actuarial report commissioned by Landesbank Baden-Württemberg. For calculating the pension obligations, it is necessary to make assumptions, particularly in relation to the long-term salary trend and pension increases, employee turnover, development of pensions in the statutory pension system, inflation, the payment options and biometric probabilities. In addition, discount rates were determined on the basis of yields generated for high-quality fixed-income corporate bonds on the market as at the reporting date. The respective assumptions were determined by the executive directors of Landesbank Baden-Württemberg.

Measuring pension obligations is a complex matter. There are also adjustments in the measurement of individual pension schemes as a result of corrections when determining the measurement parameters and the transfer of pension obligations to the Pensionsfond. For this reason, we identified the transfer and measurement of these pension obligations to be key audit matter.

The disclosures of the executive directors on the transfer process are included in the notes under Section 51 »Provisions«, subsection »Provisions for pensions and other post-employment benefits«.

b) In respect of the transfer, on the basis of substantive audit procedures we initially inspected the contract basis of the transfer and critically assessed the qualification of the Pensionsfond assets as Plan Assets. For this purpose, we analyzed the Pensionsfond agreement with the assistance of internal specialists of our network as part of our audit team. For the pension obligations in question, we obtained a process understanding in relation to the organizational and operational structural measures for the processing and the actual recording of individual employee data. In addition, we verified the complete and accurate data exchange with the actuary.

We critically assessed and evaluated the report on the Landesbank Baden-Württemberg pension obligations transfer prepared by the actuary – on the basis of our assessment of his/her competence, expertise and objectivity – with respect to the measurement methods and assumptions used.

On this basis, we compared the actuarial assumptions with market norms and verified the measurement.

We verified the presentation of the transfer of pension obligations and the calculation of provisions in the consolidated financial statements and the related Section 51 notes »Provisions«, subsection »Provisions for pensions and other post-employment benefits« and examined the disclosures for completeness and accuracy.

Other Information

The executive directors and the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the separate combined non-financial report pursuant to Sections 315b and 315c HGB in conjunction with Sections 289b to 289e HGB, which is referred to in the »Group overview« section of the combined management report and which expected is to be provided to us after the date of the auditor's report,
- the executive directors' confirmation pursuant to Section 97 (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. Apart from that 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 group audit, our responsibility is to read the other information referred to above and, in so doing, 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 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 combined 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 for one 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 also 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 related safeguards.

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 of 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 Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit Opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the combined management report (hereafter referred to as »ESEF files«) prepared for publication, contained in the accompanying file SHA256: 62FDC803A719E893EF14B7311B906C33FEF13081DC074B039FF20DF26A80BAE5, meet, in all material respects, the requirements concerning the electronic reporting format (»ESEF format«) pursuant to Section 328 (1) HGB. In accordance with the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the combined management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the combined management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning 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 2020 contained in the above »Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report«, we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

Basis for the Audit Opinion

We conducted our audit of the electronic files of the consolidated financial statements and of the combined management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section »Group Auditor's Responsibilities for the Audit of the ESEF Files«. Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files

The executive directors of the Company are responsible for the preparation of the ESEF files 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 Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive directors are also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

Group Auditor's Responsibilities for the Audit of the ESEF Files

Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, 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 opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF files 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 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 balance sheet date as to the technical specification of this file.
- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 18 May 2020. We were engaged by the supervisory board on 23 June 2020. 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Herbert Apweiler.

Stuttgart/Germany, 4 March 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft [Original German version signed by:]

Klaus Löffler	Herbert Apweiler
Wirtschaftsprüfer (German Public Auditor)	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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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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