

LB≡BW

Breaking new ground

# Annual report 2021



# Key figures of the LBBW Group

Income Statement (EUR million)	01/01 - 31/12/2021	01/01 - 31/12/2020
Net interest income	2,031	1,771
Net fee and commission income	598	538
Net gains/losses on remeasurement and disposal	35	- 362
of which allowances for losses on loans and securities	- 240	- 544
Other operating income/expenses	93	198
<b>Total operating income/expenses</b>	<b>2,757</b>	<b>2,146</b>
Administrative expenses	- 1,802	- 1,743
Expenses for bank levy and deposit guarantee system	- 137	- 118
Net income/expenses from restructuring	- 1	- 32
<b>Consolidated profit/loss before tax</b>	<b>817</b>	<b>252</b>
Income taxes	- 399	- 80
<b>Net consolidated profit/loss</b>	<b>418</b>	<b>172</b>
Key figures in %	01/01 - 31/12/2021	01/01 - 31/12/2020
Return on equity (RoE)	6.0	1.9
Cost/income ratio (CIR)	64.7	70.4
Balance sheet figures (EUR billion)	31/12/2021	31/12/2020 <sup>1</sup>
Total assets	282.3	276.4
Equity	14.2	14.0
Ratios in accordance with CRR/CRD V (after full implementation)	31/12/2021	31/12/2020
Risk weighted assets (EUR billion)	84.6	82.3
Common equity tier 1 (CET 1) capital ratio (in %)	14.6	14.8
Total capital ratio (in %)	21.4	22.8
Employees	31/12/2021	31/12/2020
Group	9,893	10,121

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

## Rating (24 February 2022)

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

## Key figures of the LBBW Group

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# 01

## Foreword and Reports





# Foreword by the Board of Managing Directors

Dear Readers,

LBBW has enjoyed very successful development over the last year. This is all the more encouraging given the once again extremely challenging general conditions. As in the previous year, the Covid-19 pandemic also had a significant impact in 2021. This was aggravated by growing concerns surrounding global supply chains and a recent sharp rise in inflation combined with sustained low interest rates. In spite of these challenges, we improved our profit substantially and made solid progress with our strategic agenda.

At EUR 817 million, consolidated profit before tax was up considerably on the previous year and higher than we had planned. This performance was driven by strong customer business in almost all business areas and strict cost management. The ECB's TLTRO III program also played a supporting role here, as LBBW met all of the lending targets associated with the program.

This excellent performance is thanks to our close customer relationships, systematic implementation of our long-term strategy and our robust business model as a universal bank.

We made particular progress in our growth areas in corporate customer business. These include our corporate finance business, which continued to perform very well. LBBW was once again the market leader in issuing Schuldschein loans last year. As planned, we also expanded our customer relationships in pharmaceuticals and healthcare, telecommunication/media, electronics/IT and utilities and energy. Thanks to this, LBBW's lending portfolio enjoys a balanced and healthy mix of a wide range of sectors.

We also saw a marked rise in income in the Real Estate/Project Finance segment. While maintaining our conservative financing standards, the volume of new business – especially for real estate financing and housing financing – was stepped up significantly. We also made substantial progress in assisting our customers with capital market measures. Project financing also fared well, with the financing of renewable energy projects and, in particular, projects to expand digital infrastructure enjoying good performance. LBBW is and remains an extremely sought-after partner on the market in this segment.

Our customer-based capital markets business was very satisfactory, with LBBW involved in multiple major EU issues. Furthermore, we generated record sales in the certificates business and further increased customer assets under management in our Asset and Wealth Management growth area.

In retail customer business, we are progressing as planned with the expansion of effective, personal online consultations and the restructuring of branch operations. By developing into a modern omnichannel bank, we are well equipped for the future and for rapidly changing customer requests.

Once again, significant income growth combined with successful cost controls improved LBBW's efficiency in 2021. The cost/income ratio dipped below 65%. The risk situation in 2021 was unremarkable on the whole. Nonetheless, our allowances for losses on loans and securities account for a potential increase in loan defaults, for example as a result of the pandemic, supply chain issues or higher commodities prices.

Despite growth and stricter regulatory requirements, our capitalization is still very good, with a common equity Tier 1 (CET 1) capital ratio of 14.6%.

Alongside successful operating business, we have also developed strategically. We reached an agreement with Helaba to pool expertise in the savings banks business. As part of this, custodian business and interest-rate, currency and commodities management business for savings banks customers will be merged at LBBW. In December, LBBW also began the final negotiations to acquire Berlin Hyp, which were successfully completed in January 2022 when the purchase agreements were signed. It is planned to close the transaction in summer 2022. In this way, we are helping combine strengths in the Sparkassen-Finanzgruppe.

We also devoted considerable attention in 2021 to putting our ambitious ESG agenda into practice. Governments and supervisory authorities want banks to finance the economic transformation. At LBBW, we endeavor to play an active role here and, thanks to our decades of experience and expertise, are excellently positioned in the competition to do so. In addition to developing ESG-compliant financial products for our customers, this also includes incorporating relevant criteria into our risk management and bank management.

The main credit for LBBW's successful business performance goes to our employees, who continued to perform exceptionally well in 2021 under difficult pandemic conditions. In recognition of their great personal dedication during the latest lockdown, LBBW paid a pandemic bonus, regardless of an employee's individual salary. The LBBW vaccination center is also essential to containing the pandemic and protecting our staff. Last year alone, our occupational physicians administered more than 5,000 Covid-19 vaccinations.

Our thanks go out to you, our valued customers and business partners, for your outstanding and trusting cooperation. We will again do our utmost this year to meet your demands and ensure that LBBW continues to develop successfully.

Sincerely,

The Board of Managing Directors



RAINER NESKE  
Chairman



ANASTASIOS AGATHAGELIDIS



ANDREAS GÖTZ



KARL MANFRED LOCHNER



STEFANIE MÜNZ



DR. CHRISTIAN RICKEN



THORSTEN SCHÖNENBERGER

# Report of the Supervisory Board

Ladies and gentlemen,

During the past financial year, we advised the Board of Managing Directors on the management of the company and regularly monitored the management of LBBW. The Board of Managing Directors provided us with regular, timely, and comprehensive information concerning key developments at the Bank and the Group in 2021. 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.

Again under challenging conditions for banking, LBBW systematically implemented its strategic agenda across its business policy cornerstones in the 2021 financial year. The defined growth areas were expanded as planned and we also invested in sustainability and digitalization.

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## 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 two extraordinary meetings. 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 22 February 2021, we discussed the preliminary results for the 2020 financial year and other current issues. At the meeting, we also took note of the 2021 Group remuneration strategy and the result of the 2021 risk taker selection. We also agreed on total variable remuneration for the bank for the 2020 financial year and set the variable remuneration for the Board of Managing Directors for the 2020 financial year.

The focus of the 25 March 2021 meeting was the 2020 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 2020 prepared by the Board of Managing Directors and approved the 2020 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 2021 financial year. We also discussed the 2021 IT strategy, the status of an audit by the regulatory authorities and the reform of the Sparkassen-Finanzgruppe guarantee system.



On 25 June 2021, we continued discussions of the reform of the Sparkassen-Finanzgruppe guarantee system. Furthermore, the Board of Managing Directors briefed us on the development of asset and wealth management and on other current issues. A change to the written policies was also on the agenda at the meeting.

At the meeting on 4 October 2021, we again looked at the current status of the guarantee system reform, the restructuring of the bank's branch network and the issue of sustainability. We also took note of the remuneration structure report for the 2020 financial year and the 2021 remuneration control report and considered the appointment of the Remuneration Officer and his deputy from 1 January 2022, on which we were consulted. The meeting also assessed the annual evaluation of the Board of Managing Directors and Supervisory Board.

On 13 December 2021, we approved the business plan for the 2022 financial year and took note of the medium-term planning. The meeting also looked at the 2022 business strategy. In addition, we discussed the update of the restructuring plan required by the regulatory authorities at regular intervals and the 2022 Group remuneration strategy.

The two extraordinary Supervisory Board meetings on 28 October 2021 and 29 November 2021 related to equity investment issues.

### **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 13 and 14 of this Annual Report.

The Executive Committee held five ordinary meetings in the reporting period. Its deliberations centered on preparing the meetings of the Supervisory Board, especially personnel matters and legal issues. The Executive Committee also discussed the evaluation of the Board of Managing Directors and the Supervisory Board in 2021 in accordance with KWG and the assessment of management body members' suitability as per ESMA/EBA guidelines. Furthermore, the Executive Committee approved the mandates of the Board of Managing Directors and reviewed the Board of Managing Directors' principles for the appointment of senior management.

The Compensation Control Committee fulfilled its statutory responsibilities in a total of four meetings in 2021. 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 2021. It discussed the annual financial statements and the consolidated financial statements of LBBW as well as the audit reports of the statutory auditor. It requested the auditor's declaration of independence and prepared the Supervisory Board's recommendation to the annual general meeting concerning the appointment of Deloitte GmbH Wirtschaftsprüfungsgesellschaft as the statutory auditor again. The Audit Committee also agreed on the main points of the audit and the statutory auditor's fee. The Audit Committee received regular reports on the current status and results of the audit of annual financial statements and monitored the implementation of the audit. It also discussed mandates for the statutory auditor within the scope of non-audit services. Furthermore, the Audit Committee discussed the half-yearly financial report with the Board of Managing Directors and the statutory auditor as well as the non-financial statement. As well as

this, it satisfied itself of the efficacy of internal control, risk management, auditing and compliance systems, and monitored the accounting process. The Committee also took note of the annual report by the Anti Money Laundering Officer and the annual report on the organization of the internal control system and discussed the creation of an Audit Universe at the bank. In all meetings, the management of the Group Auditing department also reported on its work.

In a total of eleven meetings, the Risk Committee held in-depth discussions on the Bank's risk situation and risk management as well as its exposure for which reporting duties apply in accordance with the law, the articles of association and the bylaws, 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 discussed the non-financial risk strategy, in particular sustainability risks, reputation risks and information and communication technology risks, 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 in accordance with the German Regulation on the Minimum Requirements for the Design of Recovery Plans for Institutions, the stress test concept, the ICAAP/ILAAP planning scenarios and the implementation of BCBS 239. The Risk Committee also regularly discussed other current topics and business areas. These included reports on the automotive portfolio, LCR portfolio, bank LCR portfolio and derivatives portfolio as well as reports on significant exposures and sector reports on developments in core sectors. The Board of Managing Directors kept the Risk Committee informed on the current state of the coronavirus pandemic and the impact of this on business performance and the impact of the German Federal Court of Justice's ruling on changes to terms and conditions at all times.

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

All members of the Supervisory Board attended the meetings of the Supervisory Board and the committees in 2021, with only a few exceptions (average attendance 93%).

### **Training and development measures**

The members of the Supervisory Board assumed responsibility for taking part in the training and development measures which they required to perform their duties. They were given appropriate support for this by LBBW. In addition to individual training, the Supervisory Board also received training on bitcoin/cryptocurrencies on 25 June 2021.

### **Annual and consolidated financial statements**

The statutory auditor Deloitte audited the annual financial statements and the consolidated financial statements of LBBW for 2021 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 22 March 2022, 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 30 March 2022, 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 2021 and approved the consolidated financial statements for 2021.

### 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

The Lord Mayor (retired) Fritz Kuhn left the Supervisory Board on 6 January 2021. He was replaced on 16 March 2021 by Lord Mayor Dr. Frank Nopper, who was elected by the Supervisory Board to the Executive Committee and the Compensation Control Committee at the meeting on 25 March 2021. Minister (retired) Edith Sitzmann resigned from her position on the Supervisory Board on 12 May 2021. With effect from 17 August 2021, the annual general meeting appointed finance minister Dr. Danyal Bayaz to the Supervisory Board in her place. The Board elected Dr. Bayaz as Deputy Chairman on 1 September 2021. At their meetings on 20 September 2021, both the Executive Committee and the Compensation Control Committee elected Dr. Bayaz as Deputy Chairman. Mr. Helmut Himmelsbach left the Supervisory Board on 21 May 2021. He was replaced on 27 September 2021 by Lord Mayor (retired) Bernhard Ilg, who was appointed to the Audit Committee by the Supervisory Board on 4 October 2021. Prof. Reinhart resigned his seat on the Supervisory Board effective 30 September 2021. The annual general meeting replaced him on the Supervisory Board with Mr. Thomas Strobl, Minister of the Interior, Digitalization and Local Government for the State of Baden-Württemberg, effective 21 February 2022.

We also resolved to extend the contracts of Mr. Karl Manfred Lochner and Mr. Thorsten Schönenberger as members of the Board of Managing Directors in 2021. Following approval from regulatory authorities, the former chief representative, Mr. Andreas Götz, joined LBBW's Board of Managing Directors effective 1 January 2022.

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 outstanding performance in the challenging 2021 financial year.

For the Supervisory Board



**CHRISTIAN BRAND**  
Chairman

## Supervisory Board of LBBW

### Chairman

#### CHRISTIAN BRAND

Former chairman of the Board of Management of L-Bank

### Deputy Chairman

#### DR. DANYAL BAYAZ

(Member from 17 August 2021; Deputy Chairman from 1 September 2021)  
Minister of Finance of the State of Baden-Württemberg

#### EDITH SITZMANN

(until 12 May 2021)  
Minister (retired)

### Members

#### JÖRG ARMBORST

Employee Representative of Landesbank Baden-Württemberg

#### JENS BAUMGARTEN

Employee Representative of Landesbank Baden-Württemberg

#### WOLFGANG DIETZ

Lord Mayor of the town of Weil am Rhein

#### HELMUT HIMMELSBACH

(until 21 May 2021)  
Lord Mayor (retired)

#### BERNHARD ILG

(from 27 September 2021)  
Lord Mayor (retired)

#### GABRIELE KELLERMANN

Deputy Chairman of the Board of Managing Directors at BBBank eG

#### 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. FRANK NOPPER

(from 16 March 2021)  
Lord Mayor of the state capital of Stuttgart

#### DR. FRITZ OESTERLE

Attorney at law

#### MARTIN PETERS

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

#### PROF. WOLFGANG REINHART MDL

(until 30 September 2021)  
Attorney at law

#### CHRISTIAN ROGGE

Employee Representative of Landesbank Baden-Württemberg

#### B. JUTTA SCHNEIDER

Executive Vice President  
T&I Chief Transformation Officer  
SAP SE

#### PETER SCHNEIDER

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

#### WIEBKE SOMMER

Employee Representative of Landesbank Baden-Württemberg

#### DR. FLORIAN STEGMANN

State secretary at the Baden-Württemberg State Ministry, Head of the State Chancellery

#### THOMAS STROBL

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

#### DR. JUTTA STUIBLE-TREDER

Attorney at law, German Public Auditor, tax consultant

#### BURKHARD WITTMACHER

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

#### NORBERT ZIPF

Employee Representative of Landesbank Baden-Württemberg

## Executive Committee of LBBW

### Chairman

#### CHRISTIAN BRAND

Former chairman of the Board of Management of L-Bank

### Deputy Chairman

#### DR. DANYAL BAYAZ

(Member from 1 September 2021; Deputy Chairman from 20 September 2021)  
Minister of Finance of the State of Baden-Württemberg

#### EDITH SITZMANN

(until 12 May 2021)  
Minister (retired)

### Members

#### FRITZ KUHN

(until 6 January 2021)  
Lord Mayor (retired)

#### DR. FRANK NOPPER

(from 25 March 2021)  
Lord Mayor of the state capital of Stuttgart

#### PETER SCHNEIDER

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

#### NORBERT ZIPF

Employee Representative of Landesbank Baden-Württemberg

## Compensation Control Committee of LBBW

### Chairman

#### CHRISTIAN BRAND

Former chairman of the Board of Management of L-Bank

### Deputy Chairman

#### DR. DANYAL BAYAZ

(Member from 1 September 2021; Deputy Chairman from 20 September 2021)  
Minister of Finance of the State of Baden-Württemberg

#### EDITH SITZMANN

(until 12 May 2021)  
Minister (retired)

### Members

#### FRITZ KUHN

(until 6 January 2021)  
Lord Mayor (retired)

#### DR. FRANK NOPPER

(from 25 March 2021)  
Lord Mayor of the state capital of Stuttgart

#### MARTIN PETERS

Managing Partner, Chairman of the Executive Board Eberspächer Group GmbH & Co. KG

#### B. JUTTA SCHNEIDER

Executive Vice President  
T&I Chief Transformation Officer  
SAP SE

#### PETER SCHNEIDER

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

#### NORBERT ZIPF

Employee Representative of Landesbank Baden-Württemberg

## Audit Committee of LBBW

### Chairman

#### BURKHARD WITTMACHER

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

### Deputy Chairman

#### PROF. WOLFGANG REINHART MDL

(until 30 September 2021)  
Attorney at law

### Members

#### HELMUT HIMMELSBACH

(until 21 May 2021)  
Lord Mayor (retired)

#### BERNHARD ILG

(from 4 October 2021)  
Lord Mayor (retired)

#### GABRIELE KELLERMANN

Deputy Chairman of the Board of Managing Directors at BBBank eG

#### SABINE LEHMANN

Employee Representative of Landesbank Baden-Württemberg

#### B. JUTTA SCHNEIDER

Executive Vice President  
T&I Chief Transformation Officer  
SAP SE

#### PETER SCHNEIDER

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

#### DR. JUTTA STUIBLE-TREDER

Attorney at law, German Public Auditor, Tax consultant

### Guest

#### CHRISTIAN BRAND

Former chairman of the Board of Management of L-Bank



## **Risk Committee of LBBW**

### **Chairman**

#### **PETER SCHNEIDER**

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

### **Deputy Chairman**

#### **CHRISTIAN BRAND**

Former chairman of the Board of  
Management of L-Bank

### **Members**

#### **WOLFGANG DIETZ**

Lord Mayor of the town of Weil  
am Rhein

#### **GABRIELE KELLERMANN**

Deputy Chairman of the Board of  
Managing Directors at BBBank eG

#### **DR. FRITZ OESTERLE**

Attorney at law

#### **CHRISTIAN ROGG**

Employee Representative of  
Landesbank Baden-Württemberg

#### **B. JUTTA SCHNEIDER**

Executive Vice President  
T&I Chief Transformation Officer  
SAP SE

#### **BURKHARD WITTMACHER**

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

# Corporate governance at LBBW

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

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

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

Corporate governance, as practiced at LBBW, is presented below. The structure of the report is based on the standards of the German Corporate Governance Code, which is voluntary and not mandatory for LBBW on account of its legal form, as amended on 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 institution under public law BW-Bank. The Board of Managing Directors strives for diversity and therefore a reasonable inclusion of women, in particular, when filling management positions within the Bank.

### **Supervisory Board's monitoring duties**

It is the duty of the Supervisory Board to offer regular advice and oversee the Board of Managing Directors' management of LBBW. It is involved in decisions of key importance to the Company. It is responsible for the appointment and dismissal of the members of the Board of Managing Directors and of the Chairman and, where applicable, Deputy Chairmen of the Board and for setting the remuneration of the Board of Managing Directors. The Supervisory Board is able to appoint deputy members of the Board of Managing Directors, who have the same rights and obligations as the members of the Board of Managing Directors. For business of fundamental importance, the articles of association or the Supervisory Board, the latter also in individual cases, stipulate that the consent of the Supervisory Board is required. Examples include decisions or measures that fundamentally change the Company's net assets, financial position or results of operations. The Board of Managing Directors agrees the strategic direction of the Company with the Supervisory Board and they discuss the status of strategy implementation at regular intervals. It also submits the audited annual financial statements to the Supervisory Board for approval in line with LBBW's articles of association.

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

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

### **Function of the annual general meeting**

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

Landesbank Baden-Württemberg's owners are:

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

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

The powers of the annual general meeting essentially encompass the typical tasks of an annual general meeting based on joint-stock companies legislation, for example, voting on the appropriation of net profit, or granting discharge to the members of the Supervisory Board and the Board of Managing Directors. The annual general meeting also makes decisions about the content of the articles of association and any

changes thereto, and about key structural measures, such as corporate agreements, setting and changes to the share capital, the issue of profit participation rights and granting of silent partner contributions. The Supervisory Board decides whether to change the principles of business policy.

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

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

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

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

## Members of the Board of Managing Directors

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

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

## Members of the Supervisory Board

### General requirements

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

## **Independence**

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

## **Supervisory Board elections**

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

## **Supervisory Board's working method**

### **Bylaws**

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

## **Collaboration on Supervisory Board and with the Board of Managing Directors**

### **General requirements**

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

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

### **Supervisory Board committees**

Due to the specific circumstances of LBBW and the number of its members, the Supervisory Board has formed four well-qualified committees in the shape of the Executive Committee, the Compensation Control Committee, the Audit Committee and the Risk Committee. The chairs and members of the



committees are published in LBBW's annual report. The respective committee chairpersons regularly report on the work of the committees to the Supervisory Board.

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

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

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

### **Supplying information**

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

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

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

### **Meetings and resolutions**

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

## **Collaboration with the statutory auditor**

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

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

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

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

## **Training and development**

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

## **Self-assessment**

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

## Conflicts of interest

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

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

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

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

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

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

## Transparency and external reporting

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

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

The consolidated financial statements are compiled by the Board of Managing Directors and audited by the auditor and the Supervisory Board. The Audit Committee, as a Supervisory Board committee, discusses the half-yearly financial reports with the Board of Managing Directors. 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.<sup>1</sup> The variable performance-based remuneration for the members of the Board of Managing Directors in 2021 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 2021, 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 2021, 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<sup>2</sup>, 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 portion of variable remuneration is frozen for one year and during this period is also aligned to any changes in the sustained performance.

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

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

<sup>1</sup> Business focus, digitalization, sustainability and agility.

<sup>2</sup> The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted by certain items.



## Remuneration 2021

In 2021, 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 2021 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 5.4 million for their activities as Members of the Board of Managing Directors. The other benefits amounted to EUR 0.2 million. In addition, variable performance-based remuneration totaling EUR 0.9 million was paid out (inflow). This amount includes percentages of deferred variable remuneration from previous years.

In 2021, EUR 872,867 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 2021, pension obligations according to IFRS for serving members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 8.3 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 2021

For the 2021 financial year, a total of EUR 0.91 million was paid in salaries and EUR 0.06 million in attendance allowances to the members of the Supervisory Board.

## Other information

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

Landesbank Baden-Württemberg

The Supervisory Board

The Board of Managing Directors

# 02

## Combined Management Report



# Group overview

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

Section 289b and Section 315b HGB require LBBW to prepare a non-financial (Group) statement in the (Group) management report or a non-financial (Group) report separate to the (Group) management report for LBBW (Bank) and for the LBBW Group. Following the publication as a combined, separate non-financial report for the first and only time in the 2020 financial year, the combined non-financial statement for the 2021 financial year was again included in a special section within the combined management report. LBBW has decided to include the information in the combined management report early, before it would anyway have been obliged to do so from the 2023 reporting year onwards in accordance with the Corporate Sustainability Reporting Directive.

As part of its established sustainability reporting, LBBW also provides detailed information on the individual non-financial aspects, further examples of where these have been put into place and key figures in a separate sustainability report. The sustainability report for the 2021 reporting year is published in the second quarter of 2022.

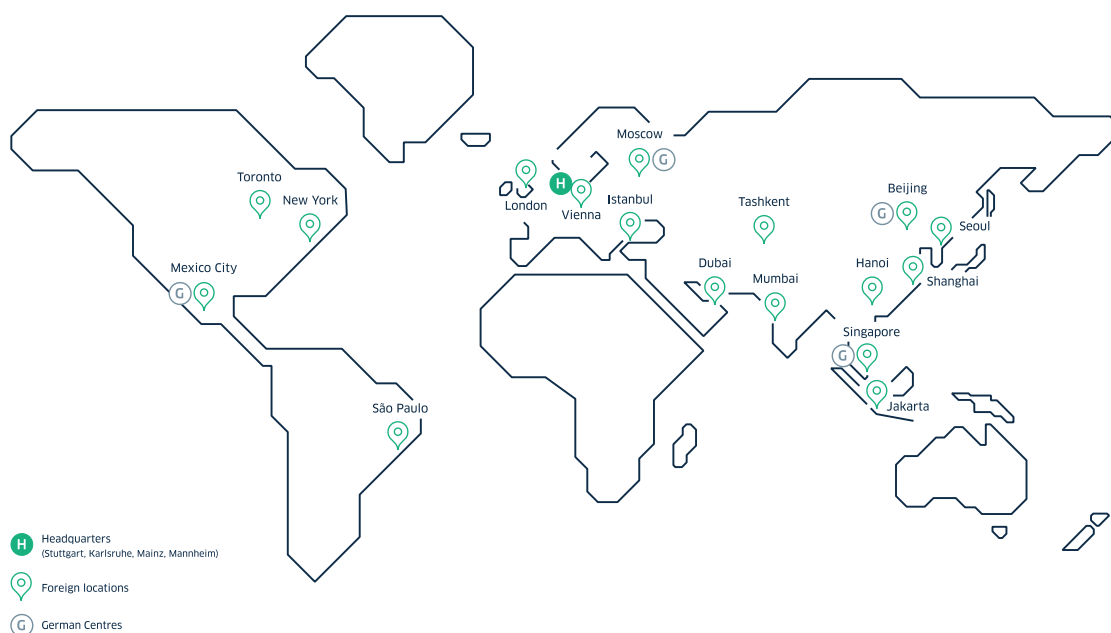
## Structure and business model

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 in the Corporate Customers, Real Estate/Project Finance, Capital Markets Business and Private Customers/Savings Banks segments. The LBBW Group operates locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and takes advantage of growth opportunities in selected economic areas.

The LBBW Group's private customer business and asset management as well as SME corporate customers business in Baden-Württemberg operate under the name BW Bank. Outside Baden-Württemberg, LBBW operates corporate customer business under the LBBW brand. Group companies for special products (leasing, factoring, asset management, real estate and equity investment finance) supplement the LBBW Group's portfolio of services. 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, ensures diversification in various business areas. In terms of customer requirements and the challenges posed in the areas of economic performance, market trends as well as society and the environment, the Bank sees itself to be well-positioned with its four strategic cornerstones. LBBW defines its strategic cornerstones as follows:

- **Business focus:** A focus on customer business takes center stage. LBBW strives to balance growth, risk and cost efficiency to ensure profitable further development of its business model. Examples of this include the targeted expansion of the Corporate Finance and Asset and Wealth Management business areas and expansion in defined growth sectors (chiefly pharmaceuticals and healthcare, TM and electronics/IT and utilities and energy).
- **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 the transformation of the lending portfolio, as well as a better integration of sustainability criteria in the lending process. In addition, LBBW plans to establish sector-specific, carbon--based transformation pathways for its lending portfolio, set itself targets and comply with the Paris climate goals.  
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 LBBW initiatives.

## Corporate Customers

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

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

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

## Real Estate/Project Finance

The Real Estate/Project Finance segment serves professional investors, real estate investment trusts and housing companies as well as open and closed-end real estate funds in commercial real estate. Types of use include residential, office, retail and logistics, principally on the target markets of Germany and, selectively, in the USA, UK, Canada as well as, in individual cases, in France. LBBW's syndication business focuses on structuring and arranging transactions. It also offers refinancing solutions for real estate lease transactions. The planned takeover of Berlin Hyp would improve LBBW's market position in commercial real estate financing and position it as a strong competence center in this profitable, low-risk business area. The transaction is still subject to approval from antitrust authorities.

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

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

## Capital Markets Business

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

LBBW is the central bank for the savings banks in the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate. Together with the savings banks, it forms a service partnership and provides them with a selected range of products and services, both for savings banks' proprietary business and the market partner business. The inclusion of Helaba's interest-rate, currency and commodities management business and custodian business further improves LBBW's position within S-Finanzgruppe. Services such as research or securities processing and administration are offered for further distribution to the customers of the savings banks. The Bank also 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. Asset management at BW-Bank and LBBW Asset Management has been managed as a joint business area called »LBBW Asset and Wealth Management« since fall 2020. The two areas remain legally distinct within the new Group business area LBBW AWM. Institutional customers are served under the LBBW brand. High net-worth private clients and foundations remain under the BW-Bank brand.

## Private Customers/Savings Banks

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

In addition to the classic retail customer segment, the business model beyond Stuttgart is also orientated towards asset management 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, asset management at BW-Bank and LBBW Asset Management has been managed as a joint business area called »LBBW Asset and Wealth Management« since fall 2020. BW Bank has combined its services in financing and investment matters for business customers (health care practitioners, freelancers and tradespeople) into one 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, integrated bank management at LBBW takes account of long-term company targets as per the business strategy, which are supplemented by additional relevant indicators and monitored by using the balanced scorecard. The information required for managing the LBBW is provided through comprehensive, target-oriented regular reports. Based on the long-term company targets of long-term profitability, solid capitalization and efficiency, LBBW's key financial performance indicators are still return on equity (RoE)<sup>1</sup>, the cost/income ratio (CIR)<sup>1</sup> and the common equity Tier 1 (CET 1) capital ratio (after full implementation in accordance with CRR/CRD IV).

<sup>1</sup> 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 2021 was heavily affected by measures to contain the coronavirus pandemic. The start and end of the year were phases of economic weakness, while the middle of the year was marked by accelerated economic growth. All in all, economic output in Germany picked up by 2.8% in Germany and 5.2% in the eurozone in 2021.

The world's two largest economies, the US and China, saw more even economic development than in the eurozone. GDP picked up in all quarters. The US saw economic output rise by 5.7% and China generated GDP growth of 8.1% in 2021.

Inflation increased significantly in 2021, with prices driven chiefly by the cost of energy. This was exacerbated in Germany by the VAT effect, which was raised back to its original level after the temporary reduction between mid-2020 and mid-2021. Inflation in Germany came to 3.1% in December for 2021 as a whole. Increasing by 5.3% year on year, this was the highest figure not only for the year but in fact since June 1992. Eurozone inflation climbed from 0.3% in 2020 to 2.6% in the following year. Inflation also rose in the US, reaching 7.0% in December and 4.7% for 2021 as a whole, compared to 1.2% in 2020.

The ECB made several changes to its monetary policy in the 2021 reporting year, although it left its key interest rates unchanged at -0.5% for the deposit rate and 0% for the main refinancing rate. Of the total volume of EUR 1850 billion for the PEPP, almost EUR 1600 billion had been used by the end of December 2021. The ECB decided in December to let the PEPP expire at the end of March 2022. Maturities under the PEPP are to be reinvested until the end of 2024. The APP bond buying program was unchanged in 2021 as a whole, with monthly net purchases of around EUR 20 billion.

Yields on 10-year German government bonds increased during the year but remained negative. From just over -0.60% at the beginning of the year, yields picked up to -0.18% at the end of 2021. Yields on US Treasuries with matching maturities came to +0.91% at the start of the year and +1.50% at the end of the year. On the stock market, the DAX enjoyed an overall upward trend, rising from 13,718 points at the start of the year to 15,884 points at the end. The S&P 500, the US stock market index, increased from 3,756 to 4,766 points throughout the year. On the currency market, the euro depreciated against the US dollar from almost USD 1.23 to the euro at the start of the year to USD 1.13 by the end of the year.

House prices in Germany continued to trend upwards in 2021. Prices of office properties essentially remained constant, while rents declined somewhat. Prices and rents for German retail properties shrunk. The office property market in London saw prices jump perceptibly. The rise in office vacancies in the US continued in the first half of the year before declining in the third quarter.

## Lending business performance

Europe's banking market enjoyed the start of a strong recovery in the last financial year after being hit hard by the outbreak of the Covid-19 pandemic in 2020. In line with decreasing risk costs, the economic upswing – aided in part by the progress made with vaccination – prompted exceptionally dynamic growth in operating earnings compared to the previous year. This was also bolstered by what LBBW Research considers a good capital market environment for the year as a whole and visibly stable asset quality overall. In addition, the ECB's provision of liquidity continued to provide support and its longer-term refinancing operations offered attractive special conditions.

Accordingly, the European banking market proved robust in a challenging environment, which was corroborated by the results of the European Banking Authority (EBA)'s stress test published in July 2021. In this simulation, European banks faced substantial average capital reductions compared to previous calculations. In terms of the stress scenarios and minimum regulatory requirements, however, overall the banks remained sufficiently capitalized in the adverse scenario. The ECB also organized a macroeconomic climate stress test for the first time in fall 2021.

The results show that it is not only companies that enjoy clear benefits when climate measures are taken at an early stage: banks do too. From a regulatory perspective, the European Commission's legislative proposal in the fourth quarter to implement »Basel IV« regulations in stages is particularly noteworthy here. Although negotiations on Basel IV have only just begun, in the longer term the Commission's forecast expects this to result in a considerable increase in minimum capital requirements.

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

**Consolidated profit/loss before tax significantly improved in challenging environment, solid progress made with strategic agenda**

### Business development

The Covid-19 pandemic remained an important factor determining business activities in 2021. Supply bottlenecks and sharp hikes in the prices of energy and commodities also posed significant challenges for many companies. On top of this, interest rates remained extremely low and inflation picked up. Despite this very challenging environment, LBBW maintained its growth strategy and successfully closed the year with consolidated profit before tax of EUR 817 million, an increase of EUR 565 million. All LBBW segments enjoyed strong operating performance, boosting income significantly in some cases and improving cost efficiency. LBBW believes this demonstrates the benefits of its business model as a universal bank, which is based on close customer relationships and the systematic implementation of a long-term strategy.

Moving on to LBBW's four strategic cornerstones, the main focus is on the megatrend *sustainability*, both across the sector and among LBBW customers. LBBW used the 2021 financial year to further refine its sustainability profile, for example in certificates business. In the area of sustainability, LBBW received the Scope Award as the »Best ESG certificate issuer« for the first time, as well as the Sustainable Award in Finance. Continuing to expand the Sustainability Advisory Team allowed LBBW to further consolidate its position as a leading bank in the area of sustainability for corporate customers. A constantly expanding sustainable product range in all operating segments, as well as special training concepts for employees, helps customers manage the transformation to a carbon-neutral future. LBBW ranked first in the FINANCE study for advice on sustainable financing/ESG, confirming the high quality of its sustainability consulting.

With an outstanding own issue volume of EUR 6.6 billion, LBBW is the second-largest ESG bond issuer among Europe's commercial banks and the market leader in Germany. In addition, LBBW also assisted with issues by other issuers, including the world's first sustainability-linked bond issued by a commercial bank and social bonds issued by the European Union as part of the SURE program, where it acted as lead manager.

In terms of financing, it also supported sustainable transactions and expanded the product range, for example through sustainable leasing. With sustainable investments becoming increasingly important, the range of sustainable funds for customers was also developed further. The LBBW Global Warming fund was the first sustainable mutual fund in Germany to exceed EUR 1 billion. As a public institution, it goes without saying that LBBW (Bank) takes responsibility for society. For this reason, LBBW has set itself the target of becoming carbon neutral (Scope 1 and Scope 2). Accordingly, LBBW has offset all remaining CO<sub>2</sub> emissions that cannot be avoided since 2021 – not by buying emissions certificates, but by investing in forestation. Specifically, LBBW invests USD 3.5 million in the global forestation fund Arbaro Fund.

Regulators are also increasingly directing their attention towards sustainability, as is shown for example by the 2022 climate stress test, which is intended to identify climate risks for bank balance sheets.

By successively **digitalizing** products and processes, LBBW is investing both in creating added value for customers by making many services permanently available and faster on online platforms, and in internal efficiency and, with it, improved cost leverage. The corporates portal is the main digital platform for our corporate customers. The number of users climbed by more than 60% in the 2021 financial year. In light of high customer demand, the focus is on continuing to expand the range of services currently offered on the app, such as the digital guarantee, the digital signature with DocuSign, Deri-X Treasury and self-service for rights and powers of attorney. In collaboration with other partners, LBBW is active in the Marco Polo trade finance network. Payments have been secured here for trade transactions based on the blockchain technology Corda in a live environment, as part of a fully digital process, since May 2021. Further process improvements resulted from cooperation with the German Federal Gazette (Bundesanzeiger). Through CoraX, relevant customer data from the Federal Gazette can be integrated directly into LBBW's systems, making it possible to automate a company audit for KYC and therefore streamlining work processes and reducing the margin for error.

Rolling out the digital signature at the start of 2021 means that LBBW can enter into transactions with its customers remotely, as opposed to the many pages of contract that had to be signed in person in the past. To support capital markets activities, a new liquidity and currency management tool was developed in collaboration with the fintech TreasurUp that allows users, for example, to independently trade in spot transactions and forwards.

We worked towards transforming our culture in previous years as part of establishing the strategic cornerstone **agility**, for example by establishing numerous projects using agile methods. LBBW has combined three projects under the term »new work« which, for example, will support the transformation to the office world of the future by way of efficient space management, while also covering the gradual development of IT office infrastructure and cultural change. The conditions needed to launch the projects were met in 2021 and so implementation can begin across the Group in 2022. The agile flagship project »Future workshop: branch« gave selected branch teams the opportunity to demonstrate their skills themselves, drawing on increased creative freedom. Agile deal teams also showed that complex customer transactions can be successfully concluded under considerable time pressure.

LBBW's priority when it comes to the **business focus** strategic cornerstone was on supporting our customers' needs. We continued to expand our growth sectors (pharmaceuticals and healthcare, TM and electronics/IT and utilities and energy) and so the net exposure increased by 21% on an annualized basis. In addition, LBBW was awarded further strategic consultancy contracts in 2021 and significantly improved its track record for green finance transactions in terms of the number and volume. Activities also focused on supporting our customers in the transformation of their business models. We successfully defended the Quality Leader Award as part of the »Greenwich Large Corporate Banking 2020 Study« and maintained leading positions in various categories of the »FINANCE Banks Survey 2021«, evidence of our strong position in corporate customers business. With a volume of EUR 8.7 billion, LBBW once again underscored its role as a pioneer in Schuldschein transactions. Equally encouraging was the result of a FINANCE magazine survey, which ranked LBBW in first place for sustainable financing/ESG consulting. We received the Industry Choice Award, with our customers endorsing our expertise as one of the top three banks for export financing for the third time (previously in 2018 and 2020).

Historically strong new business was generated in commercial real estate financing at EUR 10.1 billion. Focus here was on financing sustainable and resilient exposures centered on Germany and the US. By acquiring Berlin Hyp, LBBW also intends to bolster its strategic development as a leading corporate and real estate bank. New financing was also realized in renewable energies and digital and social infrastructure and the volume of new business was increased significantly.



Capital markets business was marked by high customer demand in certificates and large mandates in primary markets business. Certificates business generated record sales, with particularly strong customer demand for sustainability aspects in the form of ESG impact products. LBBW Asset Management also again increased its total assets. The agreement between LBBW and Helaba, where interest-rate, currency and commodities management business with corporate customers at savings banks and the custodian business were transferred to LBBW, allowed LBBW to focus its product range and develop it further in a strategically beneficial direction. This further strengthens LBBW's already leading market position and makes it a key partner for savings banks in interest-rate, currency and commodities management business, consolidating its leading role as a provider of custody services.

Customer demand in development loan business remained high. There was particular demand for customer advisory services regarding integrating pandemic liquidity assistance into financing strategies that are sustainable in the long term. The coronavirus pandemic again highlighted that the branches are no longer needed to the extent that they once were. For this reason, the omnichannel structure was launched on 1 April 2021. We will continue to provide opportunities for face-to-face interaction between consultants and customers in one of our branches in the future. Customers can state online whether they wish to attend a consultation from home, from the office or via video or by telephone. The interest in consultations confirms the development in asset management, with the total number of mandates increasing by 20% and causing the volume of assets under management and advisory to exceed the EUR 10 billion mark for the first time.

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

The **cost/income ratio (CIR)**<sup>1</sup> improved to 64.7% compared to 70.4% in the previous year, primarily in connection with income. Income rose by EUR 307 million, a result chiefly of a sharp increase in net interest income, as well as higher net fee and commission income and net gains from financial instruments measured at fair value through profit or loss. This was offset chiefly by a rise in expenses for the bank levy/deposit guarantee system, as well as higher staff costs due to special factors. The figure also performed better than expected in planning thanks to income. **Return on equity (ROE)**<sup>2</sup> rose to 6.0% (previous year: 1.9%), putting it well in excess of target. This was a result of lower allowances for losses on loans and securities, as well as improved income. While allowances for losses on loans and securities were relatively low – even compared to the previous year – existing adjustments for allowances for losses on loans and securities here were nonetheless increased further, primarily in light of pandemic, economic and geopolitical developments.

The LBBW Group's **common equity Tier 1 capital ratio** as at the end of the reporting period remained well in excess of the regulatory capital requirements (CRR/CRD V »fully loaded«). At 14.6%, the figure was only marginally lower than at the end of the previous year (14.8%) and slightly exceeded the bank's own target. The changes associated with the CRR II that came into effect on 28 June 2021 are already taken into account in the current ratio.

<sup>1</sup> 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.

<sup>2</sup> 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.

With the economic situation normalizing again, regulatory authorities returned to the regular process for determining requirements for the common equity Tier 1 (CET 1) capital ratio. The European Central Bank requires 1.06% of the 1.88% Pillar 2 capital requirement to be backed by CET 1 capital. The German Federal Financial Supervisory Authority (BaFin) left the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (Kreditwesengesetz, KWG) unchanged at 0.75%. The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. With effect from 1 March 2022, LBBW is required to maintain a common equity Tier 1 capital ratio of 8.81% (currently: 8.73%). Section 10d of the German Banking Act also requires a countercyclical capital buffer to be held, which currently covers a small share of foreign receivables. BaFin is extending the scope of the countercyclical capital buffer to German receivables of 0.75% by way of a general ruling, although this will have to be complied with only after a delay of one year, from 1 February 2023. In addition, preparations are also underway at BaFin to introduce a systemic buffer for receivables secured by German residential properties. The ECB's capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital, still applies. In addition, a partial amount of CET1 capital is held to meet the Tier 1 capital requirements that go beyond this.

Other LBBW Group financial indicators developed as follows.

**Risk weighted assets (RWA)** were up on the previous year in the reporting period at EUR 84.6 billion (EUR 82.3 billion). As well as changes to methodology under CRR II (including a new method for calculating counterparty risk for derivative transactions, use of SME Supporting Factor), the change was driven largely by business growth, especially in corporate customer business. However, this was offset by improved ratings and effects from synthetic securitization.

LBBW's **leverage ratio** was 5.0% as at the end of the reporting period (fully loaded in accordance with CRR II/CRD V), higher than at the end of the previous year (4.5%). This primarily reflected the decline in receivables from institutes due to methodological changes in connection with the introduction of CRR II. This remains significantly above the current regulatory minimum of 3.0%.

## Results of operations

Consolidated profit before tax rose by EUR 565 million to EUR 817 million and so LBBW far surpassed its previous year figure of EUR 252 million in the 2021 financial year as a whole. As well as higher income, reduced allowances for losses on loans and securities also played a role in this. Last year, this was heavily influenced by one larger individual case and high adjustments for allowances for losses on loans and securities, primarily in connection with the Covid-19 pandemic. The condensed income statement for the LBBW Group has been presented below:

	01/01 - 31/12/2021	01/01 - 31/12/2020	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	2,031	1,771	260	14.7
Net fee and commission income	598	538	60	11.2
Net gains/losses on remeasurement and disposal	35	- 362	397	-
of which allowances for losses on loans and securities	- 240	- 544	305	- 55.9
Other operating income/expenses	93	198	- 105	- 53.1
<b>Total operating income/expenses</b>	<b>2,757</b>	<b>2,146</b>	<b>612</b>	<b>28.5</b>
Administrative expenses	- 1,802	- 1,743	- 59	3.4
Expenses for bank levy and deposit guarantee system	- 137	- 118	- 19	16.2
Net income/expenses from restructuring	- 1	- 32	32	- 97.5
<b>Consolidated profit/loss before tax</b>	<b>817</b>	<b>252</b>	<b>565</b>	<b>&gt;100</b>
Income taxes	- 399	- 80	- 320	>100
<b>Net consolidated profit/loss</b>	<b>418</b>	<b>172</b>	<b>245</b>	<b>&gt;100</b>

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

**Net interest income** improved, picking up by EUR 260 million to EUR 2,031 million. At operating level, the Real Estate/Project Finance segment played a key role in this. Income rose here, chiefly the result of historically strong new business in commercial real estate financing. The Capital Markets Business and Corporate Customers segments also contributed to growth in net interest income. Particular worthy of note here were corporate finance, export financing and the expansion of volumes in growth sectors. Ongoing historically low interest rates took a particular toll on the deposit business, resulting in a lower contribution from the Private Customers/Savings Banks segment. Effects from participating in targeted longer-term refinancing operations (TLTRO III) also boosted performance thanks to a bonus of EUR 186 million (previous year: EUR 0 million).

**Net fee and commission income** improved by EUR 60 million to EUR 598 million. The securities and custody business performed particularly well, picking up by EUR 59 million to EUR 264 million. The Group benefited here from a positive market environment on stock exchanges and from a higher fund volume in the custodian business, which increased from EUR 130 billion to EUR 147 billion. Income from asset management also fared well thanks to the increase in mandates, experiencing particularly good growth of EUR 10 million to EUR 75 million. Net gains from the lending business of EUR 114 million (previous year: EUR 119 million), from the payments business of EUR 91 million (previous year: EUR 94 million) and net gains from the brokerage business of EUR 38 million (previous year: EUR 42 million) all remained down marginally on the previous year.

*Net gains/losses on remeasurement and disposal* enjoyed a marked EUR 397 million upturn to EUR 35 million and was defined by the effects described below.

*Net income accounted for using the equity method* rose by EUR 18 million to EUR 23 million and was defined chiefly by positive valuation adjustments at a capital investment company.

However, *allowances for losses on loans and securities* improved by EUR 305 million to EUR – 240 million and were thus the biggest contributing factor behind the upturn in income. While allowances for losses on loans and securities were relatively low due to underlying defaults, existing adjustments for allowances for losses on loans and securities increased by a further EUR 155 million. This allows LBBW to account for the levels of uncertainty relating to ongoing pandemic, economic and geopolitical (e.g. Ukraine conflict) developments. The previous year was also adversely affected by a 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 an ongoing low default rate<sup>1</sup> of 0.5% as at the reporting date 31 December 2021 (previous year: 0.4%).

*Net gains/losses from financial instruments measured at fair value through other comprehensive income* came to EUR 9 million (previous year: EUR 8 million), at the previous year's level.

Net gains from *financial instruments measured at fair value through profit or loss*, which improved by EUR 74 million to EUR 244 million (previous year: EUR 170 million), were shaped by high customer demand for hedging and investment products. Capital market activities, which saw a sharp EUR 61 million increase in new business for certificates and in interest books to EUR 304 million, were particularly instrumental in this increase. The contribution from banking book transactions also rose slightly on the previous year, up EUR 14 million at EUR – 60 million. By contrast, 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 rose considerably to EUR 20 million as at 31 December 2021 (previous year: EUR 2 million).

*Other operating income/expenses* declined to EUR 93 million (previous year: EUR 198 million). The main cause of the decline was the EUR – 96 million increase in earnings from provisions for legal issues. As well as potential negative effects resulting from the German Federal Court of Justice's ruling on customer consent for price changes, potential interest expenses were taken into account in connection with tax payments by recognizing provisions. Net gains/losses from completed projects developed counter to this, resulting in improved net gains/losses. Gains/losses from investment property declined from EUR 53 million in the previous year to EUR 35 million. This was affected chiefly by lower measurement effects for investment properties.

*Administrative expenses* increased year on year by EUR – 59 million to EUR – 1,802 million (previous year: EUR – 1,743 million). Staff costs picked up by EUR – 21 million to EUR – 1,031 million (previous year: EUR – 1,010 million), attributable primarily to higher personnel-related provisions. This was offset by lower net interest income from defined benefit plans, which benefited from the outsourcing of most pension obligations in the previous year. Other administrative expenses increased by EUR – 46 million to EUR – 646 million (previous year: EUR – 600 million). The main cause of this cost increase was greater investment in restructuring and modernizing IT. Maintenance and construction costs for LBBW's offices and business premises also rose slightly year on year, up EUR 8 million at EUR 29 million. In particular, changes to future office space management requirements resulted in higher investment.

<sup>1</sup> See also Risk report, Risk situation of the LBBW Group, section on portfolio quality

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

*Net income/expenses from restructuring* improved by EUR 31 million to EUR – 1 million in the reporting year. This follows the establishment of several restructuring activities in the previous year as part of the review of LBBW's strategic direction.

At EUR 817 million, *consolidated profit before tax* was up considerably on the previous year's figure of EUR 252 million.

*Income tax expenses* increased to EUR – 399 million (previous year: EUR – 80 million), mostly due to higher net profit/loss before tax. This pushed up current taxes by EUR 201 million to EUR 267 million. In addition, non-periodic tax expenses rose by EUR – 110 million to EUR – 132 million (previous year: EUR – 22 million). This increase is essentially due to higher provisions for tax risks. Corresponding interest expense was recognized in other operating income/expenses.

All in all, *net consolidated profit* thus increased markedly to EUR 418 million (previous year: EUR 172 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 817 million** in the 2021 financial year (previous year: EUR 252 million) were as follows:

	01/01/2021 - 31/12/2021	01/01/2020 - 31/12/2020 <sup>1</sup>	Change	
	EUR million	EUR million	EUR million	in %
Corporate Customers	405	15	390	>100
Real Estate/Project Finance	292	203	89	43.8
Capital Markets Business	247	198	49	24.7
Private Customers/Savings Banks	14	25	- 11	- 44.0
Corporate Items/Reconciliation/Consolidation	- 141	- 190	49	- 25.8
<b>Consolidated profit/loss before tax</b>	<b>817</b>	<b>252</b>	<b>565</b>	<b>&gt;100</b>

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

Profit/loss before tax in the **Corporate Customers segment** experienced a marked upturn in the 2021 financial year. This was thanks firstly to noticeably higher income in a market environment that remains highly competitive, including in corporate finance business and export financing. Secondly, ongoing efforts to expand growth sectors were successful. On the other hand, the need for allowances for losses on loans and securities was lower following the one larger individual case that dominated the previous year, despite continuing to recognize adjustments for allowances for losses on loans and securities. LBBW benefited here from its persistently good lending portfolio quality. Return on equity (RoE) rose considerably to 7.4% as a result (previous year: 0.3%). Despite higher expenses for the bank levy/deposit guarantee system, expenses remained at the previous year's level thanks to strict cost discipline. The cost/income ratio (CIR) also improved slightly to 51.6% (previous year: 59.8%).

Growth in real estate financing and in the real estate development business caused profit before tax in the **Real Estate/Project Finance segment** to pick up substantially in the 2021 financial year. LBBW also continued its course of growth in project finance business, especially in relation to the financing of renewable energies and digital infrastructure. The noticeable rise in income offset the slight increase in expenses due to further investment in continued growth, which had been expected. This development was reflected in the measureable improvement in the cost/income ratio (CIR) of 34.2% (previous year: 40.7%) and higher return on equity (RoE) of 14.7% (previous year: 10.6%).

Following what LBBW considered a very good previous year, the **Capital Markets Business segment** again boosted income noticeably in the 2021 financial year, driven by strong customer business. Very good certificates business and the further increase in total assets in Asset and Wealth Management played a particularly important role in this positive trend. The segment also benefited from successful market positioning, which caused return on equity (RoE) to climb perceptibly from 8.2% in the previous year to 10.4%. Overall, the cost/income ratio (CIR) improved to 67.8% (previous year: 71.6%) in connection with income, although a marginal rise in expenses – in part due to higher expenses for the bank levy/deposit guarantee system – countered the successful optimization measures put into place and had an offsetting effect.

The *Private Customers/Savings Banks segment* generated a profit in the 2021 financial year despite a still challenging market environment. Income picked up despite the negative impact of interest rates and current legislation (German Federal Court of Justice ruling), with securities and financing revenues performing particularly well. Expenses were steady at the previous year's level thanks to strict cost discipline and so the cost/income ratio (CIR) improved year on year to 97.2% (previous year: 98.9%). As regards allowances for losses on loans and securities, additions and reversals virtually balanced each other out. Nevertheless, allowances for losses on loans and securities were the main driver of the decline in earnings, compared to the previous year when the segment benefited from net reversals. At 1.4%, return on equity (RoE) was lower than in the previous year as a result (previous year: 2.3%).

Profit/loss before tax in *Corporate Items/Reconciliation/Consolidation* (EUR - 141 million) improved noticeably in the 2021 financial year compared to the previous year (EUR - 190 million). The main reason behind this is the partial reversal of adjustments for allowances for losses on loans and securities recognized in the segment in the previous year. It is essentially offset by the recognition of provisions for legal issues.



## Net assets and financial position

Assets	31/12/2021	31/12/2020 <sup>1</sup>	Change	
	EUR million	EUR million	EUR million	in %
Cash and cash equivalents	36,871	13,650	23,221	>100
Financial assets measured at amortized cost	167,323	177,496	- 10,172	- 5.7
Financial assets measured at fair value through other comprehensive income	33,288	34,810	- 1,522	- 4.4
Financial assets designated at fair value	1,374	1,132	242	21.3
Financial assets mandatorily measured at fair value through profit or loss	36,976	42,185	- 5,209	- 12.3
Shares in investments accounted for using the equity method	274	261	13	4.9
Portfolio hedge adjustment attributable to assets	708	1,039	- 331	- 31.9
Non-current assets held for sale and disposal groups	1	2	- 1	- 64.1
Intangible assets	158	178	- 20	- 11.3
Investment property	805	796	9	1.2
Property and equipment	731	790	- 60	- 7.5
Income tax assets	1,132	1,228	- 95	- 7.8
Other assets	2,703	2,878	- 175	- 6.1
<b>Total assets</b>	<b>282,344</b>	<b>276,444</b>	<b>5,899</b>	<b>2.1</b>

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

Equity and liabilities	31/12/2021	31/12/2020 <sup>1</sup>	Change	
	EUR million	EUR million	EUR million	in %
Financial liabilities measured at amortized cost	235,174	221,627	13,547	6.1
Financial liabilities designated at fair value	4,895	6,509	- 1,614	- 24.8
Financial liabilities mandatorily measured at fair value through profit or loss	23,689	28,815	- 5,126	- 17.8
Portfolio hedge adjustment attributable to liabilities	11	693	- 682	- 98.4
Provisions	2,080	2,523	- 443	- 17.6
Liabilities from disposal groups	0	0	0	
Income tax liabilities	370	73	297	>100
Other liabilities	1,928	2,217	- 289	- 13.0
Equity	14,197	13,987	210	1.5
<b>Total equity and liabilities</b>	<b>282,344</b>	<b>276,444</b>	<b>5,899</b>	<b>2.1</b>
Guarantee and surety obligations	8,214	7,232	982	13.6
Irrevocable loan commitments	36,137	32,677	3,460	10.6
<b>Business volume</b>	<b>326,695</b>	<b>316,354</b>	<b>10,341</b>	<b>3.3</b>

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

### Slight rise in consolidated total assets

As at 31 December 2021, **total assets** were up EUR 5.9 billion as against the end of 2020 at EUR 282.3 billion. Cash and cash equivalents and deposits from banks increased by the drawing amount of EUR 8 billion as a result of participating in the ECB's tender program in March 2021, which essentially contributed to the rise in total assets. In addition, both corporate finance business and real estate financing enjoyed further 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 10.3 billion to EUR 326.7 billion.

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

### Lending

**Cash and cash equivalents** amounted to EUR 36.9 billion at the year under review, a considerable EUR 23.2 billion higher than the figure for the previous year (EUR 13.7 billion). This rise was attributable almost exclusively to an increase in central bank balances.

The item **financial assets measured at amortized cost** decreased by EUR 10.2 billion to EUR 167.3 billion. While loans and advances to banks saw a decline, lending business with customers experienced a particular upturn.

**Loans and advances to banks** fell by EUR 22.0 billion, closing at EUR 46.5 billion on 31 December 2021. This change was particularly noticeable for public-sector loans, which declined by EUR 13.6 billion to EUR 34.1 billion in connection chiefly with the expiration of a deposit facility with Deutsche Bundesbank. There was also a EUR 3.4 billion decrease in securities repurchase transactions, predominantly with clearing houses, to EUR 6.8 billion and a EUR 2.9 billion fall in overnight and term deposits to EUR 3.5 billion.

The portfolio of **loans and advances to customers**, on the other hand, rose by EUR 11.9 billion to EUR 121.1 billion. Despite the challenging environment, LBBW continued its course of growth. The focus here was on the growth sectors pharmaceuticals and healthcare, TM and electronics/IT and utilities and energy. Overnight and term deposits rose by EUR 4.3 billion to EUR 9.9 billion, securities repurchase transactions by EUR 3.7 billion to EUR 9.0 billion and other loans by EUR 3.0 billion to EUR 24.5 billion. This was offset by a EUR 1.2 billion decrease in public-sector loans to EUR 14.1 billion and a EUR 0.6 billion fall in mortgage backed loans to EUR 38.5 billion.

**Financial assets measured at fair value through other comprehensive income** saw a EUR 1.5 billion decrease to EUR 33.3 billion. Securities purchases to manage liquidity portfolios outweighed planned expansions of securities portfolios to hold highly liquid assets and resulted in a EUR 1.1 billion total decrease in bonds and debentures to EUR 29.1 billion. Loans and advances declined by EUR 0.3 billion to EUR 3.4 billion and money market paper, especially commercial papers and certificates of deposit, decreased by EUR 0.2 billion to EUR 0.7 billion.

**Financial assets mandatorily measured at fair value through profit or loss** decreased by EUR 5.2 billion to EUR 37.0 billion. Interest-related measurement effects caused positive fair values from derivatives to decline by EUR 5.7 billion to EUR 16.9 billion. Schuldschein loans in the trading portfolio fell by EUR 1.1 billion to EUR 3.7 billion. This was offset by a EUR 1.5 billion rise in debentures and other fixed-income securities to EUR 6.4 billion and a EUR 0.9 billion increase in receivables from securities repurchase agreements to EUR 3.7 billion.

### 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 13.5 billion to EUR 235.2 billion.

**Deposits from banks** climbed by EUR 9.5 billion to EUR 88.3 billion. In particular, this development was due to a EUR 7.5 billion increase in overnight and term deposits to EUR 45.5 billion in connection with participating in the ECB's tender program. Transmitted loans to provide support during the crisis picked up by EUR 1.9 billion to EUR 34.1 billion and current account liabilities by EUR 0.3 billion to EUR 2.6 billion. This was countered by a EUR 0.3 billion decline in securities repurchase transactions, mainly with clearing houses, to EUR 0.3 billion.

At EUR 97.0 billion, the item **deposits from customers** was up EUR 1.7 billion against the figure for 31 December 2020. The volume of current account liabilities increased by EUR 1.6 billion to EUR 58.9 billion. Corporate customers made particular use of LBBW investment products. Securities repurchase transactions rose by EUR 0.5 billion to EUR 1.5 billion. This was offset by a EUR 0.5 billion decrease in overnight and term deposits to EUR 24.4 billion.

The volume of **securitized liabilities** expanded by EUR 3.0 billion in the reporting period to EUR 44.9 billion. The New York branch stepped up its short-term financing with commercial papers and certificates of deposits, resulting in a EUR 3.2 billion rise in securitized money market transactions to EUR 16.1 billion.

For other debentures, the volume of new issues exceeded maturities and led to a EUR 1.6 billion increase to EUR 17.5 billion. In the case of mortgage-backed covered bonds, planned maturities offset new business and caused a EUR 2.1 billion decline to EUR 7.2 billion.

By issuing a social bond in the form of a EUR 750 million senior non-preferred bond, LBBW once again underscored its pioneering role in the sustainable investment market in 2021. LBBW also used the funds from its third social fund to fund healthcare and social projects and vocational training. Other potential financing objects include schools, care homes, homes for the disabled, hospitals, infrastructure projects and public water supply.

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

**Financial liabilities designated at fair value** moved down by EUR 1.6 billion to EUR 4.9 billion. Planned maturities outweighed the volume of new business here, which was reflected predominantly in the securitized liabilities item which declined by EUR 1.4 billion to EUR 2.5 billion.

As in the items under assets, **financial liabilities mandatorily measured at fair value through profit or loss** decreased by EUR 5.1 billion to EUR 23.7 billion. Interest rate effects also had an impact here on the measurement of derivatives, resulting in a EUR 5.1 billion decline in negative fair values from derivatives to EUR 13.9 billion and a EUR 0.5 billion decrease in negative fair values from derivative hedging instruments to EUR 2.3 billion. This was countered by a EUR 0.5 billion rise in delivery obligations from short sales of securities to EUR 0.8 billion.

**Provisions** saw a EUR 0.4 billion decrease to EUR 2.1 billion in the year under review. 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, which rose by EUR 0.2 billion throughout the year and resulted in a reduction in the provision on account of offsetting the pension obligation against the plan assets.

**Equity**

LBBW's *equity* increased to EUR 14.2 billion as at 31 December 2021, up by EUR 0.2 billion compared to the end of 2020. Other retained earnings after deferred taxes rose by EUR 0.2 billion to 0.5 billion due to the measurement of pension obligations. Net consolidated profit/loss also improved equity by EUR 0.4 billion. The distribution »regarding the years 2019 and 2020« to LBBW's owners reduced equity by EUR 0.4 billion.

**Financial position**

The funding strategy at LBBW is proposed by the Asset Liability Committee (ALCo) and determined by management. Here the Group focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. In view of central bank policy, 2021 as a whole was shaped by high excess liquidity on the market, which is also reflected in LBBW's extensive liquidity. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The LCR was met during the entire reporting period and came to 141.1% as at 31 December 2021.

# Risk report

## Risk-oriented integrated bank management

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

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

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

### Material risk types

An annual Group risk inventory is used to identify, manage and monitor all of LBBW's material risk types.

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

The following material risk types were identified:

#### a) Financial risks

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

#### b) Non-financial risks

- Operational risks including compliance risks
- Reputation risks
- Business risks
- Model risks

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

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

The material interdisciplinary topics are:

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

LBBW is currently working intensive on developing its methods and procedures for managing non-financial risks and ESG risks as part of dedicated projects.

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

## Risk strategy and risk tolerance

The Board of Managing Directors and the Risk Committee of the Supervisory Board 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. The risk strategies are drawn up by the Board of Managing Directors in line with the business strategy and noted by the Risk Committee.

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 ESG 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.

### **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.

#### **Capital adequacy that is suitable in the long term**

Annual medium-term planning comprises the economic and regulatory considerations, brings these together and acts as a link between the strategic framework and integrated bank management throughout the year. The planning period covers five years and is based on expected economic development, with particular consideration given to the 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, forecasts and target/actual deviations reported and, where necessary, measures to achieve the targets are agreed, implemented and monitored throughout the year.

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

#### **Economic considerations complement regulatory considerations**

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

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 99.9% 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 for regulatory and economic considerations. Further information can be found in the section on liquidity risks. The model risks are managed entirely via the model risk management process and the corresponding tools described in the relevant section.

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

#### **Stress tests and scenario analyses**

In addition to risk measurement tools and statistical indicators based on historical data, various stress scenarios as shown 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. The stress scenarios are defined either for a several year time frame as part of medium-term planning or simulated as a sudden occurrence. Stress tests are based on the risk inventory, which specifically analyses LBBW's vulnerabilities using a holistic approach and thus serves as a basis for a comprehensive scenario analysis.

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.

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.

## Risk management processes, organization and reporting

### Risk management and monitoring

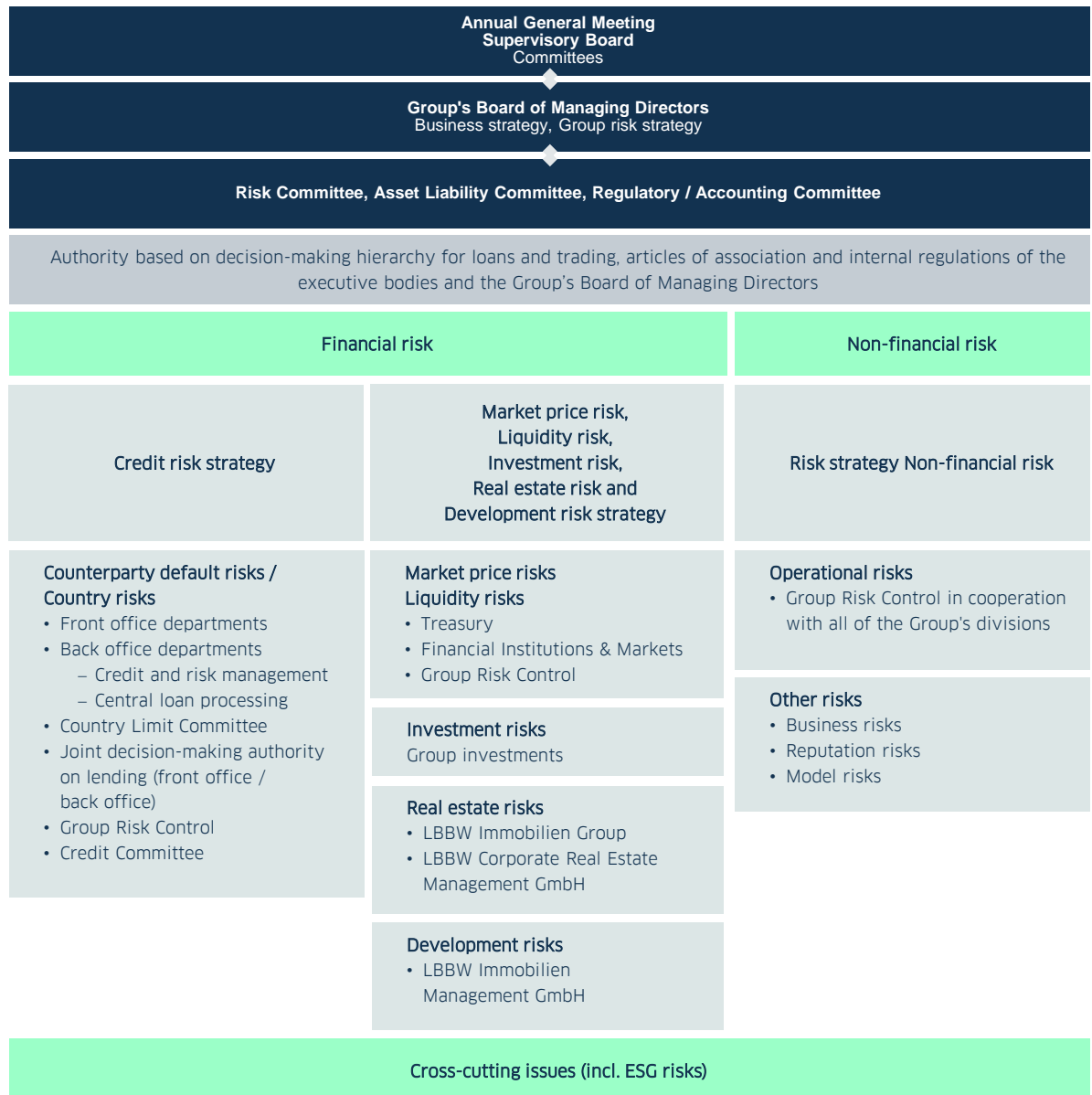
LBBW's risk management and monitoring is based on the guidelines of the risk strategy and the defined limits and approval powers.

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

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

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

## Risk management structure



## Committees and reporting

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

The monitoring body, the Risk Committee, comprises the board members with responsibility for real estate and project finance, capital markets business and asset management/international business, risk management and compliance as finance and operations, as well as divisional managers from Risk Control, Group Compliance, Finance Controlling, Treasury and Back Office and key Front Office areas. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in risk monitoring, risk methodology and risk strategy for the Group as a whole. The monthly overall risk report

and other reports prepared on specific issues as required form the basis for this. Covering all risk types, the overall risk report describes the risk situation in the operational units, facilitating a structured discussion between front office and monitoring units in the Risk Committee.

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

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

### **Processes of adjustment**

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

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

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

### **Process-independent monitoring**

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

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

## Regulatory developments

### European Central Bank (ECB) supervisory work

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

The ECB's supervisory work as part of the SREP (Supervisory Review and Evaluation Process) has largely returned to its pre-pandemic state. Nevertheless, the ongoing Covid-19 pandemic has become extremely important for monitoring and reporting obligations. The EBA/ECB stress test had a significant impact on supervisory work. The results of the test have been included in the 2021 SREP on a qualitative and quantitative basis. In addition, the supervisory priorities defined by the ECB such as credit quality, capital strength, business model sustainability and IT security took center stage. The ECB also begun placing more of a focus on sustainability as part of its activities.

### Basel IV and development of CRR/CRD in Europe

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

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

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

### Outlook

The climate stress test will form a key part of supervisory activities in 2022, with the results of this test – especially qualitative – being included in the 2022 SREP. The aim of the stress test is to identify vulnerabilities and challenges as well as the approaches taken by banks in the context of climate and environmental risks. The climate stress test will be supported by additional supervisory work in the context of sustainability. In preparation, LBBW carried out an internal climate stress test in 2021.

The ECB also established medium-term priorities that are reflected in its supervisory work. These include climate and environmental risks, cyber risks, credit risks, interest rate and credit spread risks, developments in the context of digitalization and, as previously, the aftereffects of the pandemic on banks.

## LBBW Group – Risk situation

### LBBW Group – Risk-bearing capacity

EUR million	31/12/2021		31/12/2020	
	Absolute <sup>1</sup>	Utilization	Absolute <sup>1</sup>	Utilization
Aggregate risk cover	12,210	50%	11,808	55%
Economic capital limit <sup>2</sup>	10,000	60%	10,000	65%
Correlated total economic capital	6,038		6,447	
of which:	0		0	
Counterparty risk	3,725		3,969	
Market price risk	1,835		1,948	
Investment risk	31		38	
Operational risk	676		588	
Development risk	101		122	
Real estate risk	131		131	
Other risks <sup>3</sup>	196		314	
Interrisk correlations	- 656		- 663	

Confidence level 99.9%/1 year.

<sup>2</sup> The individual risk types are capped by economic capital limits.

<sup>3</sup> Other risks (particularly reputation, business and model risks).

Aggregate risk cover increased by EUR 0.4 billion compared to year-end 2020 to EUR 12.2 billion. This rise is essentially due to improved operating income and interest rate developments and the impact of these on actuarial gains.

The economic capital commitment has declined by a total of EUR 0.4 billion since the end of 2020. Lower counterparty risk is attributed essentially to a methodological improvement in presenting derivatives. By contrast, the decline in market price risks is especially a result of the portfolio. A new damage scenario caused a rise in operational risk. The annual update of business and reputation risks lowered 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 2021 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.



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

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

## Risk types<sup>1</sup>

### Counterparty risk

#### Definition

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

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

#### Credit risk

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

#### Issuer risk

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

#### Counterparty credit risk

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

#### Country risk

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

#### Collateral risk

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

<sup>1</sup> Information on correlated total economic capital for the individual risk types can be found in the section on the risk situation of the LBBW Group.

## Counterparty risk management

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

### Risk measurement

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

#### Risk classification procedures

LBBW uses specific rating and risk classification procedures for all relevant business activities. These procedures quantify the probability of default (PD) of the individual investments. For this purpose, the counterparty risk is calculated both including and excluding the transfer risk. These procedures are maintained and updated by LBBW on its own initiative or in cooperation with Rating Service Unit GmbH & Co. KG (an associated company of the Landesbanken) or Sparkassen Rating und Risikosysteme GmbH (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 securities as per IFRS 9 (see Note 21 (»allowances for losses on loans and securities«)).

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

### Credit value-at-risk

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

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

### Risk concentrations

Risk concentration is measured using the CVaR, among other methods, and is limited using the LBBW Group's free aggregate risk cover. 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 securities). 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.

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

The most important periodic reports are as follows:

- The overall risk report presented monthly in the Risk Committee, which includes details about the risk situation at the portfolio level, compliance with the material limits and size classes 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 on key exposures and rating migration.
- The quarterly segment risk report, featuring information on portfolio development taking into account the specifics of each segment.
- The half-yearly in-depth sector report with detailed information on the sector situation, portfolio development 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 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 primarily to the presentation from risk aspects (e.g. different presentation for ECB holdings) and deviations from the companies included in the basis of consolidation 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 31 (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	31/12/2021	31/12/2020
Gross exposure	388,960	389,452
Netting/collateral	105,767	123,076
Credit derivatives (protection buy)	5,922	5,378
Classic credit collateral	45,298	42,242
<b>Net exposure</b>	<b>231,973</b>	<b>218,756</b>

Figures may be subject to rounding differences.

Gross exposure amounted to EUR 389 billion as at 31 December 2021, on par with the 2020 financial year. Lower fair values for interest rate derivatives resulted in lower collateral for netting and collateral agreements. Net exposure rose by about EUR 13 billion or 6% to EUR 232 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)

	EUR million	in %	EUR million	in %
Net exposure	31/12/2021	31/12/2021	31/12/2020	31/12/2020
1(AAAA)	35,087	15.1	32,469	14.8
1(AAA) - 1(A-)	108,935	47.0	101,581	46.4
2 - 5	67,194	29.0	63,149	28.9
6 - 8	12,480	5.4	12,859	5.9
9 - 10	3,164	1.4	3,943	1.8
11 - 15	2,184	0.9	1,927	0.9
16-18 (default) <sup>1</sup>	1,045	0.5	981	0.4
Other <sup>2</sup>	1,883	0.8	1,848	0.8
<b>Total</b>	<b>231,973</b>	<b>100.0</b>	<b>218,756</b>	<b>100.0</b>

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

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

2 Non-rated transactions, in particular rating waivers.

The investment grade share (ratings 1(AAAA) to 5) increased slightly to 91.1% as at 31 December 2021 (previous year: 90.1%) chiefly as a result of an increase in exposure with good credit ratings (especially at central banks in rating cluster 1 (AAAA)) and rating upgrades. Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 7.7% (previous year: 8.6%). The top rating class 1 (AAAA) mainly includes the German public sector, as well as central banks. The exposure on default accounts for 0.5% of the entire portfolio.

The Covid-19 pandemic continued to weigh heavily on individual sectors in the 2021 financial year, but most of the sector portfolios performed well, resulting in slightly improved portfolio quality overall. Nonetheless, the economic environment and how this will develop moving forwards remain uncertain. Exposures are increasingly closely monitored.

## Sectors

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

## Sectors

EUR million	Net exposure 31/12/2021	CvAR 31/12/2021	Net exposure on default 31/12/2021	Net exposure 31/12/2020	CvAR 31/12/2020	Net exposure on default 31/12/2020
<i>Financials</i>	100,971	938	21	94,516	924	20
<i>Corporates</i>	89,886	1,831	946	82,889	1,903	916
Automotive	10,598	344	470	10,943	445	411
Construction	8,926	180	82	7,754	176	61
Chemicals and commodities	6,852	131	20	6,293	176	50
of which chemicals	3,354	73	1	2,923	98	0
of which commodities	3,497	58	20	3,370	78	50
Retail and consumer goods	14,164	266	140	13,582	274	147
of which consumer goods	10,046	129	20	9,627	170	30
of which durables	4,118	137	120	3,955	104	117
Industry	10,306	176	126	9,855	187	112
Pharmaceuticals and healthcare <sup>1</sup>	5,012	77	9	4,796	85	4
TM and electronics/IT <sup>1</sup>	7,912	131	15	7,140	131	28
Transport and logistics	6,436	213	6	6,378	210	15
Utilities and energy <sup>1</sup>	12,265	255	61	8,876	139	68
of which utilities and disposal companies	7,928	165	56	5,041	63	32
of which renewable energies	4,337	91	5	3,835	76	37
Other	7,417	59	17	7,273	80	19
<i>Real estate</i>	15,004	366	62	12,920	381	24
Commercial real estate (CRE)	10,171	265	60	8,556	259	19
Housing	4,833	102	2	4,364	122	5
<i>Public sector</i>	19,648	100	0	22,283	146	0
<i>Private individuals</i>	6,463	134	16	6,147	62	20
<b>Total</b>	<b>231,973</b>	<b>3,369</b>	<b>1,045</b>	<b>218,756</b>	<b>3,417</b>	<b>981</b>

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

Financials represent the largest of the five main sectors with net exposure of EUR 101 billion as at 31 December 2021. The increase of approximately EUR 6 billion as against the end of 2020 is essentially due to the increased exposure to central banks.

In the corporates portfolio, it was primarily the growth sectors pharmaceuticals and healthcare, telecommunication, media (TM) and electronics/IT and utilities and energy, as well as the construction sector, that contributed EUR 7 billion to net exposure, bringing the total to EUR 90 billion in the 2021 financial year. LBBW's growth sectors accounted for 28% of the corporates portfolio, up on 25% in the previous year. Automotive is an important sector for the portfolio. The automotive portfolio was further reduced in 2021.

The net exposure in real estate increased by EUR 2 billion year on year to EUR 15 billion.

By contrast, public-sector net exposure was down approximately EUR 3 billion as against the end of 2020 at EUR 20 billion. This decrease relates primarily to German non-central public-sector entities.

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

Most customers have exposures with a net exposure of up to EUR 10 million. Other exposures also include a few with a net exposure of over EUR 500 million. As at 31 December 2021, the portfolio also had two large exposures (individual exposures with a net exposure of over EUR 3 billion). These all have credit ratings in the top rating class 1(AAAA).

## Regions

### Geographic breakdown

Net exposure in %	Share 31/12/2021	Share 31/12/2020
Germany	64.5	65.2
Western Europe (excluding Germany)	19.7	21.9
North America	9.8	7.0
Asia/Pacific	4.0	3.6
Other <sup>1</sup>	2.0	2.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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

<sup>1</sup> 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 2021 was 64.5%. The basic distribution by region was largely constant, although there were regional shifts in North America, chiefly due to the increased exposure to a central bank as at the reporting date. The focus on the core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will ensure a dominant German share in the future as well. Foreign exposure is spread across Western Europe and North America in particular.

## Market price risks

### Definition

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

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

#### Equity risk

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

#### Interest rate risk

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

#### FX/commodity risk

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

### 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 out of a distribution of market factors, a valuation based on it and if necessary corresponding simplifications a portfolio value distribution. The VaR is determined from this as the maximum potential loss at a given confidence level.

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

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

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. Own discount curves are also used for government bonds and bonds issued by German federal states.

The model is also used to calculate economic capital as part of the risk-bearing capacity assessment. For this, the VaR in a significant stress period is scaled to a cross-risk-type parameter set with regard to confidence level and holding period.

<sup>1</sup> 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. price trends or spread changes. The scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR. The results are reported to the respective decision-makers weekly on a portfolio basis and with regard to their impact on the Group as a whole each quarter. The stress simulations are also integrated in the multiple risk types stress scenarios and are therefore relevant for risk-bearing capacity.

In order to calculate the weekly StressedVaR, 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

2021 was dominated by the transition from the Libor interest rate indices to independent reference interest rates known as risk free rates. In addition, preparations were made for presenting new products so that these can be quickly introduced in 2022. The risk model was also optimized regarding the presentation of government bonds and bonds issued by German federal states.

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

## Risk monitoring and reporting

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

- Daily report with overview of the P&L and risk development.
- Overall risk report 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 management is capped by the limit for economic capital for market price risks which is set up by the Board of Managing Directors within the framework of risk-bearing-capacity. The loss-warning trigger acts as an indicator for losses of market value in the economic P&L and the associated 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 risk 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 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 2021 was consistently in accordance with the risk-bearing capacity of the LBBW Group. The loss warning trigger was not breached for LBBW Group, the banking book or the trading book in 2021.

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 pensions (pension fund and 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	31/12/2021 <sup>1</sup>	31/12/2020
<b>LBBW Group</b>	<b>104</b>	<b>171</b>	<b>78</b>	<b>95</b>	<b>150</b>
Interest rate risk	61	101	36	87	98
Credit spread risk	73	124	50	53	98
Equity risks	17	34	7	15	7
Currency risks <sup>2</sup>	4	23	1	3	5

<sup>1</sup> The last reporting date in the 2021 financial year was 30 December 2021.

<sup>2</sup> Including commodity risks.

The VaR of the LBBW Group decreased sharply in 2021. This decline chiefly reflects lower volatility in the market parameters included in the risk calculation. Markets in 2021 were calmer than in 2020, which saw very volatile days on account of the Covid-19 pandemic, although volatility did pick up again somewhat in the last quarter.

For the trading book the VaR developed as follows in 2021:

### VaR 99%/10 days

EUR million	Average	Maximum	Minimum	31/12/2021 <sup>1</sup>	31/12/2020
<b>LBBW (Bank) trading book</b>	<b>12</b>	<b>24</b>	<b>7</b>	<b>8</b>	<b>16</b>
Interest rate risk	5	8	3	4	5
Credit spread risk	10	18	6	6	13
Equity risks	5	11	3	3	7
Currency risks <sup>2</sup>	4	10	1	3	5

<sup>1</sup> The last reporting date in the 2021 financial year was 30 December 2021.

<sup>2</sup> Including commodity risks.

The LBBW trading book includes the positions of the sub-segment/business area Financial Markets and of Treasury, which are used for short-term interest rate and liquidity management. The risk in the trading book declined significantly as at 31 December 2021 in comparison to the previous year. Here, too, the main reason for this is that the volatile trading days seen in 2020 were no longer included in the risk calculation in the reporting period.

### Backtesting result

Up to and including the last reporting date of 30 December 2021, the internal risk model shows four outliers for the Clean P/L for the preceding 250 trading days in the CRR portfolio, the portfolio relating to capital adequacy. The outliers are the result of significant market fluctuation in the fourth quarter in connection with market fears that central banks across the world would tighten monetary policy due to high inflation and worries over economic recovery on account of the pandemic getting worse.

On the basis of the Dirty P/L, two outliers were recorded for the CRR-relevant portfolio in the preceding 250 trading days as a result of significant market fluctuation. One outlier stemmed from significant market fluctuation following an unexpected decision by a central bank. The second outlier was the result of the market response to inflation data and concerns emerging over the new Omicron variant.



**Stress test**

LBBW regularly conducts diverse stress tests. The main adverse case scenario for the LBBW Group currently is a financial crisis and chiefly comprises changes of credit spreads and interest rates in line with a historical crisis period. The LBBW Group's stress test value increased 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 at the monitoring dates in 2021.

# 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. A liquidity buffer requirement for excess liquidity and free collateral to be held was introduced in 2021 for the main time horizons in the Group perspective.

Internally developed models are used to determine call risks from demand and savings deposits, loan commitments and the collateralization of derivatives for the economic steering group. These models are used to determine the effect of uncertain cash flows on liquidity in normal market phases due to common fluctuations, and are in part the basis for identifying call risks in stress scenarios.

Call risks from demand and savings deposits are calculated using historic changes in portfolios and their volatility. As part of a revision of the model in March, 2021 improvements were made regarding accounting for trends, more flexible parameterization of sub-models and increasing the confidence level.

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

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

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

The LCR and NSFR stipulations apply in the regulatory steering view and are partially supplemented by internal guidelines. An internal guideline was introduced in 2021 for USD-LCR and the stress test concept was expanded to include a stressed LCR for various scenarios.

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 are firmly embedded in operational management and are actively managed using forecasts and monitored on an ongoing basis. The strategic parameters in terms of liquidity risk tolerance are designed in such a way that the Group's solvency in EUR and foreign currency is secured for a sufficiently long period even in extreme market situations and in the event of a marked deterioration of LBBW's credit rating as perceived by market players. This also ensures that in the event of temporary adverse developments an adequate time window is available for adapting the business strategy and considering alternative business policies.

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

Treasury is responsible for operational (risk) management.

LBBW's funding strategy is implemented by way of the capital market funding plan. As part of this, LBBW aims for diversification and a broad, international investor base with the goal of achieving optimal refinancing costs. Savings banks, institutional investors and retail business again constituted the main sources of medium and long-term funding. On the capital market, LBBW obtained funding in 2021 through senior preferred, senior non-preferred bonds in various currencies, both via private placements and as syndicated high-volume transactions and in some cases as ESG green and social bonds. LBBW also participated in the ECB's longer-term tender (TLTRO III). LBBW did not issue any high-volume covered bonds in 2021 due to participating in 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.

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 2021 is also reflected in LBBW's extensive liquidity. Despite the pandemic, the customer deposit business remains stable and capital market placements attracted lively interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and diversification.

As at the reporting date of 31 December 2021, the funding needs and the counterbalancing capacity were as follows:

### Overview of funding requirements and counterbalancing capacity

EUR billion	3 months		12 months	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Funding requirement from the business portfolio (deterministic cash flow)	- 9.6	- 5.7	- 15.9	- 17.3
Funding requirement from material call risks (stochastic cash flow)	16.9	14.4	34.2	32.3
Funding potential from free liquidity reserves	11.7	12.2	12.0	16.4
Funding potential on the market	59.0	49.5	69.6	64.6
Surplus	63.4	53.0	63.3	66.1

The funding requirement from the business portfolio in the 3 and 12-month forecast is negative if liquidity inflows exceed the outflows and thus result in excess liquidity. The liquidity portfolio was shaped chiefly by excess liquidity from the business portfolio throughout the year. This increased further following the expansion of the participation in the ECB's longer-term tender in March 2021, along with reduced free securities. In particular, net inflows in EUR (excess liquidity) are opposed by net outflows of the foreign currencies USD and GBP (funding requirement).

The funding potential is adequate to compensate for any short-term liquidity outflows and continues to ensure significant overcollateralization on a three month and 12-month horizon (approximately EUR 63 billion in both cases). The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the twelve-month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

### Results of the economic stress scenarios

EUR billion	Funding requirement (3 months)		Funding potential (3 months)	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Rating downgrade scenario	22.2	21.3	33.5	33.8
Financial market crisis scenario	12.3	13.3	49.6	48.3
Combined scenario of market crisis with downgrade	12.9	13.6	43.7	43.3

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

The prescribed minimum value of 100% for the European indicator for short-term liquidity »Liquidity Coverage Ratio (LCR)« was observed on each day in 2021. At 141.1%, it was exceeded as at year-end 2021 (31 December 2020: 135.4%). The net stable funding ratio (NSFR) requirements applicable since June 2021 were also met at all times and exceeded at year-end at 108.5%.

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 are still stable and credit line commitments 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 2021. The risk management system is reviewed at least annually.

## Real estate risks

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

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

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

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

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

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

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

The commercial portfolio is diversified by type of use, especially for office and retail property, as well as by size category. It is subject to ongoing reviews and, where necessary, the real estate portfolio is optimized by acquiring or selling individual properties or (sub) portfolios. Investment properties are broken down by risk class into Core, Core+ and Value Add real estate using defined criteria (location quality, lease terms, appreciation potential) and planned holding period. Most investment properties are still located in Stuttgart. Acquisitions in Munich, Frankfurt am Main and Hamburg in recent years provided a certain degree of macro location diversification. Overall, risks specific to macro locations are therefore considered to be manageable. 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, commercial and retail properties (including retail parks) in selected locations in Germany. Investments in logistics and residential property are also possible. The focus is on Core+ real estate. The real estate VaR ensures inclusion in LBBW's strategic limit system.

## Development risks

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

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

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

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

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

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

## Investment risks

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

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

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

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

The early identification of business and risk development in the subsidiaries and equity investments is particularly important to the management of equity investments. These serve the purpose, especially for the strategically important subsidiaries, of holding regular coordination meetings at the corresponding specialist levels of LBBW. The management and monitoring at the level of these subsidiaries are generally performed by institutionalized supervisory boards or comparable bodies. At Group level, management and control is effected by investment management and by involving the staff, operating and marketing divisions in the decision-making process, taking corporate governance into account.

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 Risk Control and serves as the basis for recognition in the risk-bearing capacity. In individual cases and specific to the risk type, a differentiated method can be used instead of this general approach, provided this does not result in any reduction in risk.

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

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

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

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

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

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

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

The investment portfolio was further reduced in the 2021 financial year by repaying silent partner contributions of Landesbank Saar.

## Non-financial risks

### Operational risks including compliance 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 Risk Control division is tasked with further developing and implementing the methods and tools used by OpRisk controlling. In the LBBW Group, the execution of the processes implemented for the management of operational risks is mainly the responsibility of the local divisions and subsidiaries.

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

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

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

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

Various methods and tools 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 2021 were always in accordance with the risk-bearing capacity of the LBBW Group. Looking forward, LBBW does not expect any operational risks to its going-concern status. Despite extensive precautionary measures, operational risks can never be entirely avoided.

Legal risks, IT risks and compliance 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 legal risks the further development of consumer protection. The Bank is closely monitoring legal trends relevant to banking law.

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

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



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

### IT risks

Today the principal business processes of the Bank are to a large extent supported by IT or depend on IT solutions. The bank is focusing on digitalizing processes. LBBW will step up its use of cloud services in the future to increase innovation, delivery speed and cost efficiency in IT. A project was launched in 2021 to achieve this. Technical requirements for remote working were also expanded at a bank-wide level, partly a result of the pandemic. 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, self-assessments and scenario analyses are carried out and threats and weak points are analyzed and evaluated from different data sources (e.g. teams of experts, S-Cert computer emergency team, the IT baseline protection from the German Federal Office for Information Security). Measures are taken and monitored in order to reduce risks to an acceptable level.

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

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

### Compliance risks

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

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

**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 (since April 2020): Active crisis management, focus on ad-hoc decisions, communication and ensuring IT infrastructure, employee protection.
- Phase 2 (since May 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 (since July 2020): Active monitoring of developments related to the pandemic and the law, regular analysis of working from home rates, enforcement of entry rules depending on vaccination/health status and recording employee vaccination status, supporting internal vaccination campaigns and monitoring process vigor.

## Reputation risks and business risks

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

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

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. LBBW's sustainability policy must be observed. It is LBBW's intention to act in the best and long-term interest of its customers and stakeholders. Individual front office units and the employees and their managers responsible for the transaction have first line responsibility for transaction-based reputation risks. As well as sustainability-related review criteria in the loan application process, to identify and assess (transaction-related) reputation risks LBBW has a product certification process for derivatives and a reputation risk review for new products in the form of the »New Product Process« (NPP).

Responsibility in the first line of defense for the non-transaction-related risk management of reputation risks lies with Group Communication, Marketing, the Board of Managing Directors' Office, the Sustainability and ESG group and all divisional managers and managing directors of Group subsidiaries. Group Compliance is responsible for transaction-related and non-transaction-related risks as the second line of defense and helps identify and assess these.

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

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

## Model risks

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

By virtue of their significance and special characteristics at LBBW, model risks are largely managed in the scope of an independent model risk management process (MRM process).

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

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

## Interdisciplinary topic: ESG risks

Sustainability risks and ESG risks are associated with specific risk drivers that could have a negative impact on LBBW. LBBW considers ESG risks a material interdisciplinary topic overall, as they have a particular impact on the counterparty default/credit risk and reputation risk. Both types of risk are assigned specific sub-risk strategies. LBBW is also continuing to develop how it handles ESG risks, chiefly as part of a bank-wide »ESG project«.

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

Key aspects of risk identification and assessment include the measurement of CO2 emissions financed by LBBW and physical risks for real estate – both methods were newly developed in 2021. This allows LBBW to identify and monitor material risk drivers, simulate the future effects of climate change and climate policies and monitor future changes at sector level.

In order to manage and limit risks during its lending process, LBBW is using, inter alia, checklists to assess ESG risks.

## Other material interdisciplinary topics

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

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

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

# ICS with regard to the accounting process

## Internal control system

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

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

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

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

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

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

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

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

The Consolidated Financial Statements 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

2022 is expected to be the third year shaped by the development and repercussions of the Covid-19 pandemic. A continuation of the pandemic and the ongoing unpredictable consequences of restrictions being imposed on public life and then eased would take a toll on the economy. By contrast, an end to the pandemic could be the start of more sustained economic recovery. At present, LBBW expects year-on-year GDP growth of 3.0% in Germany in 2022, with economic output in the eurozone looking set to pick up by 4.0%. GDP growth in the two largest non-European economies is 5.0% (China) and 4.2% (USA).

Alongside the pandemic, inflation will be the second major issue in 2022. Inflation is expected to fall gradually throughout 2022, although still remaining extremely high for the time being. LBBW anticipates inflation of 4.5% in Germany, 5.0% in the eurozone and 6.0% in the US. China is expected to see the lowest levels of inflation among major economies at 2.8%.

The accuracy of this outlook will likely depend chiefly on how the Covid-19 pandemic unfolds moving forwards. It seems possible that restrictions on public life will be lifted soon. At the same time, however, it is also conceivable that restrictions could be tightened again if new virus variants emerge. Developments in the Ukraine crisis present a downside risk. EU states could impose sanctions against Russia, disrupting energy supply in Europe which would result in production downtime and push inflation up even higher. International supply chains are also another source of uncertainty. The pandemic prompted global disruptions to production and logistics. Despite an improvement at the start of the year, supply chains remain strained and susceptible to disruption.

In terms of monetary policy, a change of course is expected in light of increasing inflation. The US Federal Reserve has already indicated it will raise rates in 2022. LBBW expects four interest rate hikes of a total of 100 bp. In the eurozone, on the other hand, the ECB will likely take a more cautious approach. The ECB hinted that it would discontinue its Pandemic Emergency Purchase Program, as part of which it bought bonds (primarily government bonds), at the end of March 2022. By the end of January 2022, the PEPP had generated over EUR 1,600 billion. Targeted long-term refinancing operations are to expire with the final tranche in June. The ECB will likely then follow the Fed in the final quarter and raise its key interest rates.

On financial markets, yields on 10-year Bunds look set to increase to 0.50% by the end of 2022. In light of the interest rate rises in the US, the euro is likely to depreciate against the US dollar at the end of 2021, with the EUR/US exchange rate coming to USD 1.08 at the end of 2022. We expect the DAX to close 2022 at 16,500 and the S&P 500 at 4,600.

## Industry and competitive situation

LBBW reckons that the environment for the German and European banking sector will remain challenging in 2022. Regardless of the strong economic recovery expected, prospects remain uncertain, not least because of new coronavirus variants. With high levels of competition, banks' profitability will likely come under pressure. In addition, although asset quality overall has been stable so far, it is impossible to rule out delayed effects of the Covid-19 pandemic. The European Banking Authority (EBA), for example, notes potential cliff effects once moratoria and other government assistance run out. In Germany, increased loan defaults are therefore anticipated in the medium term. The Deutsche Bundesbank's Financial Stability Review published at the end of 2021 noted increased susceptibility to macroeconomic risks, and so one of the German Financial Stability Committee's decisions was to expand a countercyclical capital buffer. This will take effect in 2023.

Despite these pressures, LBBW still considers the German banking system sound in the European environment thanks to its high capital buffer. Rating agencies mostly consider the credit outlook for the German banking system »stable«. At the same time, business models are undergoing a period of transition due to increasing digitalization. Climate and environmental aspects open up new business opportunities but are also gaining in importance in terms of regulatory aspects. For example, the ECB's supervisory authorities have already begun preparatory work on the introduction of a climate stress test in 2022. Making changes to business still represents a major challenge for Germany's banking sector. Finally, the Covid-19 pandemic is likely to have further increased existing pressure on the German banking market to make changes.

## Company forecast

### General conditions

The following statements on LBBW's company forecast are based on the planning produced and approved by the Supervisory Board at the end of 2021. LBBW expects the economic recovery from the pandemic to accelerate further in the 2022 forecast period. This recovery is also likely to be reflected in allowances for losses on loans and securities being in line with pre-pandemic levels, after considerable provisions were made in previous years in the form of adjustments. LBBW is of the opinion that eurozone interest rates will remain low in the forecast period, with pressure on profitability in the banking sector likely to stay high as a result.

### Outlook for LBBW

The following outlook for the *most important financial performance indicators* and other indicators for LBBW in the 2022 financial year is based on the planning approved. The approved planning does not take into account the majority acquisition of Berlin Hyp, which will have a perceptible impact on the LBBW Group's net assets, financial position and results of operations only afterwards the closing of the transaction.

LBBW performed very well in the 2021 financial year, boosting earnings considerably to EUR 817 million. This upturn was driven by higher income, reflecting the good operating performance and the TLTRO III bonus collected to date as well as a perceptibly lower need for allowances for losses on loans and securities. LBBW still expects to generate a clearly positive consolidated profit before tax in the mid triple-digit million range in the 2022 forecast period, which looks set to be about on par with the previous year's level abstracted from TLTRO III bonus. This good operating business should be maintained and allowances for losses on loans and securities are expected to further normalize at pre-pandemic levels, well below those of the previous year. Offsetting this, higher expenses are expected, including from the bank levy and deposit guarantee system. In connection with this, the *cost/income ratio (CIR)* should increase slightly on the previous year, with *return on equity (RoE)* decreasing in line with earnings performance.

LBBW expects the *common equity Tier 1 capital ratio (»fully loaded«)* to increase marginally on the previous year as a result of virtually unchanged risk weighted assets and slightly higher CET 1 capital. In this context, risk weighted assets are expected to see a growth-driven increase from the operating segments in the forecast period, which will likely be offset by beneficial effects from ratings improvements in line with expectations. Accordingly, the common equity Tier 1 (CET 1) capital ratio should remain well in excess of the CRR II/CRD V minimum requirements and the SREP<sup>1</sup> requirement of 8.81% in the forecast period. Even taking into account further current requirements<sup>2</sup>, LBBW's common equity Tier 1 (CET 1) capital ratio should be far above ECB requirements.

<sup>1</sup> Supervisory Review and Evaluation Process.

<sup>2</sup> Details can be found in the report on the results of operations, net assets and financial position.

LBBW is forecasting the following developments for the *operating segments* in the 2022 financial year:

Operating business in the **Corporate Customers segment** is expected to remain positive from the bank's perspective in the forecast period, with corporate finance business remaining a key driver of income. In addition, the substantially lower need for allowances for losses on loans and securities, should help, after considerable allowances for losses on loans and securities were recognized in 2020 and 2021. Nonetheless, the TLTRO III bonus included in 2021 and a rise in the bank levy and deposit guarantee system mean that segment earnings will likely remain perceptibly below the previous year figure. As a result, the cost/income ratio (CIR) is expected to experience a noticeable, temporary increase, with return on equity (RoE) being slightly lower.

Following the noticeable upturn in income in 2021, LBBW expects to generate far lower income in the **Real Estate/Project Finance segment** in the forecast period. The main causes of this decline are non-recurring effects in 2021 such as the TLTRO III bonus and capital appreciation in project development, which are not expected to be offset by further growth, chiefly from increased sustainable financing for both real estate and project financing. A slight increase in expenses, the result almost exclusively of a rise in the bank levy and deposit guarantee system, will also have a negative effect. Despite the marked benefit generated by the return to normal allowances for losses on loans and securities, segment earnings before tax look set to be noticeably lower than in the previous year. In line with this earnings performance, the cost/income ratio (CIR) is likely to be far above the previous year and perceptibly lower return on equity (RoE) is anticipated.

In the **Capital Markets Business segment**, LBBW expects segment earnings before tax in the 2022 financial year to be only slightly lower than in the previous year's level, which LBBW considered good, and to be aided considerably by income across almost all core product areas and customer groups. A slight rise in costs is anticipated on account of the growth initiatives and far higher expenses for the bank levy and deposit guarantee system. With income rising by virtually the same amount the cost/income ratio (CIR) should be only moderately higher than in the previous year and return on equity (RoE) is likely to be slightly lower.

In the **Private Customers / Savings Banks segment**, income looks set to experience a moderate increase despite low interest rates, attributable in part to »private asset management« as a sub-area of the growth area of Asset and Wealth Management. With the market environment expected to remain challenging, LBBW anticipates positive segment earnings that are nonetheless lower than in the previous year for the 2022 financial year. This would essentially reflect normalized allowances for losses on loans and securities after none were recognized in the previous year. Despite a slight rise in expenses, including due to the bank levy and deposit guarantee system, the cost/income ratio (CIR) is expected to be maintained at the previous year's level, whereas return on equity (RoE) will probably experience a marked decline in line with earnings performance.

## Opportunities and risks

Over the course of the 2022 financial year, the statements made could be positively or negatively affected by the *opportunities and risks* described below:

It is still not possible to foresee the end of the Covid-19 pandemic and virus variants, in particular, mean that it is difficult to estimate how it will unfold in the future. This risks again putting considerable strain on the economy, which has already begun the process of recovery. Economic performance could additionally be hurt by supply chain disruptions and the shortage of materials that this entails, as well as further current developments in the Ukraine conflict. This could potentially negatively affect LBBW's income and risk profile. Even greater competition in the banking sector and unanticipated, tighter regulatory requirements could have additional unexpected negative consequences for LBBW's margins and earnings in the forecast period. 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.

While the adjustments required to adapt to changed market and customer requirements as a result of digitalization and sustainability pose risks, they also present opportunities for further development at LBBW through its business model.

On the other hand, the general conditions described could also open up opportunities for LBBW in the forecast period if the factors develop better than expected. In particular, an interest rate hike by the European Central Bank could have a positive impact, especially from deposit business and investment of the bank's capital.

The upcoming takeover of Berlin Hyp – which is expected to close in summer 2022 – will also create good opportunities for further growth at LBBW in the area of commercial real estate financing in the Real Estate/Project Finance segment, resulting in earnings growth.

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

## Results of operations, net assets and financial position

### Business development in 2021

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 in the 2021 financial year, which remained dominated by the coronavirus pandemic. At EUR 914 million, allowances for losses on loans and securities, which act as an indicator of operating strength, easily exceeded the 2020 figure of EUR 651 million.

### Results of operations

	01/01 - 31/12/2021	01/01 - 31/12/2020	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,937	1,634	302	18.5
Net fee and commission income	466	417	50	11.9
Total operating income/expenses from the trading portfolio	325	250	75	29.8
Administrative expenses <sup>1</sup>	- 1,769	- 1,685	- 84	5.0
Other operating income/expenses	- 46	34	- 80	-
<b>Operating income before allowances for losses on loans and advances/remeasurement gain or loss</b>	<b>914</b>	<b>651</b>	<b>263</b>	<b>40.4</b>
Allowances for losses on loans and advances/remeasurement gain or loss	- 250	- 349	99	- 28.5
Reversal/addition to fund for general banking risks	0	- 86	86	- 100.0
<b>Operating income/expenses (result from ordinary business activities)</b>	<b>664</b>	<b>216</b>	<b>448</b>	<b>&gt;100</b>
Extraordinary result	- 26	- 47	21	- 44.1
Partial profit transfer	- 35	- 38	3	- 6.6
<b>Net profit/loss for the year before tax</b>	<b>602</b>	<b>131</b>	<b>471</b>	<b>&gt;100</b>
Income taxes	- 377	- 26	- 351	>100
<b>Net profit/loss for the year after tax</b>	<b>225</b>	<b>105</b>	<b>120</b>	<b>&gt;100</b>

Rounding differences may occur in this and subsequent tables for computational reasons.

<sup>1</sup> In addition to staff costs and operating expenses, this item also includes amortization and write-downs of intangible assets and depreciation and write-downs of property and equipment.

**Net interest income** improved, picking up by EUR 302 million to EUR 1,937 million. At operating level, the Real Estate/Project Finance segment played a key role in this. Income rose here, chiefly the result of historically strong new business in commercial real estate financing. The Capital Markets Business and Corporate Customers segments also contributed to growth in net interest income. Particular worthy of note here were corporate finance, export financing and the expansion of volumes in growth sectors. Ongoing historically low interest rates took a particular toll on the deposit business, resulting in a lower contribution from the Private Customers/Savings Banks segment. Effects from participating in targeted longer-term refinancing operations (TLTRO III) also boosted performance thanks to a bonus of EUR 186 million (previous year: EUR 0 million).

**Net fee and commission income** improved by EUR 50 million to EUR 466 million. The securities and custody business performed particularly well, picking up by EUR 37 million to EUR 151 million. This benefited from a positive market environment on stock exchanges and from higher custodian bank fees, chiefly in response to a far higher fund volume in the custodian business, which increased from EUR 130 billion to EUR 147 billion. Income from asset management also fared well thanks to the increase in mandates, experiencing particularly good growth of EUR 10 million to EUR 75 million. Net gains from the lending business also rose by EUR 4 million to EUR 87 million (previous year: EUR 83 million) and net gains from the brokerage business increased slightly, up EUR 3 million at EUR 49 million (previous year: EUR 46 million). The contribution from the payments business was marginally lower than in the previous year at EUR 92 million (previous year: EUR 94 million).

At EUR 325 million, **total operating income/expenses from the trading portfolio** was also considerably far above the previous year's level, improving by EUR 75 million. Capital market activities, which saw a sharp increase in new business for certificates and in interest books, were particularly instrumental in this increase. No further addition to the extraordinary item for general bank risks in accordance with Section 340e (4) no. 4 HGB was required in the last reporting year (previous year: EUR 6 million).

**Administrative expenses** increased year on year by EUR – 84 million to EUR – 1,769 million (previous year: EUR – 1,685 million). **Staff costs** picked up by EUR – 23 million to EUR – 890 million (previous year: EUR – 866 million), attributable primarily to higher personnel-related provisions. This was offset by lower pension expenses, which benefited from the outsourcing of most pension obligations in the previous year. **Other administrative expenses** increased by EUR – 63 million to EUR – 797 million (previous year: EUR – 734 million). The main cause of this cost increase was greater investment in restructuring and modernizing IT. In addition, expenses for the bank levy again climbed perceptibly by a total of EUR 16 million. This was affected by the further increase in the target volume for the bank levy due to the 8% rise in covered deposits in the eurozone and a higher assessment basis resulting from business expansions. Maintenance and construction costs for LBBW's offices and business premises also rose slightly year on year, up EUR 6 million at EUR 26 million. In particular, changes to future office space management requirements resulted in higher investment. **Amortization and write-downs of property and equipment and intangible assets** fell to EUR – 82 million (previous year: EUR – 84 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 to EUR – 46 million (previous year: EUR 34 million). The main cause of the decline was the EUR – 108 million increase in earnings from provisions for legal issues. This includes a EUR 18 million increase in the net allocation of provisions for legal risks. As well as potential negative effects resulting from the German Federal Court of Justice's ruling on customer consent for price changes, potential interest expenses were taken into account in connection with tax payments by recognizing provisions. By contrast, net gains/losses from equity investments improved to EUR 1 million. LBBW disposed of non-strategic equity investments in 2020 as part of streamlining the investment portfolio, depressing the figure by EUR 32 million in the previous year.

**Allowances for losses on loans and advances and remeasurement gain or loss** improved year on year by EUR 99 million to EUR – 250 million (previous year: EUR – 349 million). A differentiated performance was recorded for the individual subitems:

- **The remeasurement gain or loss on securities** declined by EUR 17 million to EUR 28 million (previous year: EUR 45 million), shaped once again by treasury activities to optimize the risk structure in the respective portfolios.
- **The remeasurement gain or loss from equity investments and affiliates** improved by a considerable EUR 39 million year on year to EUR 2 million (previous year: EUR – 38 million).
- **Gains/losses from the transfer of losses** increased marginally to EUR – 9 million (previous year: EUR – 7 million).
- **Allowances for losses on loans and advances** declined by EUR 80 million at the end of 2021 to EUR – 270 million (previous year: EUR – 350 million). While allowances for losses on loans and securities were relatively low at the end of 2021 due to underlying defaults, extraordinary levels of uncertainty in connection with further pandemic, economic and geopolitical risks (e.g. Ukraine conflict) were taken into account. The previous year was also adversely affected by a 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 still low default rate.

There were no changes to the **fund for general banking risks in accordance with Section 340g HGB** in the 2021 financial year.

Overall, **the extraordinary result** improved by EUR 21 million to EUR – 26 million (previous year: EUR – 47 million). No material new restructuring measures were implemented compared to the previous year and so net expenses from restructuring declined by a considerable EUR 21 million. The conversion of the allocation of pension provisions pursuant to the Accounting Law Modernization Act (BilMoG) meant that the extraordinary expense of EUR – 26 million was held constant from the previous year.

Taking into account a partial profit transfer of EUR – 35 million (previous year: EUR – 38 million), **net profit/loss before tax** for the 2021 financial year amounted to EUR 602 million overall (previous year: EUR 131 million).

**Income taxes** increased by a considerable EUR 351 million to EUR – 377 million (previous year: EUR – 26 million), primarily due to higher net profit/loss before tax. This pushed up current taxes by EUR 204 million to EUR 243 million. In addition, non-periodic tax expenses rose by EUR – 146 million to EUR – 134 million (previous year: EUR 12 million). This increase is essentially due to higher provisions for tax risks. Corresponding interest expense was recognized in other operating income/expenses.

All in all, **net profit for the year** thus increased markedly to EUR 225 million (previous year: EUR 105 million).



## Net assets and financial position

Assets	31/12/2021	31/12/2020	Change	
	EUR million	EUR million	EUR million	in %
Cash and cash equivalents	36,856	13,636	23,220	> 100
Loans and advances to banks	44,695	64,385	- 19,690	- 30.6
Loans and advances to customers	120,383	108,555	11,828	10.9
Debentures and other fixed-income securities	31,553	31,832	- 279	- 0.9
Equities and other non-fixed-income securities	183	187	- 4	- 2.2
Trading portfolio	29,014	32,800	- 3,786	- 11.5
Equity investments	191	194	- 3	- 1.6
Shares in affiliates	1,614	1,596	18	1.1
Trust assets	982	901	81	9.0
Intangible assets	125	147	- 22	- 14.8
Property and equipment	759	780	- 21	- 2.7
Other assets	2,033	2,248	- 215	- 9.5
Deferred items	2,897	4,017	- 1,119	- 27.9
<b>Total assets</b>	<b>271,285</b>	<b>261,278</b>	<b>10,008</b>	<b>3.8</b>

Equity and liabilities	31/12/2021	31/12/2020	Change	
	EUR million	EUR million	EUR million	in %
Deposits from banks	85,742	75,947	9,795	12.9
Deposits from customers	97,220	95,340	1,880	2.0
Securitized liabilities	46,208	44,797	1,411	3.1
Trading portfolio	15,147	16,808	- 1,660	- 9.9
Trust liabilities	982	901	81	9.0
Other liabilities	1,202	1,434	- 232	- 16.2
Deferred items	2,710	3,475	- 765	- 22.0
Provisions	1,407	1,059	347	32.8
Subordinated liabilities	4,616	5,121	- 505	- 9.9
Capital generated from profit participation rights	47	229	- 182	- 79.5
Regulatory AT 1 capital instruments	771	771	0	0.0
Fund for general banking risks	926	926	0	0.0
Equity	14,307	14,470	- 163	- 1.1
<b>Total equity and liabilities</b>	<b>271,285</b>	<b>261,278</b>	<b>10,008</b>	<b>3.8</b>
Contingent liabilities	11,986	10,338	1,648	15.9
Other obligations	38,260	34,745	3,515	10.1
<b>Business volume<sup>1</sup></b>	<b>321,532</b>	<b>306,360</b>	<b>15,172</b>	<b>5.0</b>

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 2021 rose slightly by EUR 10.0 billion (3.8%) to EUR 271.3 billion compared with the previous year. LBBW (Bank)'s business volume thus grew by EUR 15.2 billion (5.0%) to EUR 321.5 billion.

## Lending

**Cash and cash equivalents** amounted to EUR 36.9 billion at the year under review, a considerable EUR 23.2 billion higher than the figure for the previous year (EUR 13.6 billion). This rise was attributable almost exclusively to an increase in central bank balances.

**Loans and advances to banks** as at 31 December 2021 declined by EUR -19.7 billion to EUR 44.7 billion. This change was particularly noticeable for public-sector loans, which declined by EUR 13.7 billion to EUR 33.8 billion in connection chiefly with the expiration of a deposit facility with Deutsche Bundesbank. There was also a EUR 3.4 billion decrease in securities repurchase transactions, predominantly with clearing houses, to EUR 6.8 billion and a EUR 2.9 billion fall in overnight and term deposits to EUR 3.5 billion.

By contrast, the portfolio of **loans and advances to customers** increased by EUR 11.8 billion and came to EUR 120.4 billion as at the current reporting date. Corporate finance business and real estate financing enjoyed further growth, with other receivables picking up by EUR 17.5 billion as a result. This was countered by a EUR 4.3 billion decline in mortgage loans and a EUR 1.3 billion decline in public-sector loans.

**Debentures and other fixed-income securities** rose marginally from EUR 31.8 billion to EUR 31.6 billion. A EUR 0.3 billion increase in the volume of own debentures was offset here by a EUR 0.6 billion decrease in other issuers of bonds, debentures and money market instruments.

**Trading assets** declined compared with the previous year by EUR 3.8 billion to EUR 29.0 billion. This decrease is essentially the result of lower fair values for interest products denominated in EUR, which declined by EUR 3.0 billion to EUR 6.1 billion. Schuldschein loans decreased by EUR 1.1 billion, countered by a EUR 1.3 billion upturn in securities transactions.

At EUR 1.0 billion, **trust receivables** remained similar to the previous year's level of EUR 0.9 billion, with the rise driven by sound growth in the development loan business.

**Prepaid expenses** declined from EUR 1.1 billion to EUR 2.9 billion in the current year. More derivative transactions were processed in clearing, resulting in higher upfront payments.

## Funding

**Deposits from banks** increased by EUR 9.8 billion compared to the end of 2020 to EUR 85.7 billion. In particular, this development was due to a EUR 7.5 billion increase in overnight and term deposits to EUR 45.4 billion in connection with participating in the ECB's tender program. Transmitted loans picked up by EUR 1.9 billion to EUR 34.1 billion and current account liabilities by EUR 0.3 billion to EUR 2.6 billion. This was countered by a EUR 0.3 billion decline in securities repurchase transactions, mainly with clearing houses, to EUR 0.3 billion.

**Deposits from customers** amounted to EUR 97.2 billion as at 31 December 2021, up EUR 1.9 billion on the previous year. The volume of current account liabilities increased by EUR 1.6 billion to EUR 59.5 billion. Corporate customers made particular use of LBBW (Bank) investment products. Securities repurchase transactions rose by EUR 0.5 billion to EUR 1.5 billion. This was offset by a EUR 0.4 billion decrease in overnight and term deposits to EUR 24.6 billion.

The volume of *securitized liabilities* increased slightly, rising by EUR 1.4 billion to EUR 46.2 billion. The New York branch stepped up its short-term financing with commercial papers and certificates of deposits, resulting in a EUR 1.9 billion rise in securitized money market transactions to EUR 8.2 billion. For other debentures, the volume of new issues exceeded maturities and led to a EUR 2.1 billion increase to EUR 26.6 billion. In the case of mortgage-backed covered bonds, planned maturities offset new business and caused a EUR 2.1 billion decline to EUR 7.3 billion.

Compared to the previous year, *trading liabilities* decreased by EUR 1.7 billion to EUR 15.1 billion, essentially the result of the EUR 1.8 billion drop-off in deposits. Delivery obligations from short sales of securities expanded by EUR 0.5 billion to EUR 0.8 billion. Negative fair values from derivative financial instruments declined by EUR 0.1 billion on account of current interest rate developments.

At EUR 1.0 billion, *trust liabilities* remained at the previous year's level of EUR 0.9 billion, as in the item under assets. The further development of the development loan business resulted in a change.

The volume of *subordinated liabilities* declined by EUR 0.5 billion to EUR 4.6 billion. This stemmed primarily from the repayment of subordinated bonds.

*Deferred income* mirrored prepaid expenses, falling by EUR 0.8 billion from EUR 3.5 billion to EUR 2.7 billion.

### Equity

LBBW (Bank)'s *equity* decreased to EUR 14.3 billion as at 31 December 2021, down by EUR 0.2 billion compared to the end of 2020. The distribution to LBBW (Bank)'s owners »regarding the years 2019 and 2020« also resulted in a decline of EUR 0.4 billion.

### Financial position

The funding strategy at LBBW (Bank) 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. In view of central bank policy, 2021 as a whole was shaped by high excess liquidity on the market, which is 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. The LCR was met during the entire reporting period and came to 143.0% as at 31 December 2021.

# Combined non-financial statement

## Preliminary note

Section 289b and Section 315b HGB require LBBW to prepare a non-financial (Group) statement in the (Group) management report or a non-financial (Group) report separate to the (Group) management report for LBBW (Bank) and for the LBBW Group. Following the publication as a combined, separate non-financial report for the first and only time in the 2020 financial year, the combined non-financial statement for the 2021 financial year was again included in a special section within the combined management report. LBBW has decided to include the information in the combined management report early, before it would anyway have been obliged to do so from the 2023 reporting year onwards in accordance with the Corporate Sustainability Reporting Directive.

The following content covers the combined non-financial statement (hereinafter referred to as the »non-financial statement«) for the 2021 financial year in accordance with Sections 340i (5) in conjunction with 315b and 315c in conjunction with Sections 340a (1a) in conjunction with 289b to 289e of the German Commercial Code (HGB) for LBBW (Bank) and the LBBW Group.

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

LBBW also reports extensively on its commitment to sustainability in its annual sustainability report. The sustainability report is prepared in accordance with the GRI Standards (GRI = Global Reporting Initiative), »core« option. The non-financial statement is based on the LBBW sustainability report and thus, unless required otherwise, on the GRI Standard, although it does not cover this in full.

## LBBW's business model

Information on the LBBW Group's business model can be found in the »Group overview« section.

## Concepts and due diligence processes

### Sustainability targets, policies and principles and guidelines for their implementation

The sustainability policy sets out guidelines that constitute a framework for all sustainability activities at LBBW, thus forming the basis for integrating economic, environmental, and social issues into all business activities as a whole. (The wording of the sustainability policy can be found in LBBW's 2020 Sustainability Report on page 13 f.).

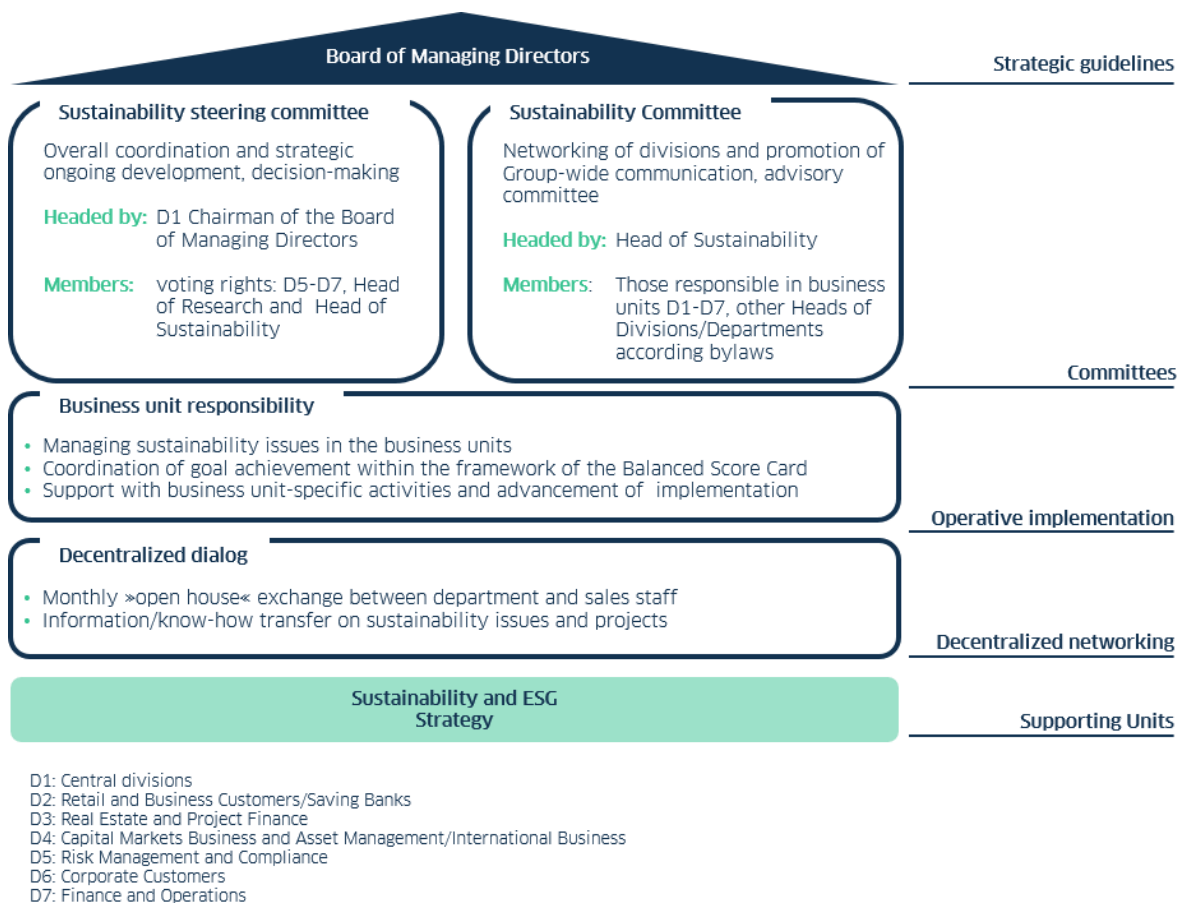
The sustainability policy applies to the entire LBBW Group. LBBW has set overarching objectives to put its sustainability policy into place:

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

The principles and guidelines provide concrete guidance on implementing these targets in day-to-day business. They comprise specific exclusion criteria for certain business ventures; overarching principles governing compliance, human rights, climate protection, and biodiversity; and business-area specific guidelines, referred to as the guidelines for sustainable investment, lending, human resources management, and business operations (see LBBW 2020 Sustainability Report, pages 15 to 18).

## Management involvement

Sustainability has been established as one of LBBW's four strategic cornerstones since 2017. As well as sustainability, these include digitalization, agility and business focus. The large number of new regulatory requirements imposed by banking regulators highlights the increased relevance of this issue. Moreover, demands by customers, who are primarily seeking innovative and sustainable solutions, mean that it is essential to address the matter from a risk and regulatory perspective and consider sustainability holistically.



### Decision-making and steering body:

The Board of Managing Directors Sustainability Committee is the central decision-making body and provides key momentum for the strategic cornerstone sustainability. It meets each quarter and comprises the Chairman of the Board of Managing Directors, other members of the Board of Managing Directors, the head of Research and the head of Sustainability. All members are entitled to vote.

The main tasks of the Board of Managing Directors committee include overall management and strategic development of the sustainability cornerstone. It responsibly directs relevant flagship projects and substantial overall impact in connection with sustainability.

### Advisory body:

The LBBW Sustainability Committee is responsible for creating transparency and networks across business units to further reinforce the importance of sustainability as one of the four strategic cornerstones and, where possible, to expand it. The Sustainability Committee has a coordinating and an advisory role and submits decision documentation to the Board of Managing Directors Sustainability Committee. The Sustainability Committee generally meets once per quarter.

**Operational implementation:**

A business unit head is appointed for each business unit and is responsible for implementing the measures decided.

The business unit head's core tasks include managing sustainability issues in their business unit, coordinating target attainment using the balanced scorecard and supporting and promoting activities specific to that business unit.

**Supporting units:**

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

**Balanced scorecard**

A balanced scorecard has been used to manage the four cornerstones at the LBBW Group since 2019. This involves collecting internal key figures for all the strategic objectives on a quarterly basis. These are then reported to the Board of Managing Directors and compared with the defined target figures. Within the sustainability cornerstone, key figures include, for example, the volume of green bond-eligible real estate (volume (exposure) of buildings that are included in the top 15% most energy-efficient buildings according to an external assessment and are thus covered by LBBW's green bond framework) and the volume of sustainable investments (sum of sustainable investment volume of private customers, corporate customers and LBBW Asset Management). There is also a focus on key figures for sustainable human resources management (including women in management positions) and CO<sub>2</sub> emissions reduction (CO<sub>2</sub> emissions from electricity, heating, water, paper and travel in kilotons; figure includes business units 1-7 and others such as subsidiaries). The link between the balanced scorecard and remuneration underscores the importance of sustainability targets for LBBW.

## Risk management (focus on ESG risks)

In line with the business strategy, LBBW prepares risk strategies as part of suitable and effective risk management. LBBW defines risk management as the use of a professional, constantly evolving range of tools to manage risks. Alongside the strategies, this range of tools primarily includes establishing internal control processes and ensuring that the risk-bearing capacity is ensured at all times.

The risk strategies define the organizational and procedural framework for properly handling risks and effectively limit the occurrence of risks. The risk strategies comprise a part addressing multiple risk types (Group risk strategy) and specific parts on individual risk types that the bank identified as material as part of an annual process (risk inventory).

The Board of Managing Directors limits risk taking, in part by establishing qualitative and quantitative requirements in the risk strategies, known as risk tolerance. A key aspect of the qualitative requirements are risk guidelines, which must be observed by all LBBW employees at all times. The guidelines set out the main principles for the consideration of opportunities and risks within the LBBW Group and form the basis of a uniform Group-wide understanding of the Bank's goals in connection with risk management. Examples of these include (as at January 2022):

1. The LBBW Group acts in the best long-term interest of its customers and stakeholders.
2. Transactions that are liable to jeopardize the Bank's reputation for a sustained basis should be avoided. The sustainability policy of the LBBW Group must be observed.
3. Sustainability is our strategic cornerstone and we also ensure that sustainability criteria are met for customer financing. We want to support our customers in transitioning to more sustainable business models.
4. As part of a climate agreement, together with others in the German financial sector LBBW agreed to facilitate and support the transformation of the economy to achieve carbon neutrality by no later than 2050. To this end, LBBW will measure the impact its lending and investment portfolios have on the climate and manage them in line with national and international climate targets. In this context, the financing of fossil fuels will also be reduced and, in the long term, discontinued.
5. At the LBBW Group, ethical aspects such as human rights, working conditions, environmental protection, and anti-corruption efforts are taken into account when granting loans and making investments. It goes without saying that the Bank does not support any unlawful acts, such as tax evasion or actions in violation of tax compliance and criminal activities.
6. The financing or hedging of deliveries of arms and defense goods to other countries and other critical sustainability issues are subject to restrictions defined in the Bank's internal rules. As a rule, LBBW does not support projects that clearly lead to large-scale destruction of the environment and nature without adding ecological value.

Sustainability risks and ESG risks are associated with specific risk drivers that could have a negative impact on LBBW. They affect various financial and non-financial types of risk that LBBW classifies as material – ESG risks are also considered an interdisciplinary issue for this reason. LBBW considers ESG risks material overall, as they have a particular impact on the counterparty default/credit risk and reputation risk. Both types of risk are assigned specific sub-risk strategies. LBBW is also continuing to develop how it handles ESG risks, chiefly as part of a bank-wide »ESG project«.



The LBBW Group's Board of Managing Directors is responsible for the organization and development of risk management for ESG risks and compliance with its fundamental principles at LBBW. In addition to these strategies, the guidelines are operationalized in detail and this is documented in the bank's written policies. Key aspects of risk identification and assessment include the measurement of CO<sub>2</sub> emissions financed by LBBW, which was newly developed in 2021, and physical risks for real estate. This allows LBBW to identify and monitor material risk drivers, simulate the future effects of climate change and climate policies and monitor future changes at sector level.

One way LBBW manages and limits risks during its lending process is by using check lists to assess ESG risks. Examples include:

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

Please see the risk report for further information on LBBW's risk management and controlling processes.

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

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

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

Accordingly, in its risk management LBBW uses the »three lines of defense model« for the two sub-risk types.

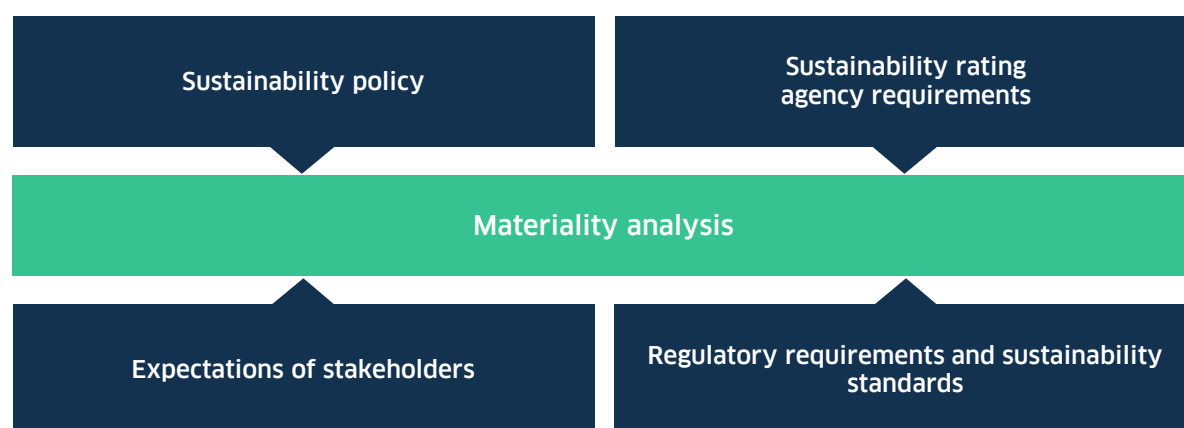
Individual front office units are responsible for the transaction-based management of reputation risks (»first line of defense«). The ultimate decision as to whether a transaction is carried out from a reputation risk perspective is made by the employees and their managers responsible for the transaction, up to and including the Board of Managing Directors (depending on how authority is allocated). The sustainability team supports the relevant front office units in their day-to-day business in identifying and assessing transaction-related sustainability risks.

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

Group Compliance is responsible for transaction-based and non-transaction-based reputation risks as the »second line of defense« and performs a control and monitoring function. Internal Auditing is the »third line of defense«, as part of which it monitors the first and second lines and assesses the appropriateness and effectiveness of risk management.

## Materiality analysis

LBBW classifies the potential impact of its business activities on its sustainability performance as minimal, average, or significant. The requirements, standards and expectations of our stakeholders play a particularly important role here. The relevant focus areas are geared toward international sustainability standards and our sustainability policy. Appropriate sustainability measures are defined primarily in areas with a substantial effect on our sustainability performance.



In LBBW's non-financial statement, disclosures must be made on each aspect (environmental, employee and social concerns, respect for human rights, anti-corruption and efforts to combat bribery) that are essential for gaining an understanding of business development, business performance and LBBW's position and for an understanding of the impact on LBBW's business activities regarding non-financial aspects.

Material issues at LBBW include:

- Corporate governance
- Regulation
- Stakeholder dialog
- Sustainability standards in investment business and sustainable investment products
- Sustainability standards in financing business and financing with a sustainable focus
- Product responsibility/consumer protection
- Real estate
- Compliance
- Personnel management, hiring, and development

Appropriate measures are defined as part of a sustainability program to improve sustainability performance in the material issues (see »Results of concepts« below).

## Content of the non-financial statement

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

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

## Corporate governance

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

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

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

## Regulation

LBBW closely monitors regulatory publications, requirements and regulations. The sustainability project launched in 2021 ensures that the requirements set out in the ECB guide on climate-related and environmental risks are implemented efficiently and in a structured way. For this purpose, LBBW drew up coordinated action plans (including risk driver analyses, ESG assessment at portfolio and customer level, integration in lending decision processes, internal climate risk scenario analyses and ECB stress

test). LBBW adopts a holistic approach to implementation in all cases, connecting the individual requirements and measures.

Work also began on implementing the disclosure and sustainability reporting requirements, which result in part from the Taxonomy Regulation, as part of the sustainability project in mid-2021. The implementation plans drawn up for this purpose were prepared in close connection with the project as a whole and are intended to ensure holistic implementation and integration with other regulatory requirements such as the ECB guide on climate-related and environmental risks and internal targets.

## Stakeholder dialog

### WWF

The dialog with the WWF that began in 2019 and continued in 2020 was maintained in July 2021. The dialog was again based on a detailed ESG questionnaire. The WWF's follow-up study titled »German banks need to pick up the pace« was published in November 2021. Once again, no bank was rated »pioneer« or »visionary« in the overall assessment. LBBW was again rated »ambitious«.

Biodiversity in banking was also assessed by the WWF. This aspect was rated average for LBBW in the above study, but the result was not included in the overall evaluation for 2021. In its first bilateral dialog, LBBW discussed key aspects of biodiversity with the WWF in October 2021.

### urgewald

In October 2021, a discussion was held with representatives from urgewald on the financing of fossil fuels and arms by banks. urgewald is calling for Germany as a whole to phase out coal by 2030 and gas by 2035 and urging banks to support this goal through suitable financing regulations. Essentially, urgewald wants to cut off funding for new fossil fuel projects and companies that carry these out. In the arms sector, urgewald says that companies that supply arms to states at war or that disregard human rights should also no longer receive funding.

### Dialog with customers and investors

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

## Sustainable investment products

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

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

LBBW further increased its range of sustainable investment solutions in 2021. For LBBW Asset Management, this includes converting existing funds to focus on sustainability and launching new mutual funds such as »LBBW Gesund Leben«. In asset management, the umbrella fund »LBBW Balance« and its sub-funds CR20, CR40 and CR75, for which BW-Bank is the adviser, was expanded to include sustainability criteria.

### ESG bonds

LBBW is one of the largest issuers of sustainable bonds, known as ESG bonds, outside China in the commercial banking market segment. As a pioneer in an early market stage, LBBW helped bring about general market development and transparency in sustainable financing by constantly developing programs. The importance of green bonds increased significantly in 2021 as climate and environmental targets were stepped up generally, investor demand rose sharply and, indirectly, as a result of far higher regulatory pressure to report climate and environmental risks. This is underscored by the emergence of many new issuers, increasingly at national level. In 2020, for example, the German federal government issued a sustainable German government bond for the first time. Another aim of expanding our green and social bonds is to help finance the United Nations' development goals.

### Green bonds

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

A green bond was issued in benchmark format in 2021 (EUR 500 million green senior non-preferred, term 7 years).

In addition, Landesbank Baden-Württemberg offered private customers the opportunity to direct their investments towards supporting sustainable projects on the basis of the Green Bond Framework through its step-up/fixed interest sustainability bonds (green bonds) in the structured bond environment. Total customer demand for these bonds exceeded EUR 250 million in 2021.

To ensure that it can make an informed choice about the selection of energy-efficient buildings for its real estate portfolios, when launching its first green bond LBBW worked closely with prestigious external consultants to develop an approach whereby the carbon intensity of commercial properties and renewable energies can be measured and compared. The bank uses the proceeds from its green bonds to fund energy-efficient commercial and residential buildings and renewable energy projects. As at 31 December 2021, LBBW had outstanding green bonds of EUR 4.3 billion.

### **Social bonds**

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

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

A social bond was issued in benchmark format in 2021 (EUR 750 million social senior non-preferred, term 10 years).

In addition, Landesbank Baden-Württemberg offered private customers the opportunity to direct their investments towards supporting sustainable projects on the basis of the Social Bond Framework through its step-up/fixed interest sustainability bonds (social bonds) in the structured bond environment. Total customer demand for these bonds was about EUR 50 million in 2021.

LBBW uses the proceeds from its social bonds to fund social projects in the areas of healthcare and social services, vocational training, care homes and homes for the disabled. Other potential financing objects include schools, hospitals, infrastructure projects and public water supply. As at 31 December 2021, LBBW had outstanding social bonds of EUR 2.3 billion.

### **LBBW's investments**

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

In addition, since 2019 the sustainability agency ISS-ESG has prepared an exclusion list each year encompassing disputed human rights and workers' rights, controversial environmental practices, and restrictions on coal producers at the level of corporate investments. At the level of government investments, LBBW refrains from doing business in countries with authoritarian regimes. ISS-ESG reviews the investments to ensure compliance with these criteria each year.

## Investment business

### Asset management according to ethical, social, and environmental criteria

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

BW-Bank also offers investors two sustainable strategy funds. Both actively managed funds invest in equities and fixed income securities from issuers that contribute to the attainment of the United Nations' Sustainable Development Goals. The umbrella fund »LBBW Balance« with its sub-funds CR 20, CR 40 and CR 75, for which BW-Bank asset management is the adviser, has also been managed in accordance with sustainable criteria since 1 March 2021.

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

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

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

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

The ESG assets category at LBBW Asset Management totaled EUR 23.09 billion as at 31 December 2021 (previous year: EUR 22.51 billion; comparable only to a limited degree on account of the new classification approach from 2021 onwards), EUR 17.59 billion of which as assets under management and EUR 5.50 billion as assets under administration (in cooperation with external asset managers).

EUR billion	2021	2020	2019
Volume of ESG assets at LBBW Asset Management Investmentgesellschaft mbH (from 2021: new classification approach in accordance with SFDR/the »sustainable investments« category is used for previous years for information purposes)	23.09	for information purposes 22.51	for information purposes 21.68
Volume of sustainable investments at BW-Bank Asset Management	4.11	1.53	1.15

## Sustainable financing

### Avoiding reputation and sustainability risks in financing

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

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

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

In addition to statutory requirements and provisions, LBBW adheres to internationally recognized standards and voluntary commitments for its internal guidelines and operating procedures.

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

#### Review process for industry-country risks

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



## Company exclusion lists for controversial weapon systems

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

## Project finance

LBBW again funded renewable energy projects in 2021. Renewable energy project financing accounted for approximately 50% of the entire portfolio in 2021. As well as renewable energy and conventional energy projects, this also includes infrastructure (logistics, digitalization/grids and pipelines) and public-private partnership projects (mainly schools and hospitals).

### Project finance

EUR billion	2021	2020	2019
Volume of project financing attributable to renewable energy (assets) <sup>1</sup>	2.54	2.58	2.46

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

## Financed emissions

In 2020, Landesbank Baden-Württemberg asked MACS Energy & Water GmbH, a consulting firm specializing in sustainability, to calculate the emissions of its financing exposure as part of a pilot project. It plans to commission MACS Energy & Water GmbH again in 2022. The methodical basis applied by MACS is the PCAF Standard, which builds on the Greenhouse Gas Protocol (GHG Protocol). The PCAF Standard assigns financed emissions to the downstream value chain (Scope 3). The Scope 3 emissions of the lender correspond to the Scope 1 and Scope 2 emissions directly attributed to the financed project or investment by the borrower.

## Product responsibility/consumer protection

### Financial plan

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

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

## Securities business

Our advisors are not assigned sales targets for individual securities products. There are no point systems for assessing sales and revenue targets. We advise and support our customers on all financial matters in every phase of their lives.

## Guidelines for retail customer advice

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

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

## Real estate

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

### LBBW Immobilien Development GmbH

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

### LBBW Immobilien Kommunalentwicklung GmbH

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

The minimum aspects required under HGB for the non-financial statement are reported below.

## Compliance

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

LBBW's Group Compliance division takes a proactive approach. In particular, it provides advice on matters relating to capital market and real estate compliance, the prevention of money laundering and fraud (other punishable acts) as well as financial sanctions and embargoes. The decentralized compliance structure includes compliance officers who are responsible for compliance at the branches and subsidiaries, as well as LBBW compliance coordinators who serve as a link between the specialized divisions and the central Group Compliance division. The aforementioned coordinators provide a point of contact for employees in the operating units and in the branches for all compliance-relevant issues. Central Outsourcing Management is the point of contact for planned outsourcing activities. Central Outsourcing Management is responsible for determining and monitoring the requirements for consistent outsourcing management throughout the entire Group. Central Outsourcing Management informs the specialized divisions in good time about internal rules and requirements and supports the implementation of outsourcing.

### Compliance training

Compliance with legal requirements requires safeguards to be put into place. One of these safeguards is to raise awareness and train our employees. Their compliance knowledge must be up-to-date at all times. Self-study programs (web-based training) have proved a good and time-effective way of imparting this information. Each training session includes a test at the end to check whether the learning objectives have been achieved.

The training concept is applied across the bank and throughout the Group. Compliance – where necessary in coordination with the specialized divisions in question – determines the relevance of the training for each self-study program specifically for each individually organizational unit. LBBW's representative offices and branches have been linked via the online platform HR.lerncampus since the fourth quarter of 2021. The subsidiaries are to be onboarded by the end of Q2 2022.

Managers can view what training sessions their employees have completed via HR.lerncampus.

If employees do not complete the required training within the period stipulated (usually 30 days), an escalation process is triggered up to divisional manager level. Compliance is informed of the result.

As at 31 December 2021, the average completion rate for compliance training was 98.99% in 2021. None of the individual training elements had a completion rate below 97.87% in 2021.

## Code of Conduct

For this reason, unconditional compliance with all statutory provisions and internal rules as well as the integrity of each individual employee constitute the foundations of sustainable corporate governance. A Code of Conduct (<https://www.lbbw.de/code-of-conduct>) has been adopted as an overarching guideline. This behavior and ethics code applies to LBBW and its subsidiaries. The aim of the code is to create a reliable, normative frame of reference or guidance for responsible behavior by each individual that satisfies the legal requirements and is in line with ethical and societal standards. The Code of Conduct was last updated in October 2021.

## Regulatory compliance function according to MaRisk (Minimum Requirements for Risk Management)

Today more than ever, it is important for companies to react quickly to critical developments and be able to make well-founded decisions based on reliable data. This includes not only rapid processing of risk-related information, informative risk reporting, and agile risk management but also a corporate compliance culture that models a responsible risk culture.

For this reason, the Federal Financial Supervisory Authority (»Bundesanstalt für Finanzdienstleistungsaufsicht« (BaFin)) more precisely defined the Minimum Requirements for Risk Management (»Mindestanforderungen an das risk management« (MaRisk)) for credit institutions and financial services providers based on the German Banking Act (»Kreditwesengesetz«) in Circular 10/2021. LBBW has a regulatory compliance function that meets the requirements of MaRisk and is involved in material processes and workflows to assess the impact of these on material legal regulations. The legal regulations and standards applicable to LBBW are identified on an ongoing basis, decentrally for the bank as a whole and at the level of the relevant Group units. The regulatory compliance function ensures that this ongoing screening is carried out, helps implement appropriate and effective procedures for compliance with regulations and monitors these on the basis of risks. The compliance functions of the relevant Group units and the regulatory compliance function (Group) continually exchange information to promote a uniform, Group-wide compliance culture.

It is particularly important here to sustainably implement the compliance processes required by MaRisk at LBBW, taking account of the »internal control system« (ICS), and to strengthen interface management with the specialized divisions. Based on a sustainable three-stage defense model (»three lines of defense«), organizational and operational networking ensures a comprehensive and effective risk management system: The specialized divisions are the first line of defense. They identify risks in day-to-day business at an early stage and can effectively prevent these. Operating risk management is supported and monitored by the specialized divisions in the second line of defense, which are responsible for setting standards. From its higher-level second line of defense, the regulatory compliance function provides advice and support here to the LBBW Board of Managing Directors regarding compliance with legal regulations. Internal Auditing, a process-independent body, is the third line of defense.

## Preventing money laundering and combating the financing of terrorism

Money laundering describes the practice of integrating into legal circulation assets acquired illegally through organized crime, drug trafficking, fraud, and other punishable acts. The illegal origin of the funds is concealed in order to »launder« them back into the legal economic cycle. The financing of terrorism misuses banks to collect funds that have been acquired legally or illegally and use these funds to conduct partially or wholly terrorist activity. Accordingly, the LBBW Group has developed appropriate Group-wide business and customer-related security systems and controls for preventing money laundering and terrorism financing. These include, for example, rules on relationships with politically exposed persons, the process for accepting applications from new customers, the updating of customer data, and continual monitoring of business relationships as well as the integration of the anti-money laundering officer in the new products process.

## Financial sanctions/embargoes

LBBW is obligated to initiate measures to ensure compliance with national and international financial sanctions and embargo regulations. Financial sanctions result in restrictions on capital movements and payments, whereas embargoes limit the freedom of foreign trade.

Measures and organizational requirements for the Bank and the Group are defined in the internal guidelines. For instance, all cross-border payments and the entire LBBW customer list are automatically compared every day against German and international sanction and embargo lists. The same is true of internal company exclusion lists for cluster munitions and anti-personnel landmines. The processes and IT-based verification procedures required to do so are already firmly established inhouse.

## Fraud prevention (other punishable acts)

At LBBW the purpose of fraud prevention is to prevent criminal acts that could expose the assets of LBBW or its customers to the risk of loss or that could harm the LBBW Group's reputation. Risks are analyzed, leading indicators are tracked, and transaction and customer-related security systems and controls are implemented. In an annual threat analysis, all possible internal and external risks in connection with prosecutable offenses relevant to the Bank and the Group are identified and evaluated, and suitable preventive measures are developed on this basis. In addition, LBBW adheres to the overarching OECD Guidelines for Multinational Enterprises, which also contain recommendations on corruption prevention.

The rules and regulations for the Bank and the Group for combating criminal activity primarily comprise fraud and corruption prevention guidelines. These standards are implemented in the framework instruction for giving and receiving perks (gifts, invitations, events), for example. Employees may also report irregularities and suspicious activity anonymously via an external ombudsman. Since January 2019, the ombudsman has also been available to external third parties (e.g. LBBW's customers, business partners, and suppliers).

To the best of LBBW's knowledge, no corruption proceedings were conducted against LBBW (Bank) or the subsidiaries integrated into the sustainability management process in 2021. No fines were imposed in this context. LBBW has implemented clear internal rules and regulations throughout the Group to tackle corruption and bribery.

The types of fraud to which customers and LBBW are exposed are increasingly multifaceted. At the same time, the amount of attempted fraud is increasing significantly, a result not least of the sense of uncertainty felt by society in the wake of the pandemic and the repercussions it brought with it. For this reason, LBBW employs numerous preventative measures to protect customers and bank assets from the consequences of fraud and, in particular, financial losses. All in all, losses of more than EUR 11 million were prevented in 2021 for customers and the bank in 997 cases.

## Capital market compliance

The compliance function according to the Minimum Requirements for the Compliance Function and Additional Requirements Governing Rules of Conduct, Organization, and Transparency (>Mindestanforderungen an die Compliance-Funktion und die weiteren Verhaltens-, Organisations- und Transparenzpflichten für Wertpapierdienstleistungsunternehmen« (MaComp)) is responsible for ensuring observance of statutory rules applicable to securities trading and related regulatory requirements. To this end, it issues internal guidelines and work instructions that serve as guiding principles.

A risk analysis is performed once a year. Among other factors, this focuses on the relevant statutory regulations and an analysis of individual risks.

Compliance with external and internal standards is monitored regularly. In addition to centralized reviews of documents, processes, and directives, monitoring is also conducted on site, e.g. at the branches, advisory centers, and central units. If any shortcomings are found, the compliance function according to MaComp works with the relevant divisions to bring them into conformity with the rules.

Another responsibility of the compliance function according to MaComp is to prevent market abuse and ensure compliance with the provisions on financial market regulation set out in the revised EU Markets in Financial Instruments Directive (MiFID II). We have a zero tolerance policy towards market abuse and market manipulation. Compliance with requirements is closely monitored.

According to the rules for the compliance function according to MaComp, conflicts of interest in connection with securities and related services must also be avoided. Employees in the compliance function according to MaComp are available to help identify, avoid, and manage conflicts of interest.

## Employee concerns

LBBW sets high standards for itself and thus for its employees. At the same time, it provides highly attractive jobs with development potential for ambitious employees who thrive on success. As an attractive employer, the bank offers a wide range of further training opportunities and a good work-life balance and invests in the health of its employees.

### Personnel development

LBBW provides an extensive internal training program to ensure that all employees have the right qualifications. This features seminars and training sessions that, as well as focusing on professional qualifications, also cover methodological and social skills. This is complemented by training sessions to improve foreign language skills and seminars on specific subjects organized by external providers. Employees who want to build on their business knowledge can also undertake study programs alongside their work. Specific programs are also available to managers on employee management and on the careful use of own and external resources. As well as its traditionally wide range of training offers, LBBW is also committed to promoting top talent through its talent management program. The aim is to strengthen high-potential employees through targeted development programs to help them to compete for key positions and thus retain them at the bank. This is achieved through targeted development projects in the context of ambitious talent programs, which were successfully continued in 2021. In addition, managers can take advantage of coaching opportunities provided by specialists in professional and management development and receive individual advice and support on leadership and personal issues.

### Key figures for LBBW (Bank)<sup>1,2</sup>

	2021	2020	2019
Average age in years	46.1	45.7	45.5
Average length of service in years	19.9	19.5	19.3

1 Personnel figures are calculated based on the number of »active employees« in accordance with the HGB definition (excluding trainees, working students, students at universities of cooperative education, temporary employees, those on leave and governance bodies).

2 LBBW (Bank) accounts for about 80.2% of Group employees.

### Diversity

In 2018, LBBW signed up to the »Chefsache« initiative ([www.initiative-chefsache.de](http://www.initiative-chefsache.de)), a network aimed at achieving gender balance in management positions. The network comprises leaders from industry and science, the media and the public sector who lead by example and promote initiatives through concepts and approaches. LBBW has firmly enshrined the promotion of gender equality in its human resources guidelines, primarily in the two pillars »work-life balance« and »equal opportunity and diversity«. LBBW (Bank) also signed the Diversity Charter ([www.charta-der-vielfalt.de](http://www.charta-der-vielfalt.de)) in 2008. This involves a commitment to ensure a workplace free of prejudice for all employees.

## Promoting the careers of women

LBBW (Bank) plays a role in supporting women's career opportunities with the goal of ensuring fair competition for positions and thus significantly increasing the share of women in middle and upper management. To this end, we established a comprehensive concept, which includes various initiatives to actively promote women at different stages of life. This also includes the new »Women@LBBW« initiative, which brings together LBBW's female Board of Managing Directors members and divisional heads at LBBW. Senior female executives are committed to the quota for the share of women and wish to act as role models. They prepare ambitious women to take on leadership responsibilities and are also available as sparring partners, share contacts and create a network of multipliers. Well-established seminars for women and the mentoring program, where ambitious women are supported by experienced managers, are also part of this concept. One new change for 2021 is that the mentoring program now also caters to women who have not been able to actively engage in leadership issues due to their personal lives. This way, we are helping ensure that women's management potential and career ambitions are identified at an early stage and supported in the long term.

### Key figures for LBBW (Bank)/Diversity<sup>1,2</sup>

	2021	2020	2019
Percentage of women	51.3%	51.5%	52%
Percentage of women in leadership positions	21.2%	19.6%	19.3%
Percentage of disabled employees/employees with equivalent status <sup>3</sup>	5.1%	5.1%	5.1%
Percentage of non-German nationalities	6.7%	6.4%	6.1%

<sup>1</sup> Personnel figures are calculated based on the number of »active employees« in accordance with the HGB definition (excluding trainees, working students, students at universities of cooperative education, temporary employees, those on leave and governance bodies).

<sup>2</sup> LBBW (Bank) accounts for about 80.2% of Group employees.

<sup>3</sup> The number of employees with disabilities/employees with equivalent status can vary depending on when the data is collected due to their disability status being recognized retroactively. This may result in discrepancies between the non-financial statement in the management report and the LBBW Sustainability Report.

Further information on diversity can be found in the Human rights section (see page 126)

## Work-life balance

To provide the best possible work-life balance, LBBW (Bank) offers various options for flexible working hours. As helping parents find childcare services is a matter of course for us as an employee-oriented company, we also allow scope for, for instance, sabbaticals. Our extremely flexible working hours system, combined with the option to arrange to work from home where necessary, again particularly proved their worth in 2021, the second year of the pandemic.

Support for employees who are caring for older relatives or family members with disabilities is also becoming increasingly important. Subject to prior consultation with their managers, employees who care for a family member can apply for an additional six months' leave over and above the statutory entitlement of six months. Shorter periods of leave are also possible. The works agreement on mobile working provides further options for increased flexibility.



We also offer support with childcare and bank employees at all head offices can utilize childcare services. These include children's day care services, emergency childcare and special arrangements during school holidays. We offer all employees an advisory and support program provided by a third-party service provider, »pme Familienservice«. LBBW pays the cost of the consulting and placement services, while the actual childcare costs are paid by the parents. In addition to the parental leave time guaranteed by law, mothers and fathers who were employed by LBBW for at least three years previously can take a leave of absence called a family year.

LBBW has been recognized as a »family-oriented company« by the »berufundfamilie« audit since 2010. After two successful audits in 2013 and 2016, the new audit in 2019 focused on how to make management positions attractive for women. Workshops were held with employees from various areas. The findings from the workshops were used to create a program of action. Most of the activities planned here were implemented. The next audit is planned for 2022.

### Company health management

Taking the factors generally accepted to have an effect on health – ergonomics and occupational psychology – as a starting point, company health management efforts also move beyond the immediate working environment and aim to strengthen employees' general health. Whereas leadership and communication styles are of central importance in a professional sense, general healthcare promotion focuses on movement, nutrition, addictive behavior and mental health.

As the primary point of contact, the **occupational health service** supports and advises all our employees in fundamentally all health-related matters while maintaining strict physician-patient privilege. In addition to typical workplace and social medicine issues such as returning to work after a physical or mental illness, the occupational health service is also available for behavioral and environmental interventions, first aid, emergency medical care/services, and travel medicine, as well as general medical care and vaccinations. These services are closely integrated with those offered by the Social Services department and LBBW's health promotion activities to create a model that our employees can access to develop their own personal health strategy.

The **Social Services department** advises employees and executives as well as branch employees on topics such as stress, conflicts, and difficult situations at work, mental health issues like burnout and depression, addiction, and personal issues (such as the death of a loved one). Preventive advice on the topic of resilience and healthcare is also offered. After acute crises such as serious accidents, sudden death, or bank robbery, the Social Services department offers direct emergency psychological help that can prevent or mitigate possible subsequent illnesses and missed work. In individual cases, employees can also be referred to external counseling centers, clinics, or psychotherapists. In addition to one-on-one consultations, the Social Services department also offers employees and managers workshops, training courses, and presentations covering psychosocial issues such as resilience.

**Occupational safety:** For instance, occupational safety experts and occupational physicians are involved in the early stages in workplace-related decisions such as the purchasing of furniture and IT equipment, new construction and renovations, and the development of building standards. The conditions of workplaces are examined during on-site inspections, and possibilities for improvement are examined as necessary. Safety-related on-site inspections and individual consulting sessions on workplace ergonomics were carried out in 2021 on a scheduled or ad-hoc basis. In addition, regular training was provided for employees involved in occupational safety at LBBW (e.g. executives and safety officers). In order to further improve ergonomics in the work-place, safety officers were trained to be Ergo Scouts. In its function as an advisory and coordination body, our occupational safety committee, which meets quarterly and represents LBBW's entire workforce, deals with all key occupational health and safety issues.

### **LBBW ideas management**

Dedicated and creative employees are a key factor in ensuring the company is innovative, competitive and thus successful. As part of LBBW ideas management, our employees are actively encouraged to contribute their ideas for how our products, processes and services can be improved. This benefits our customers and the bank by contributing to process and capital efficiency. In exchange for their dedication and creativity, our employees enjoy a share in our success by way of attractive cash bonuses.

2,772 ideas were submitted in 2021, 12.8% fewer than in the previous year. Uncertainty, as we experience during a global crisis such as the Covid-19 pandemic, always dampens creativity. Nonetheless, thanks to the high quality of the ideas, they generated a benefit of EUR 9.2 million p.a. (similar to the previous year's level of EUR 9.1 million) and created innovative, sustainable and digital solutions. (The benefit is calculated on the basis of lower material expenses, additional revenue and time saved.)

### **Innovation management<sup>1</sup>**

The »innovation management« team was created to promote innovation potential at LBBW and jointly turn innovative and digital ideas into solutions that are ready for the market.

Employees ensure that information relevant to innovation is transparent by using appropriate communication and event formats with the goal of promoting a culture of innovation. Promising ideas are also interlinked in the Group.

The team supports the holistic and efficient testing and evaluation of ideas to create a neutral, customer-oriented basis for decision-making and ensures that relevant fintech and technology trends are processed and communicated in a way that is appropriate for the target group, in order to communicate knowledge and provide impetus for relevant business segments at LBBW.

<sup>1</sup>The following paragraphs are not a compulsory part of the combined non-financial statement within the meaning of Section 289b and Section 315b HGB and so are not covered by the audit of the combined non-financial statement in line with ISAE 3000 (limited assurance) by Deloitte GmbH Wirtschaftsprüfungsgesellschaft.

## Social concerns

**Education:** As a public-sector bank with regional roots, LBBW takes its social mandate seriously and actively helps to increase young people's familiarity with the business world while giving school pupils early guidance in choosing their career. For example, BW-Bank supports educational institutions in the Stuttgart area with a wide variety of services and has an active relationship with many schools. BW-Bank employees teach at these schools on a regular basis, lending their expertise to teachers and pupils alike. In doing so, we aim to convey not only knowledge but also reinforce social skills and a sense of responsibility for the sustainable development of society.

**Donations** are an important part of LBBW's commitment to society. Donations are primarily focused on social, cultural, and scientific projects. In keeping with our strong regional roots, donations are typically extended to recipients in our regional core markets.

As a **sponsor**, LBBW supports projects and selected institutions in the regions in which it operates. Alongside cultural institutions such as the Stuttgart Opera House, we also sponsor sporting events. LBBW is also involved in various educational projects.

Since it was established in 1984, **the Landesbank Baden-Württemberg Foundation** has donated around EUR 27 million to about 11,500 projects. The activities of the foundation are aimed at having as broad an effect as possible, supporting young people, and providing assistance for a continuous stream of new initiatives.

## Respect for human rights

### Company policy

To implement its sustainability policy and sustainability goals, LBBW has defined principles and guidelines as a basis for orientation. Our commitment to the protection of human rights states: »As part of the international community, we are committed to the United Nations' Universal Declaration of Human Rights«.

### Supply chain

#### Supplier registration

Activities with our suppliers are based on supplier registration. Suppliers are accepted by LBBW only if they answer questions concerning sustainability matters on the LBBW Supplier Portal. Every supplier is additionally required to acknowledge the »Sustainability Agreement for LBBW Suppliers« when registering and sign it when entering into a contract. This agreement compels our suppliers to comply with what we consider to be essential environmental and social criteria. Any supplier violating the social standards contained in the Sustainability Agreement (e.g. prohibition against human rights abuses such as child labor) must accept this violation as grounds for termination of the contract without notice.

**Group Purchasing**

Centrally organized purchasing operations and binding Bank-wide standards enable us to ensure that sustainability issues are factored into investment decisions and, in cases where several product alternatives with comparable quality and cost are available, the best product in terms of sustainability is chosen. On the one hand, this enables us to guarantee that the manufacture and use of products at LBBW meets the highest sustainability standards possible. On the other hand, it allows us to promote environmentally and socially aware policies and business practices by our business partners.

**Customer relationships**

In its lending business guidelines and those for retail customer advice, LBBW incorporates sustainability aspects in terms of respect for human rights.

**Treatment of our employees****Staff representation and representation of employees with disabilities**

Co-determination in the Staff Council is based on the State Employee Representation Act for Baden-Württemberg. Staff meetings are held regularly at LBBW's larger locations. Employees have the right to exercise the freedom of association and assembly throughout the Group. LBBW employees who hold severely disabled status are advised and represented by the General Representative Body for Employees with Disabilities (GSBV) and six regional representative bodies.

**Diversity**

A diversity officer is assigned to supervise and support diversity and equal opportunity efforts at LBBW. According to a Works Agreement on Protection from Discrimination and a Cooperative Environment in the Workplace, employees who feel discriminated against may turn to the staff council, representatives for employees with disabilities, the responsible manager, the social services department, or the complaints board.

**Training**

All LBBW's employees must complete the online training session »Ready for the future: On track for sustainability« and the tool for implementing the German General Anti-Discrimination Act (»Allgemeines Gleichbehandlungsgesetz«). The training sessions include human rights issues. Sustainability training also covers material ESG topics.

## Environmental concerns

### Environmental management system

Our environmental/sustainability management system is applicable to LBBW (Bank) including BW-Bank, LBBW Gastro Event GmbH, LBBW Immobilien Management GmbH, LBBW Corporate Real Estate Management GmbH and LBBW Asset Management Investmentgesellschaft mbH.

### Certification EMAS and ISO 14001<sup>1</sup>

LBBW has committed to complying with the standards of the Eco-Management and Audit Scheme (EMAS) and ISO 14001 and has maintained a certified environmental management system since 1998. The implementation of the Scheme and ISO standard is verified once a year by means of an internal pre-audit by Internal Auditing and an external audit by an environmental expert.

The following are validated according to EMAS and certified according to ISO 14001:

- four buildings at »Am Hauptbahnhof« and two buildings at »Pariser Platz« in Stuttgart,
- the Fritz-Elsas-Strasse 31 building (known as the »Bollwerk« building) in Stuttgart,
- the Königstrasse 3 building in Stuttgart,
- the Kleiner Schlossplatz 11 building in Stuttgart, and
- the Augustaanlage 33 building in Mannheim

### CO<sub>2</sub> emissions

As a public institution, it goes without saying that LBBW (Bank) takes responsibility for society. For this reason, LBBW has set itself the target of becoming carbon neutral (Scope 1 and Scope 2).

Accordingly, LBBW has offset all remaining CO<sub>2</sub> emissions that cannot be avoided since 2021 – not by buying emissions certificates, but by investing in forestation. Specifically, LBBW invests USD 3.5 million in the global forestation fund Arbaro Fund.

LBBW's goal for 2021 was for the bank's own emissions not to exceed 11,000 tons. Thanks to organizational and technological optimization, for example in building technology, this target was achieved. Electricity consumption, for example, was reduced by setting up a new, more efficient cooling system at the Am Hauptbahnhof 2 building. Optimizing room temperature during winter and using heat pumps also reduced district heating use. Carbon dioxide emissions also decreased further thanks to the increased numbers of people working from home on account of the Covid-19 pandemic, with far less business travel.

<sup>1</sup> The following paragraphs are not a compulsory part of the combined non-financial statement within the meaning of Section 289b and Section 315b HGB and so are not covered by the audit of the combined non-financial statement in line with ISAE 3000 (limited assurance) by Deloitte GmbH Wirtschaftsprüfungsgesellschaft.

## Results of concepts

### Sustainability program

Based on the »Principles and Guidelines for Implementing LBBW's Sustainability Policy and Goals«, the responsible specialized divisions at LBBW and its subsidiaries define specific projects for the sustainability program. This program is mandatory as part of EMAS certification. In addition, other projects are adopted during the year to improve LBBW's sustainability performance. These projects resulting from the program are assigned to the following aspects:

- Strategy and management
- Customers
- Employees
- Business operations
- Social commitment and communication

In 2021, the program comprised a total of 50 projects. 42 projects were completed, while four projects were partially completed and four were not achieved, partially a result of the pandemic.

### External and internal audits as part of the certified environmental management system

The internal and external audits were conducted successfully in 2021. Neither audit found substantive violations of environmental law.

## Disclosures in accordance with Annex XI Article 8 of the Taxonomy Regulation

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

The Taxonomy Regulation (EU) 2020/852 of 18 June 2020 and the Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 specify the form and content of the information to be disclosed. The taxonomy criteria for the first two of the six environmental objectives set out in the taxonomy are described in more detail in the Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021.

### Quantitative disclosures and explanatory information

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

In accordance with FAQ 12 of the European Commission on 20 December 2021 on the taxonomy disclosure requirements, the information disclosed on Taxonomy eligibility for the **mandatory ratios** must be based on actual information provided by the counterparty. If this information is not yet available or has not yet been disclosed by the counterparty, estimates can be used to determine Taxonomy eligibility. These estimates take the form of a **voluntary disclosure/ratio** that is designated as such and explained. However, they must not be included in the **mandatory ratio**.

In deviation from the IFRS consolidated financial statements, the volume of assets reported for the ratios (denominator) is equal to the total assets of LBBW's consolidated group under supervisory law. Gross carrying amounts are used. Only LBBW (Bank) and die SüdLeasing GmbH are taken into account when determining Taxonomy eligibility. Together they account for more than 98% of gross carrying amounts. Data from FINREP Group reporting as at the end of the reporting period 31 December 2021 are used to calculate the ratios.

Article 10 (2) and Article 7 (1) to (3) of the Commission Delegated Regulation 2021/2178 provide a transition arrangement for the first two reporting years 2021 and 2022. Information is required on the Taxonomy eligibility of economic activities but not on Taxonomy alignment. Ratios must also be disclosed for certain assets. The LBBW Group disclosed the following ratios for the 2021 reporting year as at the end of the reporting period 31 December 2021:

### Ratios to be disclosed as a percentage share of total assets

Description of ratios	Mandatory ratio	Voluntary ratio
Share of financing of economic activities eligible for the taxonomy	6.1%	7.7%
Share of financing of economic activities not eligible for the taxonomy	10.4%	8.8%
Share of risk exposures to states, central banks and supranational issuers	14.6%	-
Share of derivatives	0.5%	-
Share of loans and advances to companies not subject to the NFRD	46.3%	-
Share of trading portfolio	12.4%	-
Share of current interbank loans	1.6%	-

Note: Ratios in the voluntary ratio column that are marked with a dash are the same as the mandatory ratio.

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

#### Ratio 1:

For **mandatory reporting**, to assess Taxonomy eligibility assets were classified that are covered by one of the following customer segments: financial undertakings and non-financial undertakings that are obliged to provide non-financial reporting (NFRD obligation), and private households. As the borrowers themselves were not yet required to provide data on the Taxonomy eligibility of the specific economic activities, the share of loans and advances to financial and non-financial undertakings subject to the NFRD was set at 0% for the mandatory portion of reporting, with the exception of the development loan business.

One exception is the development loan business, as the financed economic activities here can be clearly determined. Development loans are granted either in own sales to the direct final borrowers or via savings banks in the form of transmitted loans. The final borrower is known to LBBW in the case of these transmitted loans. If the final borrower in own sales is a private household or a non-financial undertaking, financing is recognized as Taxonomy-eligible with a funding program covered by the scope of the EU Taxonomy.

In the case of transmitted loans via savings banks, financing where the final borrower is a private household is considered Taxonomy-eligible, provided the funding program is covered by the scope of the EU Taxonomy. It is not relevant here whether or not the savings bank itself is subject to the NFRD.

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

For **voluntary reporting**, the above ratio is adjusted in that the determination of the Taxonomy eligibility of exposures to non-financial undertakings subject to the NFRD is based on a reconciliation of the risk exposures at counterparty level with the Taxonomy-eligible economic activities specified in the Commission Delegated Regulation (EU) 2021/2139 (specified by NACE codes). No other customer segments, such as financial undertakings, are considered. To assign counterparties to the NACE codes, the WZ (German Classification of Economic Activities) sectors are mapped to NACE codes. They are allocated to NACE codes at the level of the individual undertaking and its relevant NACE code. This identifies the non-financial undertaking subject to the NFRD where the material share of its economic activities is attributable to Taxonomy-eligible activities.

#### Ratio 2:

The share of assets that are not Taxonomy-eligible is the difference between the share of assets assessed in terms of their Taxonomy eligibility and the share of assets that are actually Taxonomy-eligible (numerator of ratio 1). The calculation process is based on the **voluntary** and the **mandatory disclosures**.

#### Ratio 3:

The determination of central states uses the definition in accordance with ESA 2010. For supranational issuers, the definition in CRR Articles 117 and 118 is used and they are identified by the country's ISO code. The determination of central banks is based on FINREP positions.



**Ratio 4:**

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

**Ratio 5:**

Given the differences in national interpretations of the term »public interest entities«, the criteria as per Section 298b and Section 315b HGB (and Section 340a (1a) and Section 341a (1a) HGB) are used to determine the financial and non-financial undertakings not subject to the NFRD for German and other EU undertakings. Financial and non-financial undertakings not subject to non-financial reporting obligations are undertakings that, as individual undertakings, are not subject to the NFRD.<sup>3</sup>

**Ratio 6:**

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

**Ratio 7:**

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

The ratios shown do not add up to 100% as exposures to the public sector that are not to central states (ratio 3) and other risk exposures such as non-financial instruments are included in total assets (denominator) but not in any of the numerators of the seven ratios.

It should be noted that the ratios disclosed in the current reporting year do not yet provide any indication of the need to disclose a green asset ratio in the future, as the information relates to economic activities that essentially could be taken into consideration but have not yet been reviewed for actual Taxonomy alignment. In addition, the exposure to financial and non-financial undertakings, in particular, cannot currently be considered Taxonomy-eligible due to a lack of published data by these undertakings (e.g. published counterparty KPIs). Moreover, financial and non-financial undertakings not subject to the NFRD are not currently covered by the EU Taxonomy and so specialised lending, for example, is not included in the green asset ratio numerator. A review of the scope and further clarifications by the European Commission could influence the green asset ratio to be disclosed in the future.

**Qualitative disclosures****Business strategy**

The sustainability project launched in June 2021 establishes a Group-wide vision and sustainability KPIs and expands the bank's range of ESG products. The aim of the project is to assert and further step up LBBW's leading role in the area of ESG.

Relevant aspects of the project include establishing a Group-wide target vision, identifying customer needs and further refining the product range. Focus is also on meeting regulatory requirements and further integrating ESG risks into lending, risk management and back office processes. Formulating sector targets and establishing transformation pathways are other focal areas in terms of future portfolio management. A relevant IT target vision is also developed at the same time. In addition, the project is supported by internal and external communication and the broad expansion of training courses for employees.

<sup>3</sup> Non-financial undertakings not subject to the NFRD include specialised lending (property and project finance) that account for about 7% of total assets at the LBBW Group.

## Product design processes and collaboration with customers

### Sustainable financing products

Sustainability has reached the most important financing markets for corporate customers. The very strong growth enjoyed in previous years was maintained in 2021. The increased professionalism of market participants – issuers, banks and investors – is clear to see. Accordingly, company-specific sustainability KPIs are being integrated into financing more frequently than even in the previous year. A review is currently underway looking into linking all financing products to a sustainability component: »Positive incentive loans« and »sustainability linked loans« and Schuldschein loans that are linked to sustainability ratings or company-specific sustainability KPIs have already established themselves on the market in recent years. Additional banking products such as export financing, guarantee facilities and bilateral financing have been successfully launched on the market. Pilot projects are also being put into place at present and so we expect to be able to offer a sustainable alternative for all financing products in just a few years. The aim here is to help customers develop their sustainability and support them in transitioning to lower carbon business models.

### Financing the energy transition

The transition to renewable energies is a key lever as we move toward a sustainable future. This means that the complete decarbonization of the energy system is linked to the comprehensive transformation of the entire sector. LBBW has been financing renewable energy projects such as wind turbines and photovoltaic systems for a number of years. Whereas it was mainly the large energy suppliers that invested in renewable energies at first, we are now seeing more and more municipal companies, production facilities and private households switching to sustainable generation technologies. The intelligent networking of sustainable solutions is being accelerated by the onset of digitalization.

We refer our corporate customers to energy efficiency service providers on request. In this regard, we work with external partners to calculate the savings potential and determine the available funding options.

Efforts to accelerate the expansion of renewable energy require high levels of investment to create the infrastructure needed for the energy transition. For example, we are supporting the construction of the major north-south routes to take wind energy in northern Germany and transport it to where it is consumed in the south of the country. As well as expanding major electricity highways, distribution grids have to be upgraded and extended in order to integrate charging infrastructure for e-mobility and generate power from decentralized energy sources into the grid.

As well as expanding renewable energy and upgrading electricity grid infrastructure, a successful energy transition requires completely rebuilding our energy system. On the one hand, increased direct electrification is essential, as the example of e-mobility shows. In areas where this is not possible or is very difficult, alternatives must be found to replace fossil fuels in the long term, such as hydrogen and other alternative gases. We closely monitor the market and technological developments here so that we can point the way to transformation for existing investments.

### Energy-efficient renovation of residential properties

LBBW/BW-Bank helps private customers with energy efficiency upgrades and modernization work for properties. Upon request, we can put customers based in Stuttgart in contact with the Local Energy Advisory Center.

# 03

## Consolidated financial statements



# Consolidated financial statements

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# Income statement

for the period 1 January to 31 December 2021

EUR million	Notes	01/01 - 31/12/2021	01/01 - 31/12/2020
Net interest income	10	2,031	1,771
Interest income and current income from equity instruments <sup>1</sup>		12,902	12,551
of which negative interest income		- 375	- 247
of which interest income from financial assets measured at amortized cost		1,970	2,277
of which interest income from financial assets measured at fair value through other comprehensive income		239	232
Interest expenses and current expenses from equity instruments <sup>1</sup>		- 10,871	- 10,780
of which positive interest expenses		622	288
of which interest expenses from financial liabilities measured at amortized cost		- 352	- 957
Net fee and commission income	11	598	538
Fee and commission income		744	668
Fee and commission expenses		- 146	- 130
Net gains/losses on remeasurement and disposal	12	35	- 362
of which allowances for losses on loans and securities		- 240	- 544
Other operating income/expenses	14	93	198
Administrative expenses	15	- 1,802	- 1,743
Expenses for bank levy and deposit guarantee system	16	- 137	- 118
Net income/expenses from restructuring	17	- 1	- 32
<b>Consolidated profit/loss before tax</b>		<b>817</b>	<b>252</b>
Income taxes	18	- 399	- 80
<b>Net consolidated profit/loss</b>		<b>418</b>	<b>172</b>
of which attributable to shareholders after tax		418	172

<sup>1</sup> For a gross analysis of interest income and interest expense with reference to the recognition of negative interest income and positive interest expense, please refer to Note 10.

# Statement of comprehensive income

for the period 1 January to 31 December 2021

EUR million	Notes	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Net consolidated profit/loss</i>		418	172
<b>Items that will not be transferred subsequently to the income statement</b>			
Retained earnings	54	189	70
Actuarial gains/losses before tax		271	- 115
Realized gains/losses from own credit rating		1	0
Realized gains/losses from the sale of equity instruments		0	152
Income taxes	18	- 82	33
Measurement gains/losses from own credit rating	54	- 37	34
Measurement gains/losses from own credit rating before tax		- 52	49
Transfer to realized gains/losses from own credit rating		- 1	0
Income taxes	18	16	- 15
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)	54	1	- 223
Measurement gains/losses before tax		- 1	- 81
Transfer to realized gains/losses from the sale of equity instruments		0	- 152
Income taxes	18	2	10
Measurement gains/losses from investments accounted for using the equity method (financial assets measured at fair value through other comprehensive income)	54	- 1	- 0
Measurement gains/losses before tax		- 1	- 0
<b>Items that will be transferred subsequently to the income statement when specific conditions are met</b>			
Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income)		17	128
Measurement gains/losses before tax		41	181
Change in allowances for losses on loans and securities		- 0	1
Transferred to income statement		- 9	- 9
Income taxes	18	- 16	- 45
Currency translation differences		11	- 16
Changes before tax		11	- 16
<i>Net consolidated profit/loss in equity</i>		180	- 7
<b>Net consolidated total comprehensive income</b>		<b>598</b>	<b>165</b>
of which attributable to shareholders after tax		597	165

# Statement of financial position

as at 31 December 2021

## Assets

EUR million	Notes	31/12/2021	31/12/2020 <sup>1</sup>	01/01/2020 <sup>1</sup>
Cash and cash equivalents	28	36,871	13,650	18,331
Financial assets measured at amortized cost	29	167,323	177,496	167,195
Loans and advances to banks		46,468	68,458	55,794
Loans and advances to customers		119,851	108,116	110,320
Debentures and other fixed-income securities		1,004	921	1,082
Financial assets measured at fair value through other comprehensive income	30	33,288	34,810	30,245
Financial assets designated at fair value	34	1,374	1,132	1,170
Financial assets mandatorily measured at fair value through profit or loss	35	36,976	42,185	33,013
Shares in investments accounted for using the equity method	8	274	261	265
Portfolio hedge adjustment attributable to assets		708	1,039	839
Non-current assets and disposal groups held for sale	46	1	2	65
Intangible assets	47	158	178	198
Investment property	48	805	796	655
Property and equipment	49	731	790	814
Current income tax assets	18.51	104	118	126
Deferred income tax assets	18.51	1,029	1,109	1,128
Other assets	52	2,703	2,878	2,619
<b>Total assets</b>		<b>282,344</b>	<b>276,444</b>	<b>256,662</b>

<sup>1</sup> Restatement of prior year amounts (see Note 3).

## Equity and liabilities

EUR million	Notes	31/12/2021	31/12/2020 <sup>1</sup>	01/01/2020 <sup>1</sup>
Financial liabilities measured at amortized cost	37	235,174	221,627	201,890
Deposits from banks		88,259	78,765	66,633
Deposits from customers		97,022	95,288	90,319
Securitized liabilities		44,869	41,834	38,815
Subordinated capital		5,024	5,740	6,123
Financial liabilities designated at fair value	38	4,895	6,509	6,757
Financial liabilities mandatorily measured at fair value through profit or loss	39	23,689	28,815	26,959
Portfolio hedge adjustment attributable to liabilities		11	693	486
Provisions	53	2,080	2,523	4,530
Liabilities from disposal groups	46	0	0	4
Current income tax liabilities	18.51	346	49	55
Deferred income tax liabilities	18.51	24	24	33
Other liabilities	52	1,928	2,217	2,113
<b>Equity</b>	<b>54</b>	<b>14,197</b>	<b>13,987</b>	<b>13,835</b>
Share capital		3,484	3,484	3,484
Capital reserve		8,240	8,240	8,240
Retained earnings		1,211	1,238	740
Other comprehensive income		65	74	152
Net consolidated profit/loss		418	172	442
<b>Shareholders' equity</b>		<b>13,417</b>	<b>13,209</b>	<b>13,058</b>
Additional equity components		745	745	745
Equity attributable to non-controlling interests		35	33	32
<b>Total equity and liabilities</b>		<b>282,344</b>	<b>276,444</b>	<b>256,662</b>

<sup>1</sup> Restatement of prior year amounts (see Note 3).



# Statement of changes in equity

for the period 1 January to 31 December 2021

EUR million	Share capital	Capital reserve	Retained earnings <sup>1,2</sup>	Valuation reserve for equity instruments	Valuation reserve for debt instruments	Measurement gains/losses from investments accounted for using the equity method
<b>Equity as at 31 December 2019</b>	<b>3,484</b>	<b>8,240</b>	<b>744</b>	<b>185</b>	<b>- 67</b>	<b>- 0</b>
Restatement of prior year amounts	0	0	- 5	0	0	0
<b>Equity as at 1 January 2020</b>	<b>3,484</b>	<b>8,240</b>	<b>740</b>	<b>185</b>	<b>- 67</b>	<b>- 0</b>
Allocation to retained earnings	0	0	442	0	0	0
Net consolidated profit/loss in equity	0	0	70	- 223	128	- 0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	70	- 223	128	- 0
Servicing of additional equity components	0	0	- 13	0	0	0
Other changes in equity	0	0	- 0	0	0	- 1
<b>Equity as at 31 December 2020</b>	<b>3,484</b>	<b>8,240</b>	<b>1,238</b>	<b>- 38</b>	<b>61</b>	<b>- 1</b>
<b>Equity as at 1 January 2021</b>	<b>3,484</b>	<b>8,240</b>	<b>1,238</b>	<b>- 38</b>	<b>61</b>	<b>- 1</b>
Allocation to retained earnings	0	0	172	0	0	0
Distribution to shareholders	0	0	- 358	0	0	0
Net consolidated profit/loss in equity	0	0	189	1	17	- 1
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	189	1	17	- 1
Servicing of additional equity components	0	0	- 30	0	0	0
Other changes in equity	0	0	- 1	0	0	0
<b>Equity as at 31 December 2021</b>	<b>3,484</b>	<b>8,240</b>	<b>1,211</b>	<b>- 38</b>	<b>78</b>	<b>- 2</b>

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

2 Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«.

Measurement gains/losses of the currency basis element from hedging transaction	Measurement gains/losses from own credit rating	Currency translation reserve	Net consolidated profit/loss	Shareholders' equity <sup>1</sup>	Additional equity components	Equity attributable to non-controlling interests	Total <sup>1</sup>
0	4	30	442	13,063	745	32	13,840
0	0	0	0	- 5	0	0	- 5
0	4	30	442	13,058	745	32	13,835
0	0	0	- 442	0	0	0	0
0	34	- 16	0	- 7	0	0	- 7
0	0	0	172	172	0	0	172
0	34	- 16	172	165	0	0	165
0	0	0	0	- 13	0	0	- 13
0	0	0	0	- 1	0	1	- 0
0	38	15	172	13,209	745	33	13,987
0	38	15	172	13,209	745	33	13,987
0	0	0	- 172	0	0	0	0
0	0	0	0	- 358	0	0	- 358
0	- 37	11	0	180	0	0	180
0	0	0	418	418	0	0	418
0	- 37	11	418	597	0	0	598
0	0	0	0	- 30	0	0	- 30
0	0	0	0	- 1	0	1	- 0
0	1	25	418	13,417	745	35	14,197

# Cash flow statement

for the period 1 January to 31 December 2021

EUR million	Notes	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Net consolidated profit/loss</i>		418	172
<b>Non-cash items in net consolidated profit/loss and reconciliation to cash flow from operating activities</b>			
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and financial investments (including equity investments)		307	512
Increase in/reversal of provisions		220	305
Other non-cash expenses/income		549	- 1,429
Gains/losses from the sale of equity investments, property and equipment and intangible assets		- 1	- 2
Other adjustments (net)		- 1,339	- 1,642
<b>Subtotal</b>		<b>154</b>	<b>- 2,084</b>
<b>Changes in assets and liabilities from operating activities</b>			
Financial assets measured at amortized cost		9,950	- 10,821
Loans and advances to banks		21,986	- 12,709
Loans and advances to customers		- 11,991	1,764
Debentures and other fixed-income securities		- 46	125
Financial assets measured at fair value through other comprehensive income		1,554	- 4,798
Debentures and other fixed-income securities		1,374	- 4,271
Loans and advances		184	- 531
Equity instruments		- 4	4
Financial assets designated at fair value		- 297	25
Financial assets mandatorily measured at fair value through profit or loss		3,833	- 1,752
Shares in investments accounted for using the equity method		10	8
Other assets from operating activities		173	- 261
Financial liabilities measured at amortized cost		14,638	20,226
Deposits from banks		9,828	12,177
Deposits from customers		1,767	4,990
Securitized liabilities		3,043	3,060
Financial liabilities designated at fair value		- 1,476	- 239
Financial liabilities mandatorily measured at fair value through profit or loss		- 2,325	- 2,436
Other liabilities from operating activities		- 722	- 2,324
Dividends received		83	28
Interest received		11,411	12,416
Interest paid		- 12,032	- 12,513
Income taxes paid		- 87	- 89
<b>Cash flow from operating activities</b>		<b>24,868</b>	<b>- 4,613</b>
Proceeds from the sale of			
Equity investments		15	375
Property and equipment		3	13
Intangible assets		0	1
Payments for the acquisition of			
Equity investments		- 33	- 15
Property and equipment		- 21	- 75
Intangible assets		- 39	- 44
Payments for the acquisition of consolidated companies		0	- 44
<b>Cash flow from investing activities</b>		<b>- 75</b>	<b>212</b>
Payments for servicing additional equity components		- 30	- 13
Dividends paid		- 358	0
Other payments	37	0	- 129
Net change in cash and cash equivalents from other capital		- 650	- 316
<b>Cash flow from financing activities</b>		<b>- 1,038</b>	<b>- 459</b>

EUR million	Notes	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Cash and cash equivalents at the beginning of the period</i>	28	13,650	18,331
Cash flow from operating activities		24,868	- 4,613
Cash flow from investing activities		- 75	212
Cash flow from financing activities		- 1,038	- 459
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		- 534	180
<i>Cash and cash equivalents at the end of the period</i>	28	36,871	13,650

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 - 46 million in the reporting year.

Cash flow from investing activities shows proceeds and payments relating to the disposal or acquisition of non-current assets.

All proceeds and payments from transactions relating to equity and subordinated capital are included in cash flow from financing activities. In addition to the cash change in equity (dividend payment, issuing and servicing additional equity components), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. During the period under review, the volume of subordinated capital held decreased by EUR 716 million from the previous year. In addition to a cash decrease of EUR 700 million, the change resulted from measurement effects of EUR 66 million and the effects from present value accounting of EUR - 12 million. In addition, changes in exchange rates of EUR - 61 million and other changes of EUR 1 million changed the amount of subordinated capital.

# Notes to the consolidated financial statements

for the 2021 financial year

## A. Material changes

### 1. Basis of Group accounting

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

The LBBW Group operates locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and selectively takes advantage of growth opportunities in selected economic areas.

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

The consolidated financial statements for the 2021 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 1 March 2022.

### 2. Accounting principles

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

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

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated financial statements are generally rounded to EUR millions in accordance with commercial

principles. This may result in minor aggregation differences, though these do not have any adverse effect on the quality of reporting.

The reporting year is the calendar year.

### 3. Changes and estimates

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

#### IFRS applied for the first time

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

- Extension of the Temporary Exception from Applying IFRS 9 – Amendments to IFRS 4 Insurance Contracts  
The amendment has no material effect on the LBBW consolidated financial statements.
- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16  
This amendment contains changes that are relevant to LBBW and is described below.
- Covid-19-Related Rent Concessions Beyond 30th June 2021 – Amendments to IFRS 16  
This amendment has no material effect on the LBBW consolidated financial statements

#### *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.

#### 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
Reference to the Conceptual Framework – Amendments to IFRS 3	2022 financial year	Yes	This amendment relate to a reference to the IFRS conceptual framework.
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	2022 financial year	Yes	Under this amendment, proceeds generated when the property and equipment is not yet ready for use are recognized directly in profit or loss.
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37	2022 financial year	Yes	This amendment specifies the costs to be included when assessing whether a contract is onerous.
Annual Improvements to IFRS 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41	2022 financial year	Yes	These amendments establish minor changes to the standards.
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	2023 financial year	No	The amendments to IAS 1 and IFRS Practice Statement 2 provide more detail on the disclosure requirements for accounting policies.
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	2023 financial year	No	The amendments to IAS 8 are intended to provide a better distinction between changes in estimates and changes in methods.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	2023 financial year	No	These amendments provide clarification where there is doubt surrounding applying IAS 12 to exemptions on the recognition of deferred taxes.
Classification of Liabilities as Current or Non-current – Amendments to IAS 1 and Classification of Liabilities as Current or Non-current – Deferral of Effective Date – 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	Yes (with reservations)	This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4. It has been endorsed by the EU with reservations relating to an optional exemption for EU users regarding the annual cohort requirement in accordance with IFRS 17.22.
Initial Application of IFRS 17 and IFRS 9 – Comparative Information – Amendments to IFRS 17	2023 financial year	No	This amendment includes optional rules for the simultaneous first-time adoption of IFRS 17 and IFRS 9 and, for users of IFRS 9, the option of limited recategorisations in connection with the first-time adoption of IFRS 17.

### Adjustments

Estimates and assumptions were made in accordance with the accounting standards concerned for determining the assets, liabilities, income and expenses recognized in the consolidated financial statements. These are based on historical experiences and other factors such as plans and – as far as can be currently judged – probable expectations and forecasts of future events. Such significant estimates can change from time to time and significantly affect the net assets and financial position, as well as the results of operations.

In addition, discretionary decisions were reached when preparing the financial statements regarding the determination of the scope of consolidation, the classification of the financial instruments, investment property, the leasing relationships and the allocation to the levels pursuant to IFRS 13.

Estimates and assumptions mainly relate to the calculation of the fair value of financial instruments and investment property, the value of assets and the calculation of the allowances for losses on loans and securities, as well as the recognition and measurement of subordinated capital, provisions and taxes, including incidental tax charges and benefits. Moreover, estimates and assumptions are made regarding specific cash flows. Where significant estimates and/or complex judgments were required, the assumptions made are explained in detail in the Notes to the corresponding items.

The estimates and assumptions are each based on the level of knowledge currently available about the expected future business performance and trends in the global and sector-specific or regulatory environment. Where actual values differ from the estimates made, the underlying assumptions and – if necessary – the carrying amounts of the relevant assets and liabilities are adjusted accordingly on a prospective basis.

The potential impact of the changes made to estimates on future reporting periods are in particular dependent on the development of market parameters and expectations in the future. A quantitative determination of the effects on future reporting periods is therefore only possible on the basis of models and to a limited extent.

The following adjustments were made retrospectively in accordance with IAS 8.42 in the financial year:

- A tender transaction was incorrectly reported and processed in 2016. As a result, the accrued interest was not derecognized after the transaction was terminated in 2018. The retroactive correction reduced loans and advances to banks as at 1 January 2020 by EUR – 6.7 million and profit carried forward by EUR – 4.7 million, whereas deferred income tax assets rose by EUR 2.1 million.

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

On 26 January 2022, LBBW (Bank) signed a contract to acquire the commercial real estate financier Berlin HYP, a subsidiary of Landesbank Berlin Holding AG, which is wholly owned by the German savings banks and other companies in the Sparkassen-Finanzgruppe via an acquisition company. Both parties agreed not to disclose any financial details. The transaction is still subject to approval from antitrust authorities and must be authorized by the bodies responsible at the savings banks. It is planned to close the transaction in summer 2022.

The consequences of the current Russian invasion of Ukraine cannot currently be reliably determined and so LBBW (Bank) is closely monitoring developments and will review its risk assessment on an ongoing basis. LBBW (Bank) does not have any notable exposures in Ukraine and its net credit exposure in Russia, which is in the high double-digit millions, is limited.



## B. Group of companies

### 5. Basis of consolidation

A subsidiary is an entity that is controlled by another entity (known as the parent). Control is assumed to exist if the company can exert direct or indirect authority over the relevant activities of a company, obtains variable benefits from a company or has rights to variable benefits, or can use its authority to draw on the account of the company to influence the amount of its variable benefits. In assessing whether LBBW exercises a controlling influence, the purpose and structure as well as the company's relevant activities must be taken into consideration. Voting rights represent a key aspect here.

The following factors are also taken into consideration when assessing the possibility of control:

- The voting rights relate solely to administrative duties and relevant activities, on the other hand, are governed by contractual agreements.
- Functions and rights granted give power of control together with other parties.
- Company carries a burden of risk or rights to variable benefits from liquidity lines provided and from interest and fees paid, among other things.

LBBW usually obtains control over a company by gaining a majority of voting rights (directly or indirectly). In exceptional cases, LBBW does not obtain control if at least one other investor has the practical capability to unilaterally determine the relevant activities (for example, due to statutory provisions or agreements). Furthermore, LBBW can also control a company without holding a majority of voting rights if it has the practical capacity to unilaterally control the relevant activities. This applies particularly to structured entities where voting rights relate only to administrative duties and comparable rights are the dominant factor when determining control. For example, this is the case for securitization platforms initiated by LBBW or funds launched by LBBW (authority over contractual rights) and for some project companies (power of control together with the rights of other parties because of the financing structure). It also bears a burden of risk or has rights to variable benefits from financing the companies.

In addition to LBBW (Bank) as the parent company, 92 subsidiaries, including four structured entities (previous year: 90 subsidiaries including five structured entities), were included in the consolidated financial statements.

A total of 45 subsidiaries (previous year: 48 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.

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 2021:

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

After being entered in the Commercial Register as at 30 November 2021, the non-consolidated subsidiary Baden-Württembergische Equity GmbH was merged with the fully-consolidated subsidiary LBBW Asset Management Investmentgesellschaft mbH with retroactive effect from 1 January 2021.

In addition, after being entered in the Commercial Register as at 17 August 2021, the non-consolidated subsidiary LBBW Immobilien Verwaltung GmbH was merged with the fully-consolidated subsidiary LOOP GmbH with retroactive effect from 1 January 2021.

The structured entity Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG will now be categorized as a subsidiary included in the consolidated financial statement following the acquisition of additional interests in this financial year.

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

Joint ventures are joint agreements whereby LBBW and other parties exercise joint control over the agreement and have rights to the net assets of the agreement.

A joint agreement is an agreement where two or more contractual parties are linked by means of a contractual agreement and exercise joint control over the participating interest. A joint agreement can be a joint venture or a jointly controlled operation. LBBW has only joint ventures.

An associate is a company over which LBBW exercises significant influence but no controlling influence over the financial and operating policy decisions. Associates are companies in which LBBW holds a voting interest of between 20% and 50% (rebuttable presumption of association) or an unambiguous proof of association and an LBBW voting interest of less than 20%.

## 6. Principles of consolidation

The subsidiaries and structured entities are consolidated according to the purchase method in accordance with IFRS 10.B86 in conjunction with IFRS 3. Accordingly, all of the subsidiaries' assets and liabilities recognized from the acquirer's perspective at the time of acquisition or at the time when controlling influence is acquired are recognized at their fair value. The remeasured assets and liabilities are taken over into the consolidated statement of financial position, taking deferred taxes into account, and are treated according to the standards to be applied in the subsequent periods.

Where the cost for the business combination exceeds the fair value of the assets and liabilities at initial acquisition, goodwill (goodwill in proportion with the investment) is recorded under intangible assets. The share of the equity or in the net gain/loss of the fully consolidated companies of LBBW not attributable to shareholders is reported separately in the item Equity attributable to non-controlling interests or Net income/loss of which attributable to non-controlling interest after tax in the income statement.

Intra group receivables and liabilities, as well as expenses, income and interim results, were adjusted by adjusting debt and profit or the elimination of the interim result.

## 7. 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 statement of financial position items of consolidated companies whose reporting currency is not the euro are translated at the exchange rate on the statement of financial position date. Average annual rates are used to translate the expenses and income of these companies. Equity is translated at historic prices. All the resulting translation differences are recognized in »Other comprehensive income« (currency translation reserve).

The exchange rates used for the most important currencies at LBBW at the closing date are as follows:

Amount per EUR 1 in the respective currency	31/12/2021	31/12/2020
USD	1.1304	1.2293
SGD	1.5301	1.6262
MXN	23.2272	24.4569
RUB	84.5228	91.9578
RON	4.9499	4.8637

## 8. 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«.

EUR million	31/12/2021	31/12/2020
Associates	273	259
Joint ventures	0	3
<b>Total</b>	<b>274</b>	<b>261</b>

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«.

## 9. 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	31/12/2021	31/12/2020
<b>Assets with restrictions on disposal</b>		
Financial assets measured at amortized cost	69,765	66,536
Loans and advances to banks	27,751	25,860
Loans and advances to customers	41,853	40,500
Debentures and other fixed-income securities	160	176
Financial assets measured at fair value through profit or loss	4,948	8,782
Financial assets measured at fair value through other comprehensive income	5,994	5,867
Other assets	1,120	1,086
<b>Total</b>	<b>81,826</b>	<b>82,271</b>

The assets with significant restrictions comprised mainly the EUR 32 billion (previous year: EUR 32 billion) in cover assets in the covered bond business, financial assets of EUR 46 billion (previous year: EUR 43 billion) that have been transferred but not fully derecognized, especially in securities repurchase or lending transactions and development loan transactions (see Note 36) and collateral pledged for liabilities from OTC derivative transactions in the amount of EUR 3 billion (previous year: EUR 5 billion).

### Shares in consolidated structured entities

A total of four (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 2021, liquidity lines in the amount of EUR 2,473 million (previous year: EUR 2,402 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 <sup>1,2</sup>	
	31/12/2021	31/12/2020
Revenues	22	21
Scheduled amortization	- 2	- 4
Profit/loss from continuing operations	- 2	- 3
<b>Net consolidated total comprehensive income</b>	<b>- 2</b>	<b>- 3</b>
Current assets	12	13
Cash and cash equivalents	7	7
Other current assets	4	6
Non-current assets	7	8
Current liabilities	5	5
Other current liabilities	5	5
<b>Net assets of the joint venture</b>	<b>14</b>	<b>16</b>
Share of capital (in %)	33	33
Share of net assets	5	5
Other adjustments	- 5	- 5
<b>Carrying amount of the equity investment</b>	<b>0</b>	<b>0</b>

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 Unternehmens- beteiligungsgesellschaft, Stuttgart <sup>1,2</sup>		Hypo Vorarlberg Bank AG, Bregenz <sup>1,2</sup>	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Revenues	67	29	306	289
Profit/loss from continuing operations	60	12	66	29
Net consolidated profit/loss in equity	0	0	- 1	- 2
<b>Net consolidated total comprehensive income</b>	<b>60</b>	<b>12</b>	<b>66</b>	<b>27</b>
Current assets	58	79	5,096	4,718
Non-current assets	332	266	10,450	10,368
Current liabilities	3	3	5,607	4,718
Non-current liabilities	8	8	8,711	9,202
Contingent liabilities	0	0	481	460
<b>Net assets of the associate</b>	<b>379</b>	<b>334</b>	<b>1,227</b>	<b>1,166</b>
Share of capital (in %)	40	40	23	23
Share of net assets	152	134	284	270
Other adjustments	- 27	- 27	- 144	- 127
<b>Carrying amount of the equity investment</b>	<b>125</b>	<b>107</b>	<b>140</b>	<b>143</b>

1 Principal place of business.  
2 Strategic equity investment.

The summarized financial information represents contributions of the IFRS financial statements of the associated entity, adjusted to the Group-wide accounting rules.

The »Other adjustments« item includes mainly impairments on the equity investments.

As an investor with a long-term perspective, BWK GmbH Unternehmensbeteiligungsgesellschaft, in which LBBW holds a 40% stake in the capital and voting rights, offers equity solutions to SMEs.

Hypo Vorarlberg Bank AG, in which LBBW has a 23% share of the capital and voting rights, offers banking services for retail and corporate customers.

During the year under review, LBBW received dividends in the amount of EUR 6 million (previous year: EUR 6 million) from its equity investment in BWK GmbH Unternehmensbeteiligungsgesellschaft and EUR 1 million (previous year: EUR 0 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:

EUR million	Associates		Joint ventures	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Portion of the profit or loss from continuing operations	0	1	- 1	- 0
Share in net consolidated total comprehensive income	0	1	- 1	- 0
<b>Total carrying amounts of the Group shares</b>	<b>8</b>	<b>9</b>	<b>0</b>	<b>3</b>

Other unrecognized liabilities of EUR 0 million (previous year: EUR 2 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 tranching 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		Funds		Financing companies		Other		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Scope of the structured entities	5,711	2,724	459,375	448,185	6,933	7,190	1,147	1,109	473,166	459,208

The following table shows the carrying amounts of the assets and liabilities, the nominal values of the off-balance-sheet obligations that concern the shares in non-consolidated structured entities, and the items in the consolidated statement of financial position in which these assets and liabilities are recognized, depending on the type of structured entity:



EUR million	Securitization vehicle		Funds		Financing companies		Other		Total	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
Financial assets measured at amortized cost	846	405	3,317	4,777	1,290	299	0	0	5,453	5,481
Loans and advances to banks	0	0	0	0	0	0	0	0	0	0
Loans and advances to customers	418	405	3,317	4,777	1,290	299	0	0	5,025	5,481
Debentures and other fixed-income securities	427	0	0	0	0	0	0	0	427	0
Financial assets mandatorily measured at fair value through profit or loss	2,841	3	515	523	27	21	1,147	1,109	4,531	1,656
Trading assets	2,841	3	296	523	27	21	1,147	1,109	4,311	1,656
Positive fair values from derivative hedging instruments	0	0	3	0	0	0	0	0	3	0
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	0	0	216	0	0	0	0	0	216	0
Financial assets measured at fair value through other comprehensive income	105	110	0	0	0	0	0	0	105	110
Other assets	0	0	1	0	0	0	0	0	1	0
<b>Total assets</b>	<b>3,792</b>	<b>517</b>	<b>3,832</b>	<b>5,300</b>	<b>1,317</b>	<b>320</b>	<b>1,147</b>	<b>1,109</b>	<b>10,089</b>	<b>7,246</b>
Financial liabilities measured at amortized cost	63	60	5,452	6,091	74	3	0	0	5,588	6,154
Deposits from banks	0	0	22	20	0	0	0	0	22	20
Deposits from customers	63	60	5,430	6,072	74	3	0	0	5,566	6,135
Financial liabilities mandatorily measured at fair value through profit or loss	1	0	65	249	0	0	0	0	66	249
Trading liabilities	1	0	61	249	0	0	0	0	63	249
Negative fair values from derivative hedging instruments	0	0	3	0	0	0	0	0	3	0
Other liabilities	0	0	0	1	0	0	0	0	0	1
<b>Total equity and liabilities</b>	<b>64</b>	<b>60</b>	<b>5,516</b>	<b>6,341</b>	<b>74</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>5,654</b>	<b>6,404</b>
<b>Off-balance-sheet transactions</b>	<b>0</b>	<b>0</b>	<b>284</b>	<b>265</b>	<b>100</b>	<b>156</b>	<b>0</b>	<b>0</b>	<b>384</b>	<b>421</b>

The maximum potential losses from shares in non-consolidated structured entities depend on the type of shares. The maximum risk of loss on assets presented in the table corresponds to the statement of financial position figures (after allowances for losses on loans and securities if necessary). Of the derivatives with a carrying amount of EUR 139 million (previous year: EUR 95 million) and EUR 63 million (previous year: EUR 249 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 7,482 million (previous year: EUR 5,146 million) while that for derivatives with a negative replacement value was EUR 3,451 million (previous year: EUR 6,223 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 7 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 2021 (previous year: EUR 0 million).

## C. Segment reporting

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

### Segment definition

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

LBBW's segment reporting is divided into the following segments:

- The **Corporate Customers** segment comprises business with SMEs and major corporate customers and the public sector. In line with the universal bank approach, a very wide range of products and services are offered. These range from classic to structured and off-balance-sheet financing, as well as services in the areas of cash management, interest rate, currency and commodities management. Services also cover asset and pension management and factoring business. The results of capital market business products and international business products, when those are sourced from corporate customers, are also reported here.
- The **Real Estate/Project Finance** segment primarily focuses on commercial real estate financing business and on structured project finance. As well as conventional financing, property, portfolio and corporate financing structures are also offered to real estate clients as an arranger or syndicate bank with a supplementary range of liability, interest rate and currency management products. The range of real estate services also includes asset management, municipal development and development products. Project Finance offers financing solutions for renewable energy and infrastructure and transport financing.
- The **Capital Markets Business** segment offers products for the management of interest rate, currency and credit risk and liquidity management for institutional, banks and savings banks customer groups. In addition, the segment includes products and services for international business. Equity and debt financing solutions are also offered on the primary market, along with asset management services and custodian bank services. These also include trading activities for customers. All treasury activities are also allocated to this segment.
- The **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 statement of financial position are reported as segment assets. They are allocated to the segments on the basis of internal management reporting.

The average restricted capital in the segments is calculated on the basis of calculated risk-weighted assets and an imputed Tier 1 capital backing ratio. 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.<sup>1</sup>

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

## Segment results

01/01 - 31/12/2021 EUR million	Corporate Customers	Real Estate/ Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	985	437	410	267	- 67	2,031
Net fee and commission income	178	16	118	262	24	598
Net gains/losses on remeasurement and disposal <sup>1</sup>	- 150	- 92	231	1	44	35
of which allowances for losses on loans and securities	- 190	- 94	0	0	46	- 240
Other operating income/expenses	27	132	11	- 12	- 65	93
<b>Total operating income/expenses</b>	<b>1,040</b>	<b>493</b>	<b>770</b>	<b>518</b>	<b>- 64</b>	<b>2,757</b>
Administrative expenses	- 595	- 182	- 457	- 505	- 64	- 1,802
Expenses for bank levy and deposit guarantee system	- 40	- 19	- 65	1	- 14	- 137
Net income/expenses from restructuring	0	0	- 1	0	0	- 1
<b>Consolidated profit/loss before tax</b>	<b>405</b>	<b>292</b>	<b>247</b>	<b>14</b>	<b>- 141</b>	<b>817</b>
Income taxes						- 399
<b>Net consolidated profit/loss</b>						<b>418</b>
Assets <sup>2</sup> (in EUR billion)	64.7	32.7	138.8	40.6	5.5	282.3
Risk weighted assets <sup>2</sup> (EUR billion)	39.4	14.8	17.5	8.2	4.6	84.6
Tied-up equity <sup>3</sup> (EUR billion)	5.0	1.8	2.3	1.1	3.5	13.7
Return on equity (RoE) (in %)	7.4	14.7	10.4	1.4		6.0
Cost/income ratio (CIR) (in %)	51.6	34.2	67.8	97.2		64.7

1 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR 23.5 million in the Corporate Customers segment - including EUR - 16.8 million from impairment losses - and EUR -0.4 million in the Real Estate/Project Finance segment.

2 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 270.7 million for Corporate Customers and EUR 3.1 million for Real Estate/Project Finance.

3 In accordance with CRR II/CRD V.

01/01 – 31/12/2020 EUR million	Corporate Customers <sup>1</sup>	Real Estate/ Project Finance <sup>1</sup>	Capital Markets Business <sup>1</sup>	Private Customers/ Savings Banks <sup>1</sup>	Corporate Items/ Reconciliation/ Consolidation <sup>1</sup>	LBBW Group
Net interest income	844	320	355	278	- 26	1,771
Net fee and commission income	215	17	92	248	- 35	538
Net gains/losses on remeasurement and disposal <sup>2</sup>	- 435	- 73	241	22	- 116	- 362
of which allowances for losses on loans and securities	- 411	- 68	0	20	- 85	- 544
Other operating income/expenses	26	125	12	- 14	50	198
<b>Total operating income/expenses</b>	<b>650</b>	<b>390</b>	<b>700</b>	<b>533</b>	<b>- 127</b>	<b>2,146</b>
Administrative expenses	- 595	- 169	- 445	- 509	- 25	- 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
<b>Consolidated profit/loss before tax</b>	<b>15</b>	<b>203</b>	<b>198</b>	<b>25</b>	<b>- 190</b>	<b>252</b>
Income taxes						- 80
<b>Net consolidated profit/loss</b>						<b>172</b>
Assets <sup>3</sup> (in EUR billion)	61.3	31.3	142.0	38.1	3.8	276.4
Risk weighted assets <sup>4</sup> (EUR billion)	38.6	13.8	16.4	8.3	5.2	82.3
Tied-up equity <sup>4</sup> (EUR billion)	5.0	1.7	2.3	1.1	3.5	13.6
Return on equity (RoE) (in %)	0.3	10.6	8.2	2.3		1.9
Cost/income ratio (CIR) (in %)	59.8	40.7	71.6	98.9		70.4

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

2 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR 4.9 million in the Corporate Customers segment and EUR -0.1 million in the Real Estate/Project Finance segment.

3 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 255.6 million for Corporate Customers and EUR 5.4 million for Real Estate/Project Finance.

4 In accordance with CRR/CRD IV.

## Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items <sup>1</sup>		Reconciliation/Consolidation <sup>1</sup>		Corporate Items/Reconciliation/Consolidation <sup>1</sup>	
	01/01-31/12/2021	01/01-31/12/2020	01/01-31/12/2021	01/01-31/12/2020	01/01-31/12/2021	01/01-31/12/2020
Net interest income	- 6	- 12	- 62	- 14	- 67	- 26
Net fee and commission income	2	- 4	22	- 31	24	- 35
Net gains/losses on remeasurement and disposal	51	- 117	- 7	1	44	- 116
of which allowances for losses on loans and securities	46	- 85	0	0	46	- 85
Other operating income/expenses	- 65	50	0	0	- 65	50
<b>Total operating income/expenses</b>	<b>- 17</b>	<b>- 83</b>	<b>- 47</b>	<b>- 44</b>	<b>- 64</b>	<b>- 127</b>
Administrative expenses	- 64	- 25	0	0	- 64	- 25
Expenses for bank levy and deposit guarantee system	- 14	- 13	0	0	- 14	- 13
Net income/expenses from restructuring	0	- 25	0	0	0	- 25
<b>Consolidated profit/loss before tax</b>	<b>- 94</b>	<b>- 146</b>	<b>- 47</b>	<b>- 44</b>	<b>- 141</b>	<b>- 190</b>
Assets (EUR billion)	3.7	3.9	1.8	- 0.1	5.5	3.8
Risk weighted assets <sup>2</sup> (EUR billion)	5.0	5.6	- 0.4	- 0.4	4.6	5.2
Tied-up equity <sup>2</sup> (EUR billion)	3.6	3.5	- 0.1	0.0	3.5	3.5

<sup>1</sup> Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

<sup>2</sup> In accordance with CRR II/CRD V (2021) / CRR/CRD IV (2020).

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

In the 2021 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax came to EUR - 47 million (previous year: EUR - 44 million) and is essentially due to the following factors:

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

## Disclosures at the company level

### Information about products and services

With regard to the allocation of income to products and services required under IFRS 8.32, please refer to the explanations entitled »Notes to the income statement« in the Notes.

### Segmentation according to geographical region

The allocation of results to geographical regions is based on the head office of the branch or Group company and is as follows for LBBW:

#### 01/01 - 31/12/2021

EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ Consolidation	LBBW Group
Total operating income/expenses	2,496	141	115	46	- 40	2,757
Consolidated profit/loss before tax	628	107	71	17	- 7	817

#### 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



## D. Income statement

### 10. Net interest income

The interest income and expense items include interest paid and received, accrued interest and pro rata reversals of premiums and discounts from financial instruments. The classification of »silent partners' contributions« as debt under certain circumstances in accordance with IAS 32 means that the expenses to typical silent partners are also reported under interest expenses.

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Interest income and current income from equity instruments</i>	<i>12,902</i>	<i>12,551</i>
Interest income	12,820	12,523
Trading derivatives	8,090	7,465
Lending and money market transactions	1,892	2,222
Hedging derivatives	1,840	1,796
Fixed-income securities and debentures	159	178
Early termination fees <sup>1</sup>	98	67
Leasing business	231	231
Other	509	563
Current income from equity instruments	83	28
Equities and other non-fixed-income securities	70	18
Equity investments and affiliates	12	9
Profit transfer agreements	0	1
of which negative interest income	- 375	- 247
<i>Interest expenses and current expenses from equity instruments</i>	<i>- 10,871</i>	<i>- 10,780</i>
Interest expenses	- 10,862	- 10,773
Trading derivatives	- 7,795	- 7,124
Hedging derivatives	- 1,823	- 1,794
Deposits	- 85	- 540
Securitized liabilities	- 378	- 367
Leasing business	- 40	- 34
Lease liabilities	- 2	- 2
Subordinated capital	- 194	- 247
Other	- 544	- 665
Current expenses from equity instruments	- 9	- 7
Transfer of losses	- 9	- 7
of which positive interest expenses	622	288
<b>Total</b>	<b>2,031</b>	<b>1,771</b>

<sup>1</sup> The offsetting effect from refinancing costs is included in interest expenses.

Based on the hedged items, the table shows negative interest income from lending as a reduction of interest income and positive interest expense from borrowing as a reduction of interest expense (net view). If considering the negative interest income/positive interest expense on a gross basis, interest income and current income from equity instruments increase to EUR 13,899 million (previous year: EUR 13,086 million) and interest expense and current expenses from equity instruments to EUR - 11,868 million (previous year: EUR - 11,315 million).

Net interest income for 2021 financial year included EUR 319 million (previous year: EUR 61 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 - 31/12/2021	01/01 - 31/12/2020
<b>Financial assets measured at amortized cost</b>		
Interest income	1,970	2,277
of which negative interest income	- 356	- 239
<b>Financial assets measured at fair value through other comprehensive income</b>		
Interest income	239	232
of which negative interest income	- 12	- 7
<b>Financial liabilities measured at amortized cost</b>		
Interest expenses	- 352	- 957
of which positive interest expenses	621	288

## 11. Net fee and commission income

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
<b>Fee and commission income</b>	<b>744</b>	<b>668</b>
Securities and custody business	361	285
Payments business	115	118
Brokerage business	42	46
Loans and guarantees <sup>1</sup>	124	127
Lending business fee and commission income	67	67
Fee and commission income from financial guarantees	11	19
Fee and commission income from guarantee business	46	41
Fee and commission income from factoring business	17	15
Fee and commission income from asset management	75	65
Other	10	11
<b>Fee and commission expenses</b>	<b>- 146</b>	<b>- 130</b>
Securities and custody business	- 97	- 81
Payments business	- 24	- 24
Loans and guarantees <sup>1</sup>	- 10	- 8
Lending business fee and commission expense	- 8	- 5
Fee and commission expense from guarantee business	- 2	- 3
Brokerage business	- 4	- 4
Leasing business	- 3	- 3
Other	- 9	- 10
<b>Total</b>	<b>598</b>	<b>538</b>

<sup>1</sup> Includes lending, trustee, guarantee and credit business.

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

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

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
Net income/expenses from investments accounted for using the equity method	23	5
Net gains/losses from financial assets measured at amortized cost	- 241	- 545
Net gains/losses from financial instruments measured at fair value through other comprehensive income	9	8
Net gains/losses from financial instruments measured at fair value through profit or loss	244	170
<b>Total</b>	<b>35</b>	<b>- 362</b>

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Net gains/losses on measurement</i>	23	5
Net gains/losses from investments in associates	23	5
Current income	40	13
Impairment	- 17	- 8
<b>Total</b>	<b>23</b>	<b>5</b>

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Net gains/losses on remeasurement (allowances for losses on loans and securities)</i>	- 240	- 544
Reversal of/disposals from allowances for losses on loans and securities	313	268
Net gains/losses from provisions for lending business	30	- 133
Recoveries on loans and securities previously written off	13	14
Direct loan write-offs	- 7	- 170
Gains/losses from financial assets that were already impaired when purchased or originated	- 24	1
Additions to allowances for losses on loans and securities	- 562	- 522
Other expenses for the lending business	- 3	- 3
<i>Realized gains/losses</i>	- 1	- 1
Securities net gains/losses on disposal	- 1	- 1
<b>Total</b>	<b>- 241</b>	<b>- 545</b>

Extraordinary levels of uncertainty relating to the pandemic, the economy and the geopolitical situation (e.g. Ukraine conflict) remained at the end of 2021. The implementation of a multi-scenario approach, including both moderate and adverse scenarios, increased the adjustments for allowances for losses on loans and securities by another EUR 155 million despite comparatively low underlying loan defaults.

Given the general structural change triggered or accelerated by the Covid-19 pandemic and the significant rise in customer default risks in certain segments, in part due to the worsening, ongoing shortage of raw materials and intermediates and potential upheaval in global supply chains, it was necessary to adjust LBBW's model for allowances for losses on loans and securities to suitably quantify the impact of these future developments and structural changes.

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

**31/12/2021**

EUR million	Derecognition gain	Derecognition loss
Derecognition due to termination	0	- 1

**31/12/2020**

EUR million	Derecognition gain	Derecognition loss
Derecognition due to termination	0	- 1

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
<i>Net gains/losses on remeasurement (allowances for losses on loans and securities)</i>	0	- 1
Reversal of/disposals (from allowances for losses on loans and securities)	1	2
Additions to allowances (for losses on loans and securities)	- 1	- 2
<b>Realized gains/losses</b>	<b>9</b>	<b>9</b>
Net gains/losses on disposal	9	9
<b>Total</b>	<b>9</b>	<b>8</b>

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

As well as net gains/losses on remeasurement and disposal from financial instruments held for trading, this item also includes gains or losses from the fair value measurement and derecognition of financial instruments mandatorily measured at fair value through profit or loss. All net income from the currency translation of financial assets and liabilities, regardless of their measurement category, is recognized as currency gains/losses within net trading gains/losses.

In addition, realized and unrealized gains and losses from financial assets and liabilities voluntarily designated at fair value (fair value option) are also recognized in this item.

Changes in the value of the hedged items and hedging instruments designated as hedge accounting resulting from the hedged risk (interest risk, foreign currency risk), as well as any ineffectiveness, are recognized in net gains/losses from hedging transactions. The hedging costs of the hedging derivatives used to hedge foreign currency risks are included in cumulative other comprehensive income in equity. Micro hedges are used exclusively to hedge interest rate risks. Group hedges serve to hedge foreign currency risks.

In addition, net income from non-consolidated investments and affiliates for which the option was applied to measure at fair value through other comprehensive income is shown here.

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
<b>Net gains/losses from hedging transactions</b>	<b>- 16</b>	<b>21</b>
Portfolio fair value hedge	- 12	16
of which hedged items	- 183	344
of which hedging instruments	170	- 328
Micro fair value hedge	- 4	5
of which hedged items	0	13
of which hedging instruments	- 4	- 8
of which hedged items	11	- 9
of which hedging instruments	- 11	9
<b>Net trading gains/losses</b>	<b>176</b>	<b>168</b>
Lending business	- 3	- 19
Equity transactions	- 601	- 169
Foreign exchange transactions	145	73
Economic hedging derivatives	3	51
Interest rate transactions	651	219
Gains/losses from foreign exchange/commodity products	- 19	14
<b>Net gains/losses from financial instruments designated at fair value</b>	<b>121</b>	<b>- 61</b>
Realized gains/losses	- 6	- 0
Unrealized gains/losses	128	- 61
<b>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</b>	<b>- 37</b>	<b>42</b>
Net gains/losses from credits and loans	- 64	56
Net gains/losses from equity investments	15	3
Net gains/losses from investments in affiliates	4	- 0
Net gains/losses from shares and other equity instruments	8	- 16
<b>Total</b>	<b>244</b>	<b>170</b>

Currency translation differences recognized in currency gains/losses from financial instruments not measured at fair value through profit or loss amounted to EUR - 377 million (previous year: EUR 1,087 million).

### 13. Net gains/losses from financial instruments

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
Financial assets/liabilities mandatorily measured at fair value through profit or loss	294	- 125
Net gains/losses recognized through profit or loss	295	- 125
Financial assets designated at fair value	- 55	- 13
Financial liabilities designated at fair value	140	- 14
Net gains/losses recognized through profit or loss	176	- 48
Net gains/losses recognized in other comprehensive income	- 37	34
Financial assets measured at amortized cost	- 495	- 30
Financial liabilities measured at amortized cost	574	- 59
Equity instruments measured at fair value through other comprehensive income	- 0	- 225
Financial debt instruments measured at fair value through other comprehensive income	- 496	169
Net gains/losses recognized in other comprehensive income	- 505	161
Net gains/losses transferred from other comprehensive income to the income statement after derecognition	9	8

### 14. Other operating income/expenses

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
<b>Other operating income</b>	<b>956</b>	<b>586</b>
Disposal of inventories	687	252
Reversal of other provisions	48	80
Revenue from property services	16	15
Income from cost refunds by third parties	29	30
Operating leases	21	23
Fixed assets and intangible assets	2	1
Lease income from investment property	48	44
Net income from the fair value measurement of investment property	19	31
Foreign currency translation on investment property	1	2
Miscellaneous operating income	85	108
<b>Other operating expenses</b>	<b>- 863</b>	<b>- 387</b>
Disposal of inventories	- 604	- 213
Addition to other provisions	- 35	- 62
Impairment of inventories	- 2	0
Management of other property portfolios	- 0	- 1
Operating leases	- 6	- 5
Operating expenses for leased properties	- 17	- 19
Net losses from the fair value measurement of investment property	- 16	- 4
Miscellaneous operating expenses	- 181	- 84
<b>Total</b>	<b>93</b>	<b>198</b>

Increase in/reversal of other provisions resulted in net income of EUR 13 million (previous year: EUR 18 million), chiefly a result of a reversal of provisions for legal risks.

The sub-item income and expenses from the disposal of inventories includes contributions to earnings from real estate developments.

## 15. Administrative expenses

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
<b>Staff costs</b>	<b>- 1,031</b>	<b>- 1,010</b>
Wages and salaries	- 730	- 725
Expenses for pensions and benefits	- 95	- 114
Social security contributions	- 120	- 119
Other staff costs	- 86	- 52
<b>Other administrative expenses</b>	<b>- 646</b>	<b>- 600</b>
IT costs	- 365	- 321
Legal and consulting expenses	- 63	- 63
Expenses from leases	- 3	- 2
Cost of premises	- 64	- 59
Association and other contributions	- 40	- 41
Advertising, public relations and representation costs	- 20	- 20
Audit costs	- 9	- 8
Miscellaneous administrative expenses	- 81	- 86
<b>Depreciation, amortization and write-downs<sup>1</sup></b>	<b>- 126</b>	<b>- 133</b>
Amortization and write-downs of intangible assets	- 59	- 62
Depreciation and write-downs of property and equipment	- 24	- 30
Depreciation and write-downs on right-of-use assets	- 42	- 42
<b>Total</b>	<b>- 1,802</b>	<b>- 1,743</b>

<sup>1</sup> 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 50.

Expenses for pensions and other benefits included:

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
<b>Expenses for defined benefit obligations</b>	<b>- 87</b>	<b>- 104</b>
Net interest income from defined benefit plans	- 9	- 36
Service cost	- 62	- 68
Past service cost	- 15	0
<b>Other expenses for pensions and benefits</b>	<b>- 5</b>	<b>- 7</b>
<b>Expenses for defined contribution obligations</b>	<b>- 3</b>	<b>- 3</b>
<b>Total</b>	<b>- 95</b>	<b>- 114</b>

In addition to the expenses for pensions, LBBW paid EUR – 60 million (previous year: EUR – 60 million) in the financial year into the German pension fund for employees and recorded this as an expense under social security contributions.

The fee for audit costs were expensed in the current financial year in the amount of EUR – 9 million (previous year: EUR – 8 million). The (net) fees for audit costs in accordance with IDW RS HFA 36 broke down as follows:

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
Audit services	- 7	- 6
Other audit-related services	- 1	- 1
Tax advisory services	- 0	- 0
Other services	- 1	- 0
<b>Total</b>	<b>- 8</b>	<b>- 7</b>

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 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.

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

EUR million	01/01 - 30/12/2021	01/01 - 31/12/2020
Expenses for bank levy	- 104	- 88
Expenses for deposit guarantee system	- 33	- 31
<b>Total</b>	<b>- 137</b>	<b>- 118</b>

## 17. Net income/expenses from restructuring

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
Reversal of provisions for restructuring measures	1	50
Additions to restructuring provisions	- 1	- 83
Current expense/income from restructuring	- 1	- 0
<b>Total</b>	<b>- 1</b>	<b>- 32</b>

Net income/expenses from restructuring improved by EUR 31 million to EUR -1 million in the reporting year. This follows the establishment of several restructuring activities in the previous year as part of the review of LBBW's strategic direction.



## 18. Income taxes

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
Current income taxes from the reporting period	- 267	- 66
Current income taxes from previous years	- 132	- 22
<b>Current income taxes</b>	<b>- 399</b>	<b>- 88</b>
of which decrease in current income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	2	0
<b>Deferred income taxes</b>	<b>- 1</b>	<b>8</b>
of which deferred income tax expense/income from change in temporary differences	19	18
of which deferred income tax expense/income from change in deferred tax assets from loss carryforwards	- 20	- 10
of which deferred tax expense/income from change in tax rates	5	2
of which deferred tax expense from write-downs or the reversal of earlier write-downs	0	- 4
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	6	8
<b>Total</b>	<b>- 399</b>	<b>- 80</b>

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

EUR million	01/01- 31/12/2021	01/01- 31/12/2020
<b>Consolidated profit/loss before tax</b>	<b>817</b>	<b>252</b>
Applicable tax rate	30.525%	30.525%
<b>Expected income taxes</b>	<b>- 249</b>	<b>- 77</b>
<b>Tax effects</b>		
from non-deductible operating expenses	- 39	- 39
from tax-free income	7	10
from change to value adjustments	- 1	- 1
from taxes from the previous year recorded in the financial year	- 117	15
from permanent tax effects	- 20	7
from changes in tax rates	5	2
from differing tax rates affecting on deferred taxes as shown in profit or loss	29	26
from other differences	- 14	- 22
<b>Total</b>	<b>- 399</b>	<b>- 80</b>

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.

Taxes from the previous year recorded in the financial year essentially relate to the impact of higher provisions for tax risks. The permanent tax effects result chiefly from the provision for previous year interest payments recognized in connection with this.

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- 31/12/2021	01/01- 31/12/2020
<b>Loss and interest carryforwards</b>	<b>3,889</b>	<b>4,114</b>
of which loss and interest carryforwards for which deferred tax assets were created	481	651
of which loss and interest carryforwards for which no deferred tax assets were recognized	3,408	3,463
of which expire in 2022 and thereafter	10	9
of which non-forfeitable	3,398	3,454
Unrecognized temporary differences at the statement of financial position date	0	1

Deferred tax assets of EUR 34 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 statement of financial position and the national tax base. Deferred income tax liabilities are potential income taxes payable arising from temporary differences between the carrying amounts of assets and liabilities in the IFRS statement of financial position and the national tax base.

Deferred tax assets and liabilities were recognized in connection with the following items in the 2021 financial year:

EUR million	Deferred tax assets		Deferred tax liabilities	
	2021	2020 <sup>1</sup>	2021	2020 <sup>1</sup>
<b>Assets</b>				
Financial assets measured at amortized cost	504	161	- 909	- 810
Financial assets measured at fair value through other comprehensive income	229	9	- 7	- 42
Financial assets designated at fair value	0	0	- 23	- 27
Financial assets mandatorily measured at fair value through profit or loss	6,245	8,905	- 421	- 506
Portfolio hedge adjustment attributable to assets	0	0	- 209	- 310
Non-current assets and disposal groups held for sale	0	0	- 12	- 1
Intangible assets	0	0	- 27	- 29
Property and equipment/investment property	12	34	- 149	- 203
Other assets	136	105	- 60	- 11
<b>Equity and liabilities</b>				
Financial liabilities measured at amortized cost	862	425	- 492	- 389
Financial liabilities designated at fair value	161	197	0	0
Financial liabilities mandatorily measured at fair value through profit or loss	1	1	- 5,751	- 7,613
Portfolio hedge adjustment attributable to liabilities	3	212	0	0
Provisions	739	851	- 1	- 1
Other liabilities	108	89	0	- 51
Loss and interest carryforwards	68	92	0	0
Outside basis differences	0	0	- 2	- 3
Net amount	- 8,039	- 9,972	8,039	9,972
<b>Total</b>	<b>1,029</b>	<b>1,109</b>	<b>- 24</b>	<b>- 24</b>
<b>Change in the balance from deferred taxes</b>	<b>- 80</b>	<b>9</b>		
of which changes recognized in profit or loss	- 1	9		
of which from valuation reserves (from FVOCI financial instruments)	- 14	- 36		
of which measurement gains/losses of financial liabilities	16	- 15		
of which retained earnings (provisions - actuarial gains/losses)	- 82	51		
of which other changes recognized directly in equity (first-time adoption IFRS 9)	1	0		

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

No deferred tax liabilities were recognized for taxable temporary differences of EUR 11 million (previous year: EUR 8 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

#### 19. Recognition

Financial instruments are initially recognized when LBBW (Bank) or a subsidiary included in the consolidated financial statements becomes a contractual party of the financial instrument. The financial instruments are derecognized if one of the following events occurs:

- Contractual rights to the cash flows from a financial asset expire (e.g. repayment of loans or expiry of options).
- The financial asset is sold, in part or in full (e.g. sale of securities (true sale) or syndication).
- Cash flows, including the material opportunities and risks from the financial asset, are passed on to third parties via contractually arranged obligations (»pass through-arrangement«). The contractual terms and conditions of a financial asset or liability have been substantially modified. The distinction between substantial and non-substantial modifications is based on judgments. At LBBW, a contractual amendment is considered a substantial modification if it results in a change of currency, changes the gross carrying amount of a financial asset or the amortized costs of a financial liability by 10% or more or if the changes to the contract mean that maintaining the previous measurement category is no longer permitted. By contrast, non-substantial modifications lead not to derecognition but to an adjustment of the gross carrying amount or amortized cost through profit or loss.
- The financial liability is repaid.
- The financial liability is repurchased.

If material opportunities and risks are neither transferred nor retained when transferring a financial asset to third parties, derecognition from the statement of financial position is conditional upon control of the asset being transferred. In this case, the financial asset is derecognized when the recipient is entitled and also able to sell or pledge the transferred financial asset to third parties without requiring the agreement of the transferring entity or needing to impose restrictions on resale. If control is not transferred, the transferred asset must continue to be recognized in LBBW's statement of financial position in the amount of the continuing involvement and an associated liability must also be recognized.

Spot purchases and sales of financial assets that are delivered not on the trade date but instead within a standard period on the settlement date are recognized on the settlement date, regardless of the category.

#### Genuine securities repurchase transactions and securities lending transactions

Securities under genuine repurchase transactions continue to be recognized in the pledgor's statement of financial position. The pledgor recognizes a liability to the pledgee and the pledgee recognizes a receivable from the pledgor. Both are measured at amortized cost. The pledgor is still entitled to interest and dividends from the securities and recognizes these through profit or loss. Any difference between the amounts received when the securities were originally transferred and the amount to be paid upon return must be allocated by the pledgor to the liability over the term of the repurchase agreement. The pledgee must recognize the receivable.

The same applies to securities lending transactions with cash collateral. By contrast, no liability or receivable is recognized for lending transactions without cash collateral. The consideration paid by the borrower is reported under Net interest income.

### Development loans

A two-stage transmission procedure is used at the public sector savings banks and Volks- and Raiffeisen banks to transmit development loans to final borrowers. In this transmission chain, LBBW is located between the development bank and the affiliated savings bank and must recognize a liability to the development bank and a receivable of the same amount from the savings bank for the development loan. Given the volume of development loans, loans and advances to banks and deposits from banks are not comparable to the corresponding items at private banks. For this reason, these transmitted loans are disclosed separately under the two items.

### Embedded derivatives

Derivatives embedded in financial liabilities must be separated and recognized as independent derivatives under the following conditions:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid contract is not measured at fair value through profit or loss.

### 20. 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 statement of financial position.

The »Hold to collect and sell« business model does not involve the strict intention to hold the financial assets in a portfolio in the long term. In addition to collecting cash flows from the financial assets held, the assets can also be sold in line with the investment strategy of the portfolio. These kind of investment strategies can be found, to some extent, in portfolios in the Treasury's area of responsibility.

The »Sell« business model comprises all investment strategies that do not fall under the other two models. In particular, this includes financial assets acquired for trading and shares of loans intended for syndication. In LBBW Group, loans intended for syndication are allocated to two portfolios with different business models. The part of the loan to be placed on the market is assigned to a »Sell« business model portfolio while the final take is assigned to a »Hold« portfolio. Syndicated loans for which placement was unsuccessful remain in the original »Sell« portfolio permanently.

The term »repayment« generally refers to the repayment of capital. For the purpose of classifying financial assets, the capital concept is defined not as the nominal value but as the fair value of the financial asset on initial recognition. The interest term also has its own definition for the purpose of classifying financial assets. It represents consideration for the provision of capital and can only include components which are also reflected in a simple credit agreement. These include:

- time value of money,
- credit risk premium,
- surcharges for other risks associated with a loan (e.g. liquidity risk),
- surcharges for costs associated with a loan (e.g. administrative costs)
- profit margin

Equity instruments and derivatives thus do not constitute financial assets comparable to a simple loan agreement. The same applies to debt instruments with embedded derivatives that generate leverage. Non-recourse financing, which primarily involves an investment risk, also constitutes a breach of a simple loan relationship. At LBBW, non-recourse financing includes financing of special investment vehicles, which are characterized by the limitation of LBBW (Bank)'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 voluntarily recognizes selected financial assets at fair value through profit or loss if this offsets or reduces fluctuations in results that are not justified from an economic viewpoint and that arise from countertransactions that must be recognized at fair value through profit or loss (fair-value-option).

Reclassification on account of a change in business model after acquisition is permitted only in exceptional cases.

#### *Basis for measurement category*

Business model	Simple loan relationship	Choice exercised	Category
Hold	Yes	No	Measured at amortized cost
		Yes (fair value option)	Measured at fair value through profit or loss
	No	No	Measured at fair value through profit or loss
		Yes (OCI option)	Measured at fair value through other comprehensive income
Hold to collect and sell	Yes	No	Measured at fair value through other comprehensive income
		Yes (fair value option)	Measured at fair value through profit or loss
	No	No	Measured at fair value through profit or loss
		Yes (OCI option)	Measured at fair value through other comprehensive income
Sell	Yes/no	n/a	Measured at fair value through profit or loss

#### **Categorizing financial liabilities**

Financial liabilities are to be categorized as »measured at amortized cost«. However, this does not apply to financial guarantees or financial liabilities measured at fair value through profit or loss. At LBBW, the latter group primarily comprises financial liabilities held for trading and selected financial liabilities voluntarily 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.

## 21. 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 statement of financial position, 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 determine 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 statement of financial position. For transactions subject to measurement at fair value through other comprehensive income, the amount reported in the statement of financial position is the fair value. Credit losses for off-balance-sheet transactions are shown in the item provisions for credit risks.

## 22. Determining fair value

### General information

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

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

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

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

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

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

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

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

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

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

Product class	Financial instruments
<b>Financial assets measured at fair value</b>	
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, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
<b>Financial assets measured at amortized cost</b>	
Cash and cash equivalents	Cash, balances with central banks
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
<b>Financial liabilities measured at fair value</b>	
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
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions
<b>Financial liabilities measured at amortized cost</b>	
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions

### Securities

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

### Derivatives

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

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

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

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

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

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

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

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

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

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

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

### Equity instruments

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

### Receivables

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

### Determining rating-induced changes in fair value

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

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

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

## 23. Recognition

### Net amount

Financial assets and financial liabilities are recognized in the statement of financial position on a net basis if, at the statement of financial position date, the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to liquidate the respective asset and settle the associated liability simultaneously. In all other cases, they are recorded by way of gross disclosure.

If asset and liabilities are reported as offset in the statement of financial position, the associated income and expenditure in the income statement must also be offset, unless offsetting is expressly prohibited by an applicable accounting standard.

## Measurement categories and recognition/recognition of gains/losses

Measurement category	Recognition
<b>Recognition in the statement of financial position</b>	
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
<b>Recognition of gains/losses</b>	
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)
	Net interest income (interest income, dividends)
	Net gains/losses on remeasurement and disposal (debt instruments only)
Financial assets measured at fair value through other comprehensive income	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
Financial liabilities measured at fair value through profit or loss	Measurement gains/losses from own credit rating (only from fair value option and only if this does not create or increase any measurement discrepancies)



## Classes

Financial instruments are to be partially sorted into classes to comply with disclosure requirements. Determining classes requires making discretionary decisions. LBBW's classes account for measurement categories, balance sheet items and product groups. The level of detail varies for class-related disclosure requirements and has been chosen to ensure that there is not too much non-essential information provided nor is information relevant to decisions hidden.

## 24. 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.

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 26).

### 25. 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«.

### 26. 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.

Building on project activities in the previous year, the focus in the 2021 financial year was on transitioning interest conditions to alternative reference interest rates for existing lending and capital markets transactions affected by the IBOR reform. Provided they are a result entirely of the IBOR reform, these interest rate adjustments do not entail any substantial modifications, not for the underlying nor for the derivative financial instruments. Settlement payments for derivatives arising in connection with these interest rate adjustments are accrued over the remaining term of the derivatives in question.

As in the previous year, interest on cash collateral of collateralized derivatives and thus the measurement of the derivatives in question was transitioned to alternative reference rates in the current financial year (»discounting switch«). In this context, settlement payments made or received as compensation for the effects through profit or loss of the derivatives' valuation adjustments were also recognized through profit or loss at the same time as the valuation adjustments. While the discounting switch in the previous year focused on derivatives with clearing houses, the emphasis has now moved to derivatives with other counterparties

Project activities did not end at the end of the year and it is intended to continue these into the new financial year. Existing lending and capital markets transactions were largely transitioned to the alternative reference interest rates. The existing transactions that had not yet been modified as at 31 December 2021 are not expected to result in any material risks. In addition, new products based on the alternative reference interest rates were successfully subjected to LBBW's New Product Process in the past financial year.

As at 31 December 2021, the following transactions were still to be switched on the basis of the IBOR reform:

31/12/2021 EUR billion	Balance sheet figures
<b>Financial assets (excluding derivatives)</b>	<b>7.7</b>
of which based on USD LIBOR	5.2
of which based on GBP LIBOR	2.2
of which based on CHF LIBOR	0.1
of which based on JPY LIBOR	0.0
of which based on EUR LIBOR	0.1
of which based on EONIA	0.2
<b>Financial liabilities (excluding derivatives)</b>	<b>4.2</b>
of which based on USD LIBOR	0.0
of which based on EONIA	4.2

31/12/2021 EUR billion	Nominal amounts
<b>Derivatives</b>	<b>134.7</b>
of which based on USD LIBOR	121.9
of which based on GBP LIBOR	5.8
of which based on CHF LIBOR	6.0
of which based on JPY LIBOR	0.0
of which based on EUR LIBOR	0.4
of which based on other benchmark rates	0.4

LBBW's hedging instruments in the last financial year were essentially based on EURIBOR, CDOR, USD LIBOR, CHF LIBOR and GBP LIBOR. In the case of EURIBOR, CDOR, CHF LIBOR and GBP LIBOR, LBBW believes that the conditions for applying the practical expedients granted in IFRS 9.6.8 are not/no longer met as at 31 December 2021.

The nominal volume of the hedging instruments still covered by the exemptions under IFRS 9.6.8 amounted to EUR 22,463 million as at 31 December 2021 (previous year: EUR 20,051 million). The hedged risk components were still separately identifiable as at 31 December 2021.

The discontinuing of numerous reference interest rates at the start of 2022 also changed LBBW's risk management strategy. A large number of hedging instruments based on the discontinued reference interest rates had already been transitioned to alternative reference interest rates by the end of the year. Here, it is worth noting the exchange of interest rates based on CHF-LIBOR and GBP-LIBOR for cleared derivatives in December of the last financial year. Accordingly, the risks being hedged for the hedge relationships in which the non-contractually specified risk components are based on one of the discontinued reference interest rates are increasingly transitioning to the alternative reference interest rates for the currency area in question. In these cases, the amendments to IFRS 9 resulting from the Interest Rate Benchmark Reform – Phase 2 amendment allow the hedged risk components to be redesignated while maintaining the hedge relationships.

## 27. Government grants

LBBW accounts for the base rate reduction and additional interest reductions from the European Central Bank (ECB)'s targeted longer-term refinancing operations (TLTRO), which are granted if certain conditions are met, as government grants in accordance with IAS 20. As an institution of the European Union, the ECB performs sovereign functions (e.g. setting and carrying out monetary policy, monitoring the banking system) and so is to be considered under »government« as per IAS 20.3. As interest rate deductions are not customary for the ECB's usual open market operations (in particular main or longer-term refinancing operations), the loans bear interest at a rate below the market rate. This benefit is not to be recognized (where applicable, cumulatively for the past) until the period in which there is reasonable assurance that the Group will comply with the conditions attached and that the grant will be received. The benefit is assigned in profit or loss to the periods in which the costs to be compensated by the grant are recognized as an expense. These are the regular refinancing costs resulting from (expanded) lending, which are incurred on a pro rata basis during the term of the tender. Income generated as a result of the reductions is reported as a reduction in interest expenses (net presentation).

Participating in the third series of targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 8.0 billion in the reporting period. The conditions for recognizing additional interest rate reductions (hereinafter referred to as the bonus) of EUR 110 million for the period from 24 June 2020 to 23 June 2021 were met in the year under review. In addition, the conditions for recognizing the bonus on a pro rata basis of EUR 76 million for the period from 24 June 2021 to 23 June 2022 were also met as at 31 December 2021 (previous year: EUR 0 million). Alongside the base rate reduction of EUR 133 million (previous year: EUR 61 million), net interest income for the reporting year included a total of EUR 319 million (previous year: EUR 61 million) in connection with government grants. Accounts payable from TLTRO III as at the end of the reporting period still came to EUR 27.63 billion (previous year: EUR 19.95 billion).

## Financial assets

### 28. Cash and cash equivalents

EUR million	31/12/2021	31/12/2020
Balances with central banks	36,682	13,437
Cash	189	213
<b>Total, gross</b>	<b>36,871</b>	<b>13,650</b>
Allowances for losses on loans and securities	- 0	- 0
<b>Total, net</b>	<b>36,871</b>	<b>13,650</b>

Balances with central banks included balances with Deutsche Bundesbank of EUR 24,079 million (previous year: EUR 7,141 million).

### 29. Financial assets measured at amortized cost

#### Loans and advances to banks

EUR million	31/12/2021	31/12/2020
Public-sector loans	34,106	47,685
Current account claims	418	1,279
Securities repurchase transactions	6,828	10,191
Other loans	1,056	1,658
Schuldschein loans	0	70
Overnight and term money	3,480	6,411
Mortgage loans	0	699
Other receivables	614	484
<b>Total, gross</b>	<b>46,501</b>	<b>68,478</b>
Allowances for losses on loans and securities	- 32	- 20
<b>Total, net</b>	<b>46,468</b>	<b>68,458</b>

Of loans and advances to banks (gross), EUR 28 billion (previous year: EUR 26 billion) had a term of over twelve months as at the reporting date.

The item Loans and advances to banks also includes transmitted loans of EUR 26.3 billion (previous year: EUR 24.6 billion) in the sub-item public-sector loans. In the previous year the sub-item public-sector loans included a deposit facility with the central bank of EUR 17.3 billion. This is no longer the case as at the end of the current reporting period.

### Loans and advances to customers

EUR million	31/12/2021	31/12/2020
Other loans	25,136	21,863
Mortgage loans	38,801	39,299
Public-sector loans	14,124	15,328
Receivables from finance leases	5,571	5,433
Transmitted loans	3,580	2,972
Securities repurchase transactions	9,042	5,371
Current account claims	2,113	2,245
Overnight and term money	9,861	5,510
Schuldschein loans	8,055	7,311
Other receivables	4,855	3,860
<b>Total, gross</b>	<b>121,139</b>	<b>109,193</b>
Allowances for losses on loans and securities	- 1,288	- 1,077
<b>Total, net</b>	<b>119,851</b>	<b>108,116</b>

Loans and advances to customers (gross) amounting to EUR 83,380 million (previous year: EUR 74,851 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 the sub-items mortgage loans and public-sector loans. In total, the item Loans and advances to customers includes EUR 7.7 billion (previous year: EUR 7.6 billion) in transmitted loans.

### Debentures and other fixed-income securities

EUR million	31/12/2021	31/12/2020
Government bonds and government debentures	318	344
Other bonds and debentures	694	584
<b>Total, gross</b>	<b>1,012</b>	<b>929</b>
Allowances for losses on loans and securities	- 8	- 8
<b>Total, net</b>	<b>1,004</b>	<b>921</b>

Debentures and other fixed-income securities amounting to EUR 1,001 million (previous year: EUR 918 million) had a term of over twelve months as at the reporting date.

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

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

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
<i>Balance as at 1 January 2021</i>	44	520	541	- 0	1,104
Changes	33	207	50	- 1	289
Transfer to Stage 1	17	- 16	- 1	0	- 0
Transfer to Stage 2	- 11	14	- 2	0	- 0
Transfer to Stage 3	- 1	- 17	19	0	- 0
Additions	53	290	176	0	519
Reversals	- 25	- 63	- 95	- 6	- 188
Utilization	0	- 0	- 47	5	- 42
Additions	18	13	13	0	43
Disposals	- 6	- 25	- 93	- 0	- 125
Other changes	1	2	14	0	17
<i>Balance as at 31 December 2021</i>	89	716	524	- 1	1,328

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
<i>Balance as at 1 January 2020</i>	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
<i>Balance as at 31 December 2020</i>	44	520	541	- 0	1,104

It is a great challenge to calculate the allowances for losses on loans and securities given the uncertainties relating to the pandemic, the economy and the geopolitical situation (e.g. Ukraine conflict). 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 again determined allowances for losses on loans and securities to the end of 2021 using a multi-scenario approach (moderate and adverse scenarios) on the basis of quantitative models in combination with an expert-based overlay. As in the previous year, the IFRS 9 stage transfer was also 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 reported in 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. The increase in allowances for losses on loans and securities resulting from these adjustments is primarily shown in the additions to Stage 2. Allowances



for losses on loans and securities to quantify the effects of structural change towards e-mobility were reduced marginally towards the end of 2020. This decline was essentially a result of a reduction in the portfolio volume. Overall, the model adjustments had a EUR 155 million negative effect on allowances for losses on loans and securities.

For more details on changes in allowances for losses on loans and securities see Notes 12 and 31.

The following table shows the 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
<i>Balance as at 1 January 2021</i>	138,679	38,840	1,053	28	178,600
Changes	- 7,437	- 6,859	287	- 1	- 14,009
Transfer to Stage 1	16,413	- 16,415	2	0	0
Transfer to Stage 2	- 12,521	12,566	- 45	0	- 0
Transfer to Stage 3	- 176	- 333	509	0	0
Repayments	- 11,152	- 2,678	- 178	- 1	- 14,009
Additions	83,405	4	- 13	67	83,462
Disposals	- 86,175	- 4,006	- 199	- 14	- 90,394
Write-downs through profit or loss (direct write-down)	0	0	- 7	0	- 7
Write-downs through other comprehensive income (use of allowances for losses on loans and securities)	0	0	- 47	5	- 41
Other changes	10,301	788	7	- 55	11,041
<i>Balance as at 31 December 2021</i>	138,773	28,767	1,081	30	168,652

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
<i>Balance as at 31 December 2019</i>	153,122	13,888	1,064	31	168,106
Restatement of prior year amounts	- 7	0	0	0	- 7
<i>Balance as at 1 January 2020</i>	153,116	13,888	1,064	31	168,099
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
Other changes	1,769	6,011	687	17	8,484
<i>Balance as at 31 December 2020</i>	138,679	38,840	1,053	28	178,600

### 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:

31/12/2021 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	1,644	195	2	1,841

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

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

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

EUR million	31/12/2021	31/12/2020
<i>Equity instruments</i>	61	59
Equity investments	58	56
Shares in affiliates	3	3
<i>Debentures and other fixed-income securities</i>	29,801	31,039
Money market instruments	652	826
Bonds and debentures	29,149	30,213
<i>Receivables</i>	3,426	3,712
<b>Total</b>	<b>33,288</b>	<b>34,810</b>

The item »Financial assets measured at fair value through other comprehensive income« contains EUR 470 million (previous year: EUR 653 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 27,983 million (previous year: EUR 29,543 million) had a term of over twelve months as at the reporting date.

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

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

EUR million	Stage 1 12-month expected credit loss	Total
<i>Balance as at 1 January 2021</i>	3	3
Changes	- 1	- 1
Reversals	- 1	- 1
Additions	1	1
<i>Balance as at 31 December 2021</i>	3	3

EUR million	Stage 1 12-month expected credit loss	Total
<i>Balance as at 1 January 2020</i>	3	3
Changes	0	0
Additions	2	2
Reversals	- 2	- 2
Additions	1	1
<i>Balance as at 31 December 2020</i>	3	3

The following table shows the development of gross carrying amounts:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Total
<i>Balance as at 1 January 2021</i>	34,751	0	34,751
Changes	- 460	7	- 453
Transfer to Stage 2	- 7	7	0
Repayments	- 453	0	- 453
Additions	6,108	0	6,108
Disposals	- 6,551	0	- 6,551
Other changes	- 629	0	- 629
<i>Balance as at 31 December 2021</i>	33,220	7	33,227

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Total
<i>Balance as at 1 January 2020</i>	29,748	10	29,758
Changes	- 70	0	- 70
Repayments	- 70	0	- 70
Additions	13,975	0	13,975
Disposals	- 9,080	- 10	- 9,090
Other changes	178	- 0	178
<i>Balance as at 31 December 2020</i>	34,751	0	34,751

Note 33 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

### 31. 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.

31/12/2021 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
<b>Financial assets measured at fair value</b>					
Financial assets measured at fair value through other comprehensive income	33,364	0	0	0	33,364
Equity instruments	1,491	0	0	0	1,491
Debentures and other fixed-income securities	29,105	0	0	0	29,105
Receivables	2,767	0	0	0	2,767
Financial assets designated at fair value	1,240	0	310	0	930
Debentures and other fixed-income securities	56	0	0	0	56
Receivables	1,184	0	310	0	874
Financial assets mandatorily measured at fair value through profit or loss	84,972	62,623	5,613	663	16,074
Trading assets	76,809	55,477	5,613	663	15,057
Derivatives	52,951	41,373	4,110	498	6,971
Equity instruments	566	535	0	0	31
Debentures and other fixed-income securities	6,538	2,629	471	0	3,439
Receivables	16,753	10,940	1,032	165	4,616
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,137	195	0	0	942
Equity instruments	592	195	0	0	397
Receivables	545	0	0	0	545
Positive fair values from derivative hedging instruments	7,027	6,952	0	0	75
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	13,816	0	0	0	13,816
Financial assets measured at amortized cost	186,407	43,143	0	41,206	102,057
Loans and advances to banks	65,784	28,492	0	681	36,612
Loans and advances to customers	119,671	14,651	0	40,526	64,494
Debentures and other fixed-income securities	951	0	0	0	951
<b>Total</b>	<b>319,799</b>	<b>105,767</b>	<b>5,922</b>	<b>41,870</b>	<b>166,241</b>
Loan commitments and other agreements	69,161	0	0	3,429	65,732
<b>Total exposure</b>	<b>388,960</b>	<b>105,767</b>	<b>5,922</b>	<b>45,298</b>	<b>231,973</b>

31/12/2020 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
<b>Financial assets measured at fair value</b>					
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 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 mandatorily measured at fair value through profit or loss	101,154	75,177	5,378	960	19,639
Trading assets	90,976	66,099	5,378	960	18,539
Derivatives	67,894	54,506	4,192	676	8,521
Equity instruments	714	667	0	0	47
Debentures and other fixed-income securities	4,811	1,527	199	0	3,085
Receivables	17,558	9,399	988	284	6,887
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,232	191	0	0	1,041
Equity instruments	583	191	0	0	392
Receivables	650	0	0	0	649
Positive fair values from derivative hedging instruments	8,946	8,888	0	0	58
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	7,406	0	0	0	7,406
Financial assets measured at amortized cost	182,110	47,899	0	37,386	96,824
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
<b>Total</b>	<b>325,715</b>	<b>123,076</b>	<b>5,378</b>	<b>38,347</b>	<b>158,914</b>
Loan commitments and other agreements	63,737	0	0	3,895	59,842
<b>Total exposure</b>	<b>389,452</b>	<b>123,076</b>	<b>5,378</b>	<b>42,242</b>	<b>218,756</b>

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 2021 is EUR 157 billion or 40.4% in total (previous year: 43.8%). The lower share of risk mitigation is mainly on account of collateral performance of interest rate derivatives. Credit collateral increased. Nonetheless, there are differences between segments – for example, credit collateral is higher for real estate financing than for corporate customers.

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

Of the total portfolio of EUR 389 billion of gross exposures and EUR 232 billion of net exposures as at 31 December 2021, transactions of EUR 290 billion of gross exposures (previous year: EUR 275 billion) and EUR 209 billion of net exposures (previous year: EUR 193 billion) are within the scope of the provisions of IFRS 9 on allowances for losses on loans and securities.

### Credit-impaired assets

Credit-impaired assets in accordance with IFRS 9 are financial instruments in default (rating 16 to 18). These rating classes accounted for gross exposure of around EUR 1.4 billion and net exposure of EUR 1.0 billion as at 31 December 2021.

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

31/12/2021 EUR million	Gross exposure	Credit collateral	Net exposure
<b>Financial assets measured at amortized cost</b>			
Financial assets measured at amortized cost	1,020	300	720
Loans and advances to banks	18	0	18
Loans and advances to customers	1,002	300	702
<b>Total</b>	<b>1,020</b>	<b>300</b>	<b>720</b>
Loan commitments and other agreements	331	20	311
<b>Total exposure</b>	<b>1,351</b>	<b>319</b>	<b>1,031</b>

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

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 33 million (previous year: EUR 6 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)*

31/12/2021 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
1 (AAAA)	30,831	1,268	0	0	32,099
1 (AAA)-1 (A-)	135,039	12,360	0	1	147,400
2-5	60,142	18,790	0	10	78,942
6-8	9,088	8,402	0	0	17,490
9-10	1,324	3,545	0	0	4,869
11-15	1,037	3,946	0	0	4,982
16-18 (default) <sup>1</sup>	0	0	1,306	44	1,351
Other <sup>2</sup>	3,118	164	0	0	3,282
<b>Gross exposure</b>	<b>240,579</b>	<b>48,474</b>	<b>1,306</b>	<b>56</b>	<b>290,415</b>

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.

31/12/2020 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
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) <sup>1</sup>	0	0	1,209	12	1,222
Other <sup>2</sup>	2,747	525	0	0	3,271
<b>Gross exposure</b>	<b>205,136</b>	<b>68,630</b>	<b>1,209</b>	<b>35</b>	<b>275,011</b>

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*

31/12/2021 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
<i>Financials</i>	115,245	10,788	29	0	126,061
<i>Corporates</i>	73,107	25,557	1,140	44	99,849
Automotive	6,160	4,315	492	41	11,009
Construction	8,106	1,563	103	0	9,773
Chemicals and commodities	4,958	2,241	20	0	7,219
of which chemicals	2,881	872	1	0	3,753
of which commodities	2,077	1,369	20	0	3,466
Retail and consumer goods	12,279	5,570	221	0	18,070
of which consumer goods	9,405	3,197	51	0	12,654
of which durables	2,874	2,373	169	0	5,416
Industry	8,176	3,020	162	0	11,358
Pharmaceuticals and healthcare <sup>1</sup>	4,748	637	15	3	5,403
TM and electronics/IT <sup>1</sup>	6,617	1,602	19	0	8,238
Transport and logistics	4,759	3,121	25	0	7,905
Utilities and energy <sup>1</sup>	9,906	2,139	62	0	12,107
of which utilities and disposal companies	6,070	1,355	57	0	7,482
of which renewable energies	3,836	784	5	0	4,625
Other	7,398	1,349	20	0	8,767
<i>Real estate</i>	27,781	8,414	110	1	36,307
Commercial real estate (CRE)	18,910	6,698	106	0	25,714
Housing	8,870	1,717	4	1	10,593
<i>Public sector</i>	14,528	1,861	0	0	16,390
<i>Private individuals</i>	9,919	1,853	27	10	11,809
<i>Gross exposure</i>	240,579	48,474	1,306	56	290,415

1 Growth sectors.

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
<b>Financials</b>	<b>119,667</b>	<b>1,217</b>	<b>22</b>	<b>0</b>	<b>120,906</b>
<b>Corporates</b>	<b>37,377</b>	<b>55,082</b>	<b>1,116</b>	<b>15</b>	<b>93,590</b>
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 <sup>1</sup>	3,267	2,157	7	3	5,433
TM and electronics/IT <sup>1</sup>	3,376	4,067	33	0	7,475
Transport and logistics	1,411	6,401	16	0	7,828
Utilities and energy <sup>1</sup>	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
<b>Real estate</b>	<b>21,363</b>	<b>10,863</b>	<b>31</b>	<b>10</b>	<b>32,267</b>
Commercial real estate (CRE)	13,951	8,979	23	8	22,961
Housing	7,412	1,884	8	2	9,306
<b>Public sector</b>	<b>16,664</b>	<b>85</b>	<b>0</b>	<b>0</b>	<b>16,748</b>
<b>Private individuals</b>	<b>10,065</b>	<b>1,384</b>	<b>41</b>	<b>10</b>	<b>11,500</b>
<b>Gross exposure</b>	<b>205,136</b>	<b>68,630</b>	<b>1,209</b>	<b>35</b>	<b>275,011</b>

1 Growth sectors.

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

In relative terms, there is a higher share of stage 2 exposure in the corporates and real estate portfolio. In the automotive sector, for example, this is rooted partly in long-term uncertainty regarding change in the industry and the impact on manufacturers and suppliers. In addition, economic risks in connection with the ongoing COVID-19 pandemic, the acute shortage of raw materials and intermediates, upheaval in global supply chains and the sharp rise in the prices of raw materials and energy caused another substantial increase in the share of Stage 2 exposures compared to pre-pandemic levels, although this was still lower than in the previous year.

### Gross exposure by region

31/12/2021 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	144,034	24,759	1,065	18	169,876
Western Europe (excluding Germany)	65,863	8,683	38	28	74,613
North America	26,880	2,095	85	3	29,063
Asia/Pacific	968	8,758	17	0	9,743
Other <sup>1</sup>	2,833	4,179	102	7	7,121
<b>Gross exposure</b>	<b>240,579</b>	<b>48,474</b>	<b>1,306</b>	<b>56</b>	<b>290,415</b>

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

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 <sup>1</sup>	3,935	2,560	108	0	6,603
<b>Gross exposure</b>	<b>205,136</b>	<b>68,630</b>	<b>1,209</b>	<b>35</b>	<b>275,011</b>

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

### Forbearance

As at 31 December 2021, LBBW held assets with a net carrying amount of EUR 1,536 million (previous year: EUR 987 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 299 million (previous year: EUR 294 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 316 million) for assets with forbearance measures.

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

### 32. 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 49,607 million (previous year: EUR 48,599 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 26,747 million (previous year: EUR 23,470 million). Of the collateral received, LBBW is required to return collateral with a total fair value of EUR 26,747 million (previous year: EUR 23,470 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 3,303 million (previous year: EUR 3,615 million).

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

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

Equity instruments measured voluntarily at fair value through other comprehensive income amounted to EUR 61 million as at the end of the reporting period (previous year: EUR 59 million; see Note 30).

Dividends of EUR 2 million (previous year: EUR 3 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the financial year. As in the previous year, these related entirely to equity instruments held at the reporting date.

### 34. Financial assets designated at fair value

EUR million	31/12/2021	31/12/2020
<i>Debentures and other fixed-income securities</i>	57	58
Bonds and debentures	57	58
<i>Receivables</i>	1,317	1,074
<b>Total</b>	<b>1,374</b>	<b>1,132</b>

»Financial assets designated at fair value« amounting to EUR 1,360 million (previous year: EUR 1,112 million) had a term of over twelve months as at the reporting date.

31/12/2021 EUR million	Cumulative changes in fair value resulting from the credit spread	Changes in fair value resulting from the credit spread in the year under review
Receivables	3	3
<b>Total</b>	<b>2</b>	<b>4</b>

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
Other	- 0	- 2
<b>Total</b>	<b>- 1</b>	<b>- 3</b>

The maximum default risk is shown in Note 31.

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

EUR million	31/12/2021	31/12/2020
Trading assets	34,526	39,405
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	1,033	1,107
Positive fair values from derivative hedging instruments	1,416	1,673
<b>Total</b>	<b>36,976</b>	<b>42,185</b>

#### Trading assets

EUR million	31/12/2021	31/12/2020
<i>Positive fair values from derivative financial instruments</i>	<b>16,949</b>	<b>22,657</b>
<i>Equity instruments</i>	<b>540</b>	<b>714</b>
Equities	366	310
Investment fund units	171	400
Other securities	4	4
<i>Debentures and other fixed-income securities</i>	<b>6,395</b>	<b>4,919</b>
Money market instruments	368	275
Bonds and debentures	6,026	4,644
<i>Receivables</i>	<b>10,642</b>	<b>11,115</b>
Schuldschein loans	3,654	4,785
Other money market transactions	2,365	2,558
Receivables from securities repurchase agreements	3,730	2,842
Other receivables	893	930
<b>Total</b>	<b>34,526</b>	<b>39,405</b>

The item contains EUR 353 million (previous year: EUR 642 million) in total collateral provided with the protection buyer's right to resell or repledge.

Trading assets amounting to EUR 26,399 million (previous year: EUR 27,993 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	31/12/2021	31/12/2020
<b>Equity instruments</b>	<b>484</b>	<b>443</b>
Equities	5	5
Investment fund units	277	275
Equity investments	170	138
Shares in affiliates	32	25
<b>Debentures and other fixed-income securities</b>	<b>2</b>	<b>5</b>
Silent partner contributions	2	5
<b>Receivables</b>	<b>547</b>	<b>659</b>
Loans and advances to customers	547	659
<b>Total</b>	<b>1,033</b>	<b>1,107</b>

Assets of EUR 532 million (previous year: EUR 662 million) had a term of over twelve months as at the reporting date.

### Positive fair values from derivative hedging instruments

EUR million	31/12/2021	31/12/2020
Positive fair values from portfolio fair value hedges	1,115	1,293
Positive fair values from micro fair value hedges	301	379
<b>Total</b>	<b>1,416</b>	<b>1,673</b>

Positive fair values from derivative hedging instruments amounting to EUR 1,362 million (previous year: EUR 1,640 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	31/12/2021	31/12/2020
<b>Equity and liabilities</b>		
Derivative hedging instruments on deposits from banks	6	23
Derivative hedging instruments on deposits from customers	97	93
Derivative hedging instruments on securitized liabilities	19	27
Derivative hedging instruments on subordinated liabilities	178	236
Derivative hedging instruments on portfolio fair value hedges	1,115	1,293
<b>Total</b>	<b>1,416</b>	<b>1,673</b>

## 36. 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.

31/12/2021 EUR million	Transferred assets continue to be recognized in full	
	Carrying amount of transferred assets	Carrying amount of the associated liabilities
<b>Financial assets measured at fair value</b>		
Financial assets measured at fair value through other comprehensive income	4,421	3,848
Financial assets designated at fair value	226	226
Financial assets mandatorily measured at fair value through profit or loss	976	967
Trading assets	976	967
<b>Financial assets measured at amortized cost</b>		
Financial assets measured at amortized cost	40,344	40,330
Loans and advances to banks	26,369	26,359
Loans and advances to customers	13,975	13,972

31/12/2020 EUR million	Transferred assets continue to be recognized in full	
	Carrying amount of transferred assets	Carrying amount of the associated liabilities
<b>Financial assets measured at fair value</b>		
Financial assets measured at fair value through other comprehensive income	4,449	3,861
Financial assets designated at fair value	241	241
Financial assets mandatorily measured at fair value through profit or loss	1,649	1,612
Trading assets	1,649	1,612
<b>Financial assets measured at amortized cost</b>		
Financial assets measured at amortized cost	36,917	36,964
Loans and advances to banks	24,574	24,610
Loans and advances to customers	12,343	12,354

## Financial liabilities

### 37. Financial liabilities measured at amortized cost

#### Deposits from banks

EUR million	31/12/2021	31/12/2020
Securities repurchase transactions	255	542
Transmitted loans	34,067	32,142
Schuldschein loans	2,621	2,837
Overnight and term money	45,495	37,971
Public-sector registered covered bonds issued	399	367
Current account liabilities	2,592	2,243
Mortgage-backed registered covered bonds issued	58	123
Other liabilities	2,773	2,541
<b>Total</b>	<b>88,259</b>	<b>78,765</b>

As at the reporting date, the item included liabilities of EUR 63,295 million (previous year: EUR 53,375 million) with a remaining term to maturity of over twelve months.

Participating in targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 8.0 billion in March. Accounts payable from this as at the end of the reporting period still came to EUR 27.63 billion (previous year: EUR 19.95 billion, see Note 27).

#### Deposits from customers

EUR million	31/12/2021	31/12/2020
Current account liabilities	58,932	57,287
Overnight and term money	24,448	24,909
Schuldschein loans	2,673	2,230
Securities repurchase transactions	1,476	954
Public-sector registered covered bonds issued	1,712	2,041
Savings deposits	4,868	5,238
Mortgage-backed registered covered bonds issued	188	192
Other liabilities	2,724	2,435
<b>Total</b>	<b>97,022</b>	<b>95,288</b>

As at the reporting date, the item included liabilities of EUR 5,979 million (previous year: EUR 5,854 million) with a remaining term to maturity of over twelve months.

#### Securitized liabilities

EUR million	31/12/2021	31/12/2020
<b>Issued debentures</b>	<b>28,721</b>	<b>28,898</b>
Mortgage-backed covered bonds	7,184	8,444
Public-sector covered bonds	4,048	4,585
Other debentures	17,489	15,868
<b>Other securitized liabilities</b>	<b>16,148</b>	<b>12,936</b>
<b>Total</b>	<b>44,869</b>	<b>41,834</b>



As at the reporting date, this item included securitized liabilities of EUR 22,551 million (previous year: EUR 23,776 million) with a remaining term to maturity of over twelve months.

Further information on issuing activities can be found in Note 41.

### Subordinated capital

In the event of insolvency proceedings or liquidation, the reported »Subordinated capital« may not be repaid until all non-subordinated creditors have been satisfied.

EUR million	31/12/2021	31/12/2020
Typical silent partners' contributions	911	950
Subordinated liabilities	4,092	4,672
Capital generated from profit participation rights	21	117
<b>Total</b>	<b>5,024</b>	<b>5,740</b>

No new subordinated liabilities were raised in the calendar year. This figure compared with repayments of EUR 578 million (nominal amount).

»Subordinated capital« of EUR 4,927 million (previous year: EUR 4,929 million) had a term of over twelve months as the reporting date.

### Subordinated liabilities

The following subordinated liabilities (incl. subordinated liabilities designated at fair value) existed at the statement of financial position date, broken down according to product type.

EUR million	31/12/2021			31/12/2020		
	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated EUR bearer notes	2,251	29	2,280	2,814	40	2,854
Subordinated EUR registered securities	839	9	848	854	9	863
Subordinated foreign currency bearer bonds	1,452	36	1,488	1,370	34	1,404
<b>Total</b>	<b>4,542</b>	<b>74</b>	<b>4,616</b>	<b>5,038</b>	<b>83</b>	<b>5,121</b>

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 620 million (previous year: EUR 599 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 – 153 million (previous year: EUR – 190 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 statement of financial position date:

31/12/2021 EUR million	Nominal amount	Interest rate in % p.a.	End of term
<b>Registered participation rights</b>			
Corporates	44	6.20 to 6.80	by 31/12/2022
<b>Total</b>	<b>44</b>		

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

The table above include registered participation rights »designated at fair value« with nominal capital in the amount of EUR 24 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 – 6 million (previous year: EUR – 19 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.

Term <sup>1</sup>	Dividend payout as a percentage of the nominal amount	Nominal amount	
		31/12/2021 EUR million	31/12/2020 EUR million
05/01/2000-31/12/2020	0.0	0.0	30.0
13/02/1994 – 31/12/2023 (terminated)	3.9	8.9	8.9
19/05/1999 – 31/12/2024	7.1	20.0	20.0
13/07/2001 – 31/12/2026 <sup>2</sup>	1.6	15.0	15.0
01/10/1999 – 31/12/2029	8.03 – 8.20	49.0	49.0
10/03/2000 – 31/12/2030	8.05 – 8.25	10.0	10.0
02/07/2001 – 31/12/2031	8.5	20.0	20.0
<b>Silent partners contributions with a fixed end of term</b>		<b>122.9</b>	<b>152.9</b>

	Dividend payout as a percentage of the nominal amount	Nominal amount	
		31/12/2021 EUR million	31/12/2020 EUR million
<b>Expiry of the fixed interest period</b>			
31/12/2022	3.7	4.7	4.7
31/12/2023	3.8	222.7	222.7
27/06/2027	2.2	200.0	200.0
No expiry of the fixed interest period <sup>3</sup>	4.6	300.0	300.0
<i>Silent partners' contributions without a fixed end of term</i>		727.4	727.4
<b>Total</b>		<b>850.3</b>	<b>880.3</b>

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 - 35 million (previous year: EUR - 38 million).

### 38. Financial liabilities designated at fair value

EUR million	31/12/2021	31/12/2020
<b>Securitized liabilities</b>	<b>3,141</b>	<b>4,576</b>
Other securitized liabilities	2,478	3,920
Junior bonds	663	655
<b>Deposits</b>	<b>1,754</b>	<b>1,933</b>
Schuldschein loans	753	769
Subordinated deposits	46	132
Money market transactions	124	117
Other	831	915
<b>Total</b>	<b>4,895</b>	<b>6,509</b>

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 3,887 million (previous year: EUR 4,693 million) had a term of over twelve months as at the reporting date.

31/12/2021 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Securitized liabilities	122	- 29
Deposits	498	30
<b>Total</b>	<b>620</b>	<b>1</b>

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
Securitized liabilities	165	3
Deposits	590	51
<b>Total</b>	<b>755</b>	<b>54</b>

The method for separating the share of the change in fair value attributable to the change in the default risk is described in Note 22.

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

EUR million	31/12/2021	31/12/2020
Trading liabilities	21,343	25,948
Negative fair values from derivative hedging instruments	2,346	2,867
<b>Total</b>	<b>23,689</b>	<b>28,815</b>

#### Trading liabilities

EUR million	31/12/2021	31/12/2020
Negative fair values from derivatives	13,895	19,030
Delivery obligations from short sales of securities	752	252
Securitized liabilities	6,134	6,194
Deposits	563	472
Schuldschein loans	248	236
Liabilities from securities repurchase agreements	167	0
Money market transactions	147	236
Other	1	0
<b>Total</b>	<b>21,343</b>	<b>25,948</b>

»Trading liabilities« amounting to EUR 16,215 million (previous year: EUR 18,985 million) had a term of over twelve months as at the reporting date.

#### Negative fair values from derivative hedging instruments

EUR million	31/12/2021	31/12/2020
Negative fair values from portfolio fair value hedges	1,763	2,089
Negative fair values from micro fair value hedges	572	775
Negative fair values from group fair value hedges	12	4
<b>Total</b>	<b>2,346</b>	<b>2,867</b>

»Negative fair values from derivative hedging instruments« amounting to EUR 2,202 million (previous year: EUR 2,730 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	31/12/2021	31/12/2020
<b>Assets</b>		
Derivative hedging instruments on loans and advances to banks	0	23
Derivative hedging instruments on loans and advances to customers	171	190
Derivative hedging instruments on debt instruments (FVOCR)	334	480
Derivative hedging instruments on debt instruments (AC)	67	80
Derivative hedging instruments on group fair value hedges	12	4
<b>Equity and liabilities</b>		
Derivative hedging instruments on securitized liabilities	0	2
Derivative hedging instruments on portfolio fair value hedges	1,763	2,089
<b>Total</b>	<b>2,346</b>	<b>2,867</b>

#### 40. Maturity analysis

The following table divides the undiscounted financial liabilities into derivative and non-derivative transactions for the remaining contractual maturities. Given that the reporting is undiscounted and includes interest payments, the figures differentiate in part from the carrying amounts shown in the statement of financial position.

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

31/12/2021	up to 1 month	>1 to 3 months	>3 to 12 months	>1 year to 5 years	>5 years
<b>EUR million</b>					
Financial liabilities	55,391	22,295	24,937	60,243	31,292
Liabilities from derivatives	54	80	110	598	407
<b>Total</b>	<b>55,445</b>	<b>22,375</b>	<b>25,047</b>	<b>60,841</b>	<b>31,699</b>
Irrevocable loan commitments and guarantees <sup>1</sup>	62,588	64	1,082	5,180	1,637
Savings and demand deposits, securitization from interbank accounts	64,744				

<sup>1</sup> 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.

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

<sup>1</sup> 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.

#### 41. Issuing activities

EUR million	31/12/2021	31/12/2020
Securitized liabilities	44,869	41,834
Securitized liabilities designated at fair value	2,478	3,920
Securitized liabilities mandatorily measured at fair value through profit or loss	6,134	6,194
<b>Total</b>	<b>53,481</b>	<b>51,949</b>

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 1,656,028 million (previous year: EUR 989,620 million) were issued. Initial sales may fall substantially short of the issued nominal volume if the entire issue volume is not acquired by a counterparty. During the same period the volume of buybacks amounted to a nominal amount of EUR 1,645 million (previous year: EUR 4,337 million) and the volume of repayments to a nominal of EUR 1,219,710 million (previous year: EUR 683,350 million).

## Other disclosures about financial instruments

### 42. Fair value and carrying amounts of financial instruments

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

#### Assets

EUR million	31/12/2021		31/12/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets measured at amortized cost</b>				
Cash and cash equivalents	36,871	36,871	13,650	13,650
Financial assets measured at amortized cost	167,323	168,380	177,496	182,243
Loans and advances to banks	46,468	46,373	68,458	68,853
Loans and advances to customers	119,851	120,995	108,116	112,465
Debentures and other fixed-income securities	1,004	1,012	921	924

#### Equity and liabilities

EUR million	31/12/2021		31/12/2020	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities measured at amortized cost</b>				
Financial liabilities measured at amortized cost	235,174	235,920	221,627	225,195
Deposits from banks	88,259	88,635	78,765	79,802
Deposits from customers	97,022	97,613	95,288	96,362
Securitized liabilities	44,869	44,017	41,834	42,730
Subordinated capital	5,024	5,655	5,740	6,300

### 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 classifications by measurement method:



## Assets

EUR million	Prices traded on active markets (Level I)		Measurement method - on the basis of externally observable parameters (Level II)		Measurement method - on the basis externally unobservable parameters (Level III)	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial assets measured at fair value</b>						
Financial assets measured at fair value through other comprehensive income	19,406	24,141	13,879	10,666	3	3
Equity instruments	58	56	0	0	3	3
Debentures and other fixed-income securities	19,348	24,085	10,453	6,954	0	0
Receivables	0	0	3,426	3,712	0	0
Financial assets designated at fair value	15	15	1,359	965	0	152
Debentures and other fixed-income securities	15	15	42	43	0	0
Receivables	0	0	1,317	922	0	152
Financial assets mandatorily measured at fair value through profit or loss	1,161	1,099	35,155	40,006	660	1,080
Trading assets	1,153	1,092	32,970	37,434	404	879
Derivatives	0	0	16,921	22,577	28	80
Equity instruments	329	242	211	472	0	0
Debentures and other fixed-income securities	823	850	5,571	4,069	0	0
Receivables	0	0	10,266	10,315	376	799
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	8	7	770	900	256	201
Equity instruments	8	7	277	275	199	161
Debentures and other fixed-income securities	0	0	0	0	2	5
Receivables	0	0	492	625	55	35
Positive fair values from derivative hedging instruments	0	0	1,416	1,673	0	0
Non-current assets and disposal groups held for sale	0	0	0	0	0	2
<b>Financial assets measured at amortized cost</b>						
Cash and cash equivalents	189	213	36,682	13,437	0	0
Financial assets measured at amortized cost	0	0	47,712	64,468	120,668	117,775
Loans and advances to banks	0	0	24,294	47,925	22,079	20,929
Loans and advances to customers	0	0	22,406	15,619	98,590	96,846
Debentures and other fixed-income securities	0	0	1,012	924	0	0

## Equity and liabilities

EUR million	Prices traded on active markets (Level I)		Measurement method - on the basis of externally observable parameters (Level II)		Measurement method - on the basis externally unobservable parameters (Level III)	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial liabilities measured at fair value</b>						
Financial liabilities designated at fair value	0	0	4,803	6,119	92	390
Securitized liabilities	0	0	3,049	4,317	92	259
Deposits	0	0	1,754	1,802	0	131
Financial liabilities mandatorily measured at fair value through profit or loss	185	114	23,391	28,556	113	145
Trading liabilities	185	114	21,044	25,689	113	145
Derivatives	0	0	13,781	18,885	113	145
Delivery obligations from short sales of securities	185	114	567	138	0	0
Securitized liabilities	0	0	6,134	6,194	0	0
Deposits	0	0	563	471	0	0
Negative fair values from derivative hedging instruments	0	0	2,346	2,867	0	0
<b>Financial liabilities measured at amortized cost</b>						
Financial liabilities measured at amortized cost	0	0	231,571	221,042	4,349	4,153
Deposits from banks	0	0	87,300	78,398	1,335	1,405
Deposits from customers	0	0	96,942	95,635	671	727
Securitized liabilities	0	0	41,674	40,708	2,343	2,022
Subordinated capital	0	0	5,655	6,300	0	0

## Transfers between levels

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

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

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

### Assets

EUR million	Reclassification from Level I to Level II		Reclassification from Level II to Level I	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial assets measured at fair value</b>				
Financial assets measured at fair value through other comprehensive income	3,112	403	513	767
Debentures and other fixed-income securities	3,112	403	513	767
Financial assets designated at fair value	0	19	0	0
Debentures and other fixed-income securities	0	19	0	0
Financial assets mandatorily measured at fair value through profit or loss	260	133	206	141
Trading assets	260	133	206	141
Equity instruments	12	64	49	7
Debentures and other fixed-income securities	248	69	157	134

### Equity and liabilities

EUR million	Reclassification from Level I to Level II		Reclassification from Level II to Level I	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial liabilities measured at fair value</b>				
Financial liabilities mandatorily measured at fair value through profit or loss	0	9	17	33
Trading liabilities	0	9	17	33
Delivery obligations from short sales of securities	0	0	17	33
Securitized liabilities	0	9	0	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 gains/losses on Level III financial instruments are based on both observable and unobservable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

## Assets

	Financial assets measured at fair value through other comprehensive income	Financial assets designated at fair value	Financial assets mandatorily measured at fair value through profit or loss					Non-current assets and disposal groups held for sale	Total
	Equity instruments	Receivables	Trading assets		Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments				
			Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables		
EUR million									
Carrying amount as at 1 January 2021	3	152	80	799	161	5	35	2	1,237
Gains and losses recognized in net consolidated profit/loss	0	0	- 10	5	19	0	- 1	0	12
Net interest income and current net income from equity instruments	0	0	0	3	0	0	1	0	4
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 11	2	19	0	- 2	0	8
Additions through acquisitions	0	0	0	113	32	0	0	0	145
Disposals through sales	0	0	0	- 10	- 12	- 3	0	- 2	- 27
Repayments/offsetting	0	0	- 10	- 410	0	0	- 0	0	- 421
Changes in the scope of consolidation	0	0	0	0	- 1	0	0	0	- 1
Reclassification to Level III	0	0	0	0	0	0	21	0	21
Reclassification from Level III	0	- 152	- 31	- 121	0	0	0	0	- 304
Carrying amount as at 31 December 2021	3	0	28	376	199	2	55	0	662
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	- 6	1	19	0	- 2	0	12
Net interest income and current net income from equity instruments	0	0	1	- 1	0	0	0	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 7	2	19	0	- 2	0	12

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

<sup>1</sup> Amounts recognized under »Revaluation reserve«.

## Equity and liabilities

EUR million	Financial liabilities designated at fair value		Financial liabilities mandatorily measured at fair value through profit or loss	Total
	Securitized liabilities	Deposits	Trading liabilities	
			Derivatives	
<b>Carrying amount as at 1 January 2021</b>	<b>259</b>	<b>131</b>	<b>145</b>	<b>535</b>
Gains and losses recognized in net consolidated profit/loss	- 9	0	10	1
Net interest income and current net income from equity instruments	- 1	0	1	0
Net gains/losses from financial instruments measured at fair value through profit or loss	- 8	0	9	1
Disposals through sales	- 39	0	0	- 39
Repayments/offsetting	- 20	- 15	- 29	- 63
Reclassification from Level III	- 99	- 117	- 13	- 229
<b>Carrying amount as at 31 December 2021</b>	<b>92</b>	<b>- 0</b>	<b>113</b>	<b>205</b>
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	- 6	0	4	- 2
Net gains/losses from financial instruments measured at fair value through profit or loss	- 6	0	5	- 1

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

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

### Sensitivity analysis Level III

If the model value of financial instruments is based on unobservable market parameters, alternative parameters are used to determine the potential estimation uncertainty. For most of the securities and derivatives classified as Level III only one non-observable parameter is included in the fair value calculation, preventing any interactions between Level III parameters. The overall sensitivity of the products whose fair value calculation includes more than one non-observable parameter is immaterial. A calculation of the interactions between these parameters has therefore been dispensed with.

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

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

### Assets

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial assets measured at fair value</b>				
Financial assets mandatorily measured at fair value through profit or loss	15.2	18.3	- 14.2	- 16.7
Trading assets	6.7	11.6	- 6.7	- 11.7
Derivatives	0.0	0.8	- 0.0	- 0.9
Receivables	6.7	10.8	- 6.7	- 10.8
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	8.5	6.6	- 7.5	- 3.1
Equity instruments	6.9	4.7	- 5.9	- 3.1
Receivables	1.6	1.9	- 1.6	0.0
Positive fair values from derivative hedging instruments	0.0	0.0	0.0	- 1.9
<b>Total</b>	<b>15.2</b>	<b>18.3</b>	<b>- 14.2</b>	<b>- 16.7</b>

## Equity and liabilities

EUR million	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
	31/12/2021	31/12/2020	31/12/2021	31/12/2020
<b>Financial liabilities measured at fair value</b>				
Financial liabilities designated at fair value	0.0	0.4	0.0	- 0.3
Securitized liabilities	0.0	0.4	0.0	- 0.3
Financial liabilities mandatorily measured at fair value through profit or loss	0.7	2.6	- 0.6	- 2.7
Trading liabilities	0.7	2.6	- 0.6	- 2.7
Derivatives	0.7	2.6	- 0.6	- 2.7
<b>Total</b>	<b>0.7</b>	<b>3.0</b>	<b>- 0.6</b>	<b>- 3.0</b>

### Significant unobservable Level III parameters

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

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

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



## Assets

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
<b>Financial assets measured at fair value</b>				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	54% - 100%	relative - 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	51 - 258	relative - 10 - 30%/+ 10 - 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	- 0.35%	Individually per instrument
	Net income value method	Beta factor	1.00 - 1.17	relative + 5%/- 5%
Receivables	Net present value method	Credit spread (bp)	209 - 217	relative - 30%/+ 30%

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
<b>Financial assets measured at fair value</b>				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	- 82% - 100%	relative - 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	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%

## Equity and liabilities

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
<b>Financial liabilities measured at fair value</b>				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	54% – 100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	27 – 78	relative – 30%/+ 30%

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
<b>Financial liabilities measured at fair value</b>				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81% – 100%	relative – 20%/+ 10%
	Net present value method	Probability of premature termination	15%	absolute – 10%/+ 10%
	TRS model	Discount curve (bp)	27 – 94	relative – 30%/+ 30%

## Day One Profit or Loss

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

Credit spreads, 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 2021 financial year in comparison to the end of 2020, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	2021	2020
<b>Balance as at 1 January</b>	<b>2</b>	<b>1</b>
New transactions (allocations)	0	1
Income recognized in the income statement in the reporting period (reversals)	– 1	0
<b>Balance as at 31 December</b>	<b>1</b>	<b>2</b>

#### 44. Offsetting financial assets and liabilities

The featured transactions are usually closed on the basis of master agreements, that provide the conditional or unconditional rights to offset receivables, liabilities and collateral received or pledged. The collateral detailed is pledged mainly on the basis of repurchase agreements and liens, whereby collateral may only be offset in legally agreed cases (e.g. in insolvency). In the case of repurchase agreements, the receiver is obliged to return the transferred financial instruments at the end of the term. However, the receiver has the right to regularly sell or pledge the collateral to third parties.

The net amount of the individual financial instruments recognized in the statement of financial position is calculated according to the measures shown in the »Accounting and valuation methods« section. Collateral in the form of financial instruments and the cash collateral are stated at the fair value.

#### Assets

31/12/2021 EUR million	Gross amount of financial assets	Offsetting amount	Net amount of recognized financial assets	Amounts that are not subject to offsetting			Net amount
				Effect of master netting agreements	Collateral received		
					Financial instruments	Cash collateral	
Receivables from securities repurchase and lending agreements	25,521	- 5,282	20,239	- 286	- 19,947	- 4	1
Derivatives	46,829	- 30,451	16,379	- 8,120	- 32	- 3,460	4,767
<b>Total</b>	<b>72,350</b>	<b>- 35,733</b>	<b>36,618</b>	<b>- 8,406</b>	<b>- 19,979</b>	<b>- 3,464</b>	<b>4,768</b>

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		Net amount	
				Effect of master netting agreements	Collateral received		
					Financial instruments		Cash collateral
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
<b>Total</b>	<b>90,624</b>	<b>- 49,653</b>	<b>40,971</b>	<b>- 11,814</b>	<b>- 18,229</b>	<b>- 4,136</b>	<b>6,793</b>

Cash collateral was recognized under the item deposits from banks in the amount of EUR 2,210 million (previous year: EUR 2,594 million) and under the item deposits from customers in the amount of EUR 1,254 million (previous year: EUR 1,542 million) as at the end of the reporting date.

## Equity and liabilities

31/12/2021 EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Amounts that are not subject to offsetting			Net amount
				Effect of master netting agreements	Pledged collateral		
					Financial instruments	Cash collateral	
Current account liabilities	68	0	68	0	0	0	68
Liabilities from securities repurchase and lending agreements	7,180	- 5,282	1,897	- 286	- 1,610	0	1
Derivatives	43,159	- 30,451	12,708	- 8,120	- 76	- 3,262	1,251
<b>Total</b>	<b>50,407</b>	<b>- 35,733</b>	<b>14,674</b>	<b>- 8,406</b>	<b>- 1,686</b>	<b>- 3,262</b>	<b>1,320</b>

31/12/2020 EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Amounts that are not subject to offsetting			Net amount
				Effect of master netting agreements	Pledged collateral		
					Financial instruments	Cash collateral	
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
<b>Total</b>	<b>70,177</b>	<b>- 49,653</b>	<b>20,524</b>	<b>- 11,814</b>	<b>- 813</b>	<b>- 6,203</b>	<b>1,694</b>

Cash collateral was recognized under the item loans and advances to banks in the amount of EUR 2,427 million (previous year: EUR 4,925 million) and under the item loans and advances to customers in the amount of EUR 835 million (previous year: EUR 1,278 million) as at the end of the reporting date.

## 45. Hedge accounting

### The amount, timing and uncertainty of future cash flows

31/12/2021 EUR million	up to 3 months	3 months to 1 year	> 1 year to < 5 years	> 5 years	indefinite term
<b>Fair value hedge</b>					
Interest rate risks (PFVHA + MFVHA) <sup>1</sup>					
Nominal amount	16,595	41,619	130,827	133,561	0
Average hedged interest rate (MFVHA, in %)					
EUR	4.3	0.0	5.4	5.5	0.0
USD	0.0	0.0	7.6	6.8	0.0
Foreign currency risks (MFVHA + GFVHA) <sup>1</sup>					
Nominal amount	0	0	492	204	0
Average hedged rate (exchange rate)					
AUD	0.0	0.0	0.0	1.5	0.0
CZK	0.0	0.0	27.2	0.0	0.0
USD	0.0	0.0	1.2	0.0	0.0

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

31/12/2020 EUR million	up to 3 months	3 months to 1 year	> 1 year to < 5 years	> 5 years	indefinite term
<b>Fair value hedge</b>					
Interest rate risks (PFVHA + MFVHA) <sup>1</sup>					
Nominal amount	13,086	34,912	152,109	147,633	0
Average hedged interest rate (MFVHA, in %)					
EUR	0.0	3.3	4.8	5.2	0.0
USD	6.5	0.0	7.6	6.9	0.0
Foreign currency risks (MFVHA + GFVHA) <sup>1</sup>					
Nominal amount	6	23	153	204	0
Average hedged rate (exchange rate)					
AUD	0.0	0.0	0.0	1.5	0.0
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.

### Effects of hedge accounting on results of operations, net assets and financial position

Hedging instruments designated by LBBW as hedge accounting have the following effects on the statement of financial position as at the reporting date:

31/12/2021 EUR million	Carrying amount of hedging transactions assets	Carrying amount of hedging transactions equity and liabilities	Nominal amount of hedging instruments	Balance sheet items under which the hedged items are recognized	Change in fair value to measure ineffectiveness in the reporting period
<b>Fair Value Hedges</b>					
Interest rate risks hedges	1,410	2,331	- 68,973	Various <sup>1</sup>	182
Micro fair value hedge accounting	295	568	- 434	Various <sup>1</sup>	11
Portfolio fair value hedge accounting	1,115	1,763	- 68,539	Various <sup>1</sup>	170
Foreign currency risks hedges	6	16	- 279	Various <sup>1</sup>	- 28
Micro fair value hedge accounting	6	4	163	Various <sup>1</sup>	- 17
Group fair value hedge accounting	0	12	- 442	Various <sup>1</sup>	- 11

<sup>1</sup> Financial assets and liabilities mandatorily measured at fair value through profit or loss

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 hedged items are recognized	Change in fair value to measure ineffectiveness in the reporting period
<b>Fair Value Hedges</b>					
Interest rate risks hedges	1,652	2,860	303,021	Various <sup>1</sup>	- 297
Micro fair value hedge accounting	359	771	- 170	Various <sup>1</sup>	31
Portfolio fair value hedge accounting	1,293	2,089	303,190	Various <sup>1</sup>	- 328
Foreign currency risks hedges	20	8	68	Various <sup>1</sup>	19
Micro fair value hedge accounting	20	4	157	Various <sup>1</sup>	10
Group fair value hedge accounting	0	4	- 89	Various <sup>1</sup>	9

<sup>1</sup> Financial assets and liabilities mandatorily measured at fair value through profit or loss

The hedged items from fair value hedges designated as hedge accounting have the following effects on the statement of financial position as at the reporting date:

31/12/2021 EUR million	Carrying amount of hedged item assets	Carrying amount of hedged item equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item Equity and liabilities	Balance sheet items under which the hedged items are 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	32,796	25,024	10	- 9	0	- 203	952
Micro fair value hedge accounting	1,396	1,271	10	- 9	Various <sup>1</sup>	- 20	206
Portfolio fair value hedge accounting	31,400	23,753	0	0	Various <sup>1</sup>	- 183	746
Foreign currency risks hedges	47	209	- 0	12	0	28	- 2
Micro fair value hedge accounting	47	209	- 0	12	Various <sup>1</sup>	17	- 2
Group fair value hedge accounting	0	0	0	0	Various <sup>1</sup>	11	0
Discontinued hedging relationships	0	0	- 3	0	0	0	0

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

31/12/2021 EUR million	Carrying amount of hedged item assets	Carrying amount of hedged item equity and liabilities	Cumulative income or expenses recognized in the carrying amount of the hedged item Assets	Cumulative income or expenses recognized in the carrying amount of the hedged item Equity and liabilities	Balance sheet items under which the hedged items are 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	Various <sup>1</sup>	326	1,341
Micro fair value hedge accounting	1,976	1,160	62	44	Various <sup>1</sup>	- 18	338
Portfolio fair value hedge accounting	31,920	24,783	0	0	Various <sup>1</sup>	344	1,003
Foreign currency risks hedges	61	252	- 0	29	Various <sup>1</sup>	- 18	- 4
Micro fair value hedge accounting	61	252	- 0	29	Various <sup>1</sup>	- 10	- 4
Group fair value hedge accounting	0	0	0	0	Various <sup>1</sup>	- 9	0
Discontinued hedging relationships	0	0	49	- 0	Various <sup>1</sup>	0	0

<sup>1</sup> 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:

31/12/2021 EUR million	Ineffectiveness recognized in the income statement	Items in the income statement and in equity under which ineffectiveness is recognized
Interest rate hedges (MFVHA + GFVHA + PFVHA)	- 15	Net gains/losses from hedging transactions

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



## F. Other

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

The carrying amount of non-current assets or groups of assets and debt (disposal groups), whose disposal is planned, is realized largely through the disposal business and not through continued use.

With regard to the cumulative fulfillment of the conditions stated below, the assets or disposal groups in question are classified as held for sale and shown separately from the other assets or debt in the statement of financial position. The criteria for classification as held for sale is that the assets or disposal groups can be disposed of in their present condition at prevailing conditions and that the disposal is highly likely. A disposal is highly probable if the plan to sell the asset is completed, an active program to find a buyer and to complete the plan has been initiated, the assets or the disposal group is actively offered at a price that is appropriate relative to the current fair value and the disposal is expected to occur within one year from the date of classification.

Assets classified as held for sale are measured at the lower value comprising carrying amount and fair value less the cost of disposal. The depreciation of the assets is suspended from the date they are classified as held for sale. Assets and liabilities held for sale and disposal groups are generally measured in accordance with IFRS 5. Assets that are subject to the exemptions specified in IFRS 5.5 are measured according to the provisions of the respective standard. Accordingly, the fair value measurement of the relevant assets of this statement of financial position item uses the same methods, parameters and approaches as all other assets of LBBW that are measured at fair value. Assets or disposal groups classified as held for sale are recognized separately in the statement of financial position item »Non-current assets held for sale and disposal groups and Liabilities from disposal groups«.

Gains/losses from the measurement and gains/losses from the disposal of these assets or disposal groups that are not included in a discontinued operation are contained in the income statement or in the valuation reserve in equity and are not separated. The total profit or loss from discontinued business divisions must be shown separately in the item »Profit or loss from discontinued operations«.

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

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

- Two investment properties were sold in the first half of 2021. This affects the »Corporate Items« segment.
- Sales negotiations for one property reported as property and equipment were conducted in the second half of 2020. The property was sold in 2021. This affects the »Corporate Items« segment.
- Sales negotiations were conducted for three properties reported as property and equipment. The contract has already been signed for the properties and they will be transferred at the start of the next financial year. This affects the »Corporate Items« segment.

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

EUR million	31/12/2021	31/12/2020
<b>Assets</b>		
Investment property	0	2
Property and equipment	1	0
<b>Total</b>	<b>1</b>	<b>2</b>

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

#### 47. Intangible assets

Mainly software acquired or developed in-house and purchased customer lists are recognized under Intangible assets.

Purchased intangible assets are carried at amortized cost, i.e. less their cumulative write-downs and impairment. Internally developed software is capitalized at cost if the recognition criteria in accordance with IAS 38 are met. The capitalized costs mainly include staff costs and expenses incurred for external services during development. As previously, the internally developed or purchased software is amortized over three to ten years on a straight-line basis.

Amortization, write-downs and impairment losses on intangible assets are recognized under Administrative expenses in the income statement. Income from reversals of impairment losses on intangible assets is recognized under »Other operating income«.

Intangible assets are derecognized when sold. Gains and losses on disposal are the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount. The profit or loss on the disposal of the asset is recognized through profit or loss at the date of derecognition, and reported under »Other operating income/expenses«.

The changes in »Intangible assets« are shown in the following tables for 2021 and 2020:

EUR million	Purchased software	Advance payments and cost for development and preparation	Other intangible assets	Internally generated intangible assets	Total
<b>Cost</b>					
<i>Balance as at 1 January 2021</i>	831	20	97	114	1,062
Additions	18	6	10	5	39
Transfers	4	- 5	0	1	0
Disposals	- 4	0	- 0	- 4	- 7
<i>Balance as at 31 December 2021</i>	850	21	107	117	1,094
<b>Amortization and impairment losses/reversals of impairment losses</b>					
<i>Balance as at 1 January 2021</i>	- 769	0	- 48	- 67	- 884
Scheduled amortization	- 36	0	- 5	- 18	- 59
Disposals	4	0	0	4	7
<i>Balance as at 31 December 2021</i>	- 801	0	- 53	- 82	- 936
<b>Carrying amounts</b>					
Balance as at 1 January 2021	62	20	49	47	178
Balance as at 31 December 2021	49	21	54	35	158

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

Intangible assets of EUR 105 million (previous year: EUR 110 million) had a remaining useful life of more than twelve months as at the reporting date.

#### 48. Investment property

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

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

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

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

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

The following table illustrates the changes in carrying amounts:

EUR million	Investment property	Rights-of-use from leases	Total
<i>Carrying amount as at 1 January 2021</i>	768	28	796
Additions	0	1	1
Disposals	- 3	0	- 3
Currency translation differences	7	1	8
Changes in fair value from assets (through profit or loss)	6	- 3	3
<i>Carrying amount as at 31 December 2021</i>	778	27	805

EUR million	Investment property	Rights-of-use from leases	Total
<b>Carrying amount as at 1 January 2020</b>	<b>624</b>	<b>30</b>	<b>655</b>
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
<b>Carrying amount as at 31 December 2020</b>	<b>768</b>	<b>28</b>	<b>796</b>

»Investment property« is measured on the basis of externally unobservable parameters (Level III) and had a remaining useful life of more than twelve months as at the reporting date.

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

EUR million	2021	2020
<b>Carrying amount as at 1 January</b>	<b>796</b>	<b>655</b>
Gains and losses recognized in net consolidated profit/loss	5	29
Other earnings items	5	29
Additions through acquisitions	1	52
Disposals through sales	- 3	- 2
Other changes	7	63
Transfers in accordance with IFRS 5	0	- 2
<b>Carrying amount as at 31 December</b>	<b>805</b>	<b>796</b>
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	5	29
Other earnings items	5	29

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

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50%	n/a
		Discount rate	2.41% - 8.40%	
		Risk of loss of rent	2.00% - 5.00%	
		Basic maintenance costs	EUR 4.00 - EUR 19.00/m <sup>2</sup>	
		Administrative costs (% of target rent)	0.10% - 3.40%	

31/12/2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50%	n/a
		Discount rate	3.00% - 8.76%	
		Risk of loss of rent	0.00% - 4.00%	
		Basic maintenance costs	EUR 4.00 - EUR 19.00/m <sup>2</sup>	
		Administrative costs (% of target rent)	1.00% - 10.00%	

#### 49. Property and equipment

Property and equipment includes commercially used land and buildings, technical equipment and machinery, operating and office equipment, advance payments and assets under construction, leased assets and rights-of-use from leases.

Property and equipment is initially carried at cost and subsequently at amortized cost. Subsequent expenditure for property and equipment is capitalized if it is deemed to increase the future potential benefit. All other subsequent expenditure is recognized as an expense. Property and equipment is depreciated over its expected economic life, mainly on a straight line basis and sometimes on a diminishing basis. Determination of the economic life reflects expected physical wear and tear, technical obsolescence and legal and contractual constraints.

The determination of the useful life and depreciation method is reviewed at a minimum at the end of each financial year. After scheduled depreciation, including the review of the depreciation method used, the underlying useful life and the residual value (recoverable amount of a comparable asset) of the asset in question, a check is performed at each statement of financial position date as a minimum to ascertain whether there are any indications of impairment. Where indications of impairment exist, the recoverable amount (the higher of the fair value minus sales costs or the value in use) is calculated, compared with the carrying amount and, if necessary, written down. If the recoverable amount has increased since the last impairment, impairment losses are reversed up to a maximum of amortized cost.

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

	Estimated useful life in years	
	31/12/2021	31/12/2020
Buildings	25 - 50	25 - 50
Technical equipment and machinery	5 - 10	5 - 10
Operating and office equipment	1 - 20	1 - 20
Purchased IT systems	3 - 7	3 - 7

Changes to the carrying amounts in the reporting year were as follows:

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under operating leases	Rights-of-use from leases	Total
<b>Cost</b>							
<i>Balance as at 1 January 2021</i>	931	133	246	11	291	357	1,971
Currency translation differences	0	0	1	- 0	- 0	0	1
Additions	0	1	8	3	10	8	30
Transfers	- 20	1	10	- 11	20	0	- 0
Disposals	- 6	- 1	- 14	0	- 2	- 23	- 46
Transfers to »Non-current assets and disposal groups held for sale«	- 3	0	0	0	- 3	0	- 6
<i>Balance as at 31 December 2021</i>	901	134	252	3	317	342	1,949
<b>Amortization and impairment losses/reversals of impairment losses</b>							
<i>Balance as at 1 January 2021</i>	- 650	- 124	- 174	0	- 154	- 78	- 1,180
Currency translation differences	- 0	0	- 1	0	0	- 0	- 1
Scheduled amortization	- 12	- 2	- 11	0	- 6	- 42	- 73
Transfers	8	0	0	0	- 8	0	0
Disposals	5	1	13	0	1	10	30
Transfers to »Non-current assets and disposal groups held for sale«	3	0	0	0	3	0	5
<i>Balance as at 31 December 2021</i>	- 646	- 125	- 172	0	- 165	- 110	- 1,218
<b>Carrying amounts</b>							
Balance as at 1 January 2021	281	9	72	11	137	279	790
Balance as at 31 December 2021	256	9	79	3	152	232	731

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
<b>Cost</b>							
<i>Balance as at 1 January 2020</i>	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
<i>Balance as at 31 December 2020</i>	931	133	246	11	291	357	1,971
<b>Amortization and impairment losses/reversals of impairment losses</b>							
Balance as at 31 December 2019	- 640	- 122	- 176	0	- 144	- 38	- 1,120
<i>Balance as at 1 January 2020</i>	- 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
<i>Balance as at 31 December 2020</i>	- 650	- 124	- 174	0	- 154	- 78	- 1,180
<b>Carrying amounts</b>							
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

As at the reporting date, »property and equipment« in the amount of EUR 687 million (previous year: EUR 655 million) had a remaining useful life of more than twelve months.

More details on leases can be found in Note 50.

## 50. Leasing business

### 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 statement of financial position under Property and equipment or Investment property. The leased assets are recognized in accordance with IAS 16 at (amortized) acquisition or production cost or are measured at fair value in accordance with IAS 40. Both the lease income and received special payments and prepayments are recognized over the lease term. All the depreciation, write-downs and impairment losses and the income earned are reported under »Other operating income/expenses«.



With a finance lease, the leased asset is derecognized at the beginning of the lease term and a receivable due from the lessee equivalent to the net investment value is shown under the item »Loans and advances to customers or Loans and advances to banks«. Lease payments received are broken down into an interest component recognized in income and a repayment component. While income is recognized on an accrual basis as interest income and is reported in net interest income, the repayment part reduces the receivables carried on the statement of financial position.

The direct costs incurred by the lessor on the date on which the contract is concluded are assigned to the leasing contract. The internal interest rate underlying the lease term is determined in such a way that the initial direct costs are included automatically in the lease receivables.

The following maturity structure for future lease payments and reconciliation of the gross investment value to the present value of the leasing payments has been prepared for finance lease transactions which are shown under Loans and advances to customers:

EUR million	31/12/2021	31/12/2020
<b>Future lease payments</b>	<b>5,834</b>	<b>5,700</b>
Up to 1 year	2,064	1,905
More than 1 year to 2 years	1,419	1,416
More than 2 years to 3 years	965	1,086
More than 3 years to 4 years	671	685
More than 4 years to 5 years	401	336
More than 5 years	314	272
<b>= Gross investment value</b>	<b>5,834</b>	<b>5,700</b>
./. unguaranteed residual values	10	8
./. unrealized financial income	253	258
<b>= Net investment value</b>	<b>5,571</b>	<b>5,433</b>
Up to 1 year	1,798	1,821

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 231 million).

The carrying amounts of assets leased as part of operating lease transactions under property and equipment, which mainly constitute agreements concerning leasing of LBBW's own properties and buildings, were broken down as follows:

EUR million	Land	Buildings	Technical equipment and machinery	Other leased assets	Total
<b>Cost</b>					
<i>Balance as at 1 January 2021</i>	30	178	2	81	291
Additions	0	0	2	7	10
Transfers	0	20	0	0	20
Disposals	- 0	- 1	- 1	0	- 2
Transfers to »Non-current assets and disposal groups held for sale«	- 0	- 3	0	0	- 3
<i>Balance as at 31 December 2021</i>	30	195	4	88	317
<b>Amortization and impairment losses/reversals of impairment losses</b>					
<i>Balance as at 1 January 2021</i>	- 4	- 149	- 0	- 2	- 154
Scheduled amortization	0	- 3	- 1	- 3	- 6
Transfers	0	- 8	0	0	- 8
Disposals	0	1	0	0	1
Transfers to »Non-current assets and disposal groups held for sale«	0	3	0	0	3
<i>Balance as at 31 December 2021</i>	- 4	- 156	- 1	- 4	- 165
<b>Carrying amounts</b>					
Balance as at 1 January 2021	26	30	2	79	137
Balance as at 31 December 2021	26	38	4	84	152

EUR million	Land	Buildings	Technical equipment and machinery	Other leased assets	Total
<b>Cost</b>					
<i>Balance as at 1 January 2020</i>	28	167	5	8	208
Additions	0	0	2	51	53
Transfers	2	11	0	22	35
Disposals	0	- 0	- 5	0	- 5
<i>Balance as at 31 December 2020</i>	30	178	2	81	291
<b>Amortization and impairment losses/reversals of impairment losses</b>					
<i>Balance as at 1 January 2020</i>	- 4	- 140	- 0	- 0	- 144
Scheduled amortization	0	- 3	- 1	- 2	- 6
Transfers	- 0	- 5	0	0	- 5
Disposals	0	0	1	0	1
<i>Balance as at 31 December 2020</i>	- 4	- 149	- 0	- 2	- 154
<b>Carrying amounts</b>					
Balance as at 1 January 2020	24	27	5	8	64
Balance as at 31 December 2020	26	30	2	79	137

The carrying amounts of the investment property that is rented within the scope of operating lease agreements amounted to EUR 786 million (previous year: EUR 778 million). Changes to the carrying amounts are shown in Note 48.

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 64 million) and from variable lease payments that are not dependent on an index or (interest) rate in the amount of EUR 4 million (previous year: EUR 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	31/12/2021	31/12/2020
Up to 1 year	47	51
More than 1 year to 2 years	38	48
More than 2 years to 3 years	33	37
More than 3 years to 4 years	31	33
More than 4 years to 5 years	26	30
More than 5 years	94	142
<i>Future lease payments from operating leases</i>	<i>269</i>	<i>341</i>

### LBBW as the lessee

Under leases concluded by LBBW as the lessee, a right of use measured at cost is recognized on the day the lease begins. The costs comprise the lease liability, advance consideration paid, initial direct costs and expected restoration obligations less leasing incentive payments.

Lease liabilities are recognized on the basis of the present value of the future lease payments. Lease payments are determined from fixed and variable components representing agreed payments that are subject to fluctuation and are virtually fixed (e.g. index-linked payments). The interest rate underlying the lease is used for discounting. If this is not available, an incremental borrowing rate is used. The term of the lease is calculated as the non-terminable basic leasing period, taking into account renewal and termination options. In assessing the likelihood of options being exercised, relevant facts and circumstances are taken into account which may represent an economic incentive for the lessee. This is reassessed in the event of significant events or changes in circumstances.

In subsequent measurement, the right of use is measured using the cost model and adjusted for cumulative write-downs and impairment losses. The period of amortization is calculated according to the useful life of the right of use and is the same as the term of the contract.

In subsequent periods, the lease liability is increased by a constant interest effect through profit or loss and repaid in accordance with the lease payments made through other comprehensive income. In the event of reassessments or contract amendments, rights of use and lease liabilities are adjusted accordingly in subsequent measurement.

The right of use asset is tested for impairment as part of an annual impairment test within the meaning of IAS 36.

Leases with low-value underlying assets are implemented in simplified terms.

Rights-of-use from leases reported under Property and equipment developed as follows in the year under review:

EUR million	Rights-of-use from land and buildings	Rights-of-use from vehicles	Rights-of-use from other operating and office equipment	Total
<b>Cost</b>				
<i>Balance as at 1 January 2021</i>	333	12	13	357
Additions	4	4	0	9
Disposals	- 22	- 2	- 0	- 23
<i>Balance as at 31 December 2021</i>	316	14	13	343
<b>Amortization and impairment losses/reversals of impairment losses</b>				
<i>Balance as at 1 January 2021</i>	- 70	- 6	- 3	- 78
Scheduled amortization	- 37	- 4	- 2	- 43
Disposals	9	2	0	10
<i>Balance as at 31 December 2021</i>	- 99	- 8	- 4	- 111
<b>Carrying amounts</b>				
Balance as at 1 January 2021	263	6	10	279
Balance as at 31 December 2021	217	6	9	232

EUR million	Rights-of-use from land and buildings	Rights-of-use from vehicles	Rights-of-use from other operating and office equipment	Total
<b>Cost</b>				
<i>Balance as at 1 January 2020</i>	355	9	11	376
Additions	2	3	2	7
Disposals	- 24	- 1	- 0	- 25
<i>Balance as at 31 December 2020</i>	333	12	13	357
<b>Amortization and impairment losses/reversals of impairment losses</b>				
<i>Balance as at 1 January 2020</i>	- 32	- 3	- 1	- 37
Scheduled amortization	- 38	- 4	- 2	- 43
Disposals	1	1	0	2
<i>Balance as at 31 December 2020</i>	- 70	- 6	- 3	- 78
<b>Carrying amounts</b>				
Balance as at 1 January 2020	323	6	10	339
Balance as at 31 December 2020	263	6	10	279

Changes to the rights-of-use from investment property are shown in Note 48. They totaled EUR 27 million as at the reporting date (previous year: EUR 28 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	31/12/2021	31/12/2020
Up to 1 year	44	47
More than 1 year to 5 years	105	126
More than 5 years	141	174
<b>Total undiscounted future lease payments</b>	<b>290</b>	<b>347</b>
Up to 1 year	43	44
More than 1 year to 5 years	100	119
More than 5 years	137	163
<b>Carrying amount of lease liabilities</b>	<b>279</b>	<b>326</b>

The lease liabilities did not take into account potential future lease payments from existing leases in the amount of EUR 49 million (previous year: EUR 55 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 - 2 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 - 3 million (previous year: EUR - 2 million).

## 51. Income taxes

LBBW operates in several tax jurisdictions. The tax items shown in the financial statements are calculated taking into account the respective taxation laws and the relevant administrative interpretations. Due to their complexity, their interpretation by taxpayers may differ from that of the local tax authorities. As different interpretations of taxation laws as a result of company audits can lead to subsequent tax payments for past years, these are included in the analysis on the basis of the management's assessment.

Current income tax liabilities and assets are calculated at current tax rates and carried at the expected payment or refund amount.

Deferred income tax assets and liabilities are recognized in respect of temporary differences. Taxable and deductible temporary differences are calculated as the difference between the IFRS carrying amount of an asset or liability and its local tax base. The tax base is determined based on the tax regulations of the country in which the taxation occurs. Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset is realized or the liability is settled. The effect of tax rate changes on deferred taxes is recognized in the tax result during the period in which the changes were approved by legislative bodies.

Current and deferred income tax assets and liabilities are offset under the requirements of IAS 12.71 and IAS 12.74.

Deferred tax liabilities are carried for temporary differences that will result in a tax expense when settled. Deferred tax assets are recognized if tax relief is expected and likely to be utilized when temporary differences are reversed. Deferred tax assets on temporary differences in equity are recognized in total comprehensive income in the subitem Valuation reserve or Retained earnings, depending on the underlying situation.

A deferred tax asset is recognized for tax loss carryforwards and interest carryforwards if it is probable that the carryforward will be used in a future period by reference to budget accounts. The tax planning is derived from current corporate planning approved by the Board of Managing Directors, which regularly covers a planning period of five years. The tax planning takes into account historical insights into profitability and taxable income. Deferred tax assets arising from temporary differences and loss carryforwards are reviewed for impairment at each statement of financial position date.

### Income tax assets

EUR million	31/12/2021	31/12/2020
Current income tax assets	104	118
Domestic	80	107
Abroad	23	11
Deferred income tax assets	1,029	1,109
<b>Total</b>	<b>1,132</b>	<b>1,228</b>

Of the current income tax assets, EUR 104 million (previous year: EUR 118 million) is due within one year.

### Income tax liabilities

EUR million	31/12/2021	31/12/2020
Current income tax liabilities	346	49
of which provisions for income tax	344	44
of which income tax liabilities to tax authorities	2	5
Deferred income tax liabilities	24	24
<b>Total</b>	<b>370</b>	<b>73</b>

Of the current income tax liabilities, EUR 346 million (previous year: EUR 49 million) is due within one year.

## 52. Other assets and other liabilities

Other assets include assets which, considered separately, are not significant for the disclosure of statement of financial position assets and cannot be allocated to any other statement of financial position item. This also includes inventories, which shows activities related to the real estate business of LBBW Immobilien Management GmbH. These include mainly specific land and similar rights with finished and/or unfinished buildings as well as project finance earmarked for sale in the course of ordinary business activities.

In accordance with IAS 2.9, inventories are measured at the lower of costs of inventories and net realizable value. The costs of purchase and production are calculated in accordance with IAS 2.10 et seqq.; the net realizable value is calculated pursuant to IAS 2.28 et seqq. The purchase and production costs of inventories that cannot be exchanged and of goods and products or services created and separated for special projects is calculated through allocation of their individual cost of purchase or production. The acquisition costs include the directly allocable costs of acquisitions and provision, the production costs include all directly allocable costs plus production and material costs. The expected, individually realizable sales proceeds less estimated completion costs and additional costs incurred until the sale are recognized as the net realizable value. The results of these operating activities are recognized under the »Other operating income/expenses« item, which also includes the changes in value.

The capitalization of borrowing costs on the basis of IAS 23 is conditional upon the property being a qualifying asset. These interest costs are largely incurred in connection with commercial project development, which can be attributed to the acquisition of land or the construction of buildings during the production period. Individual interest rates of between 1.04% p.a. and 2.45% 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 statement of financial position liabilities and cannot be allocated to any other statement of financial position item.

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

### Other assets

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

EUR million	31/12/2021	31/12/2020
Inventories	500	802
Receivables from tax authorities	41	71
Other miscellaneous assets	2,161	2,006
<b>Total</b>	<b>2,703</b>	<b>2,878</b>

»Other assets« included assets amounting to EUR 389 million (previous year: EUR 336 million) with a remaining useful life of more than twelve months.

»Inventories« were broken down as follows:

EUR million	31/12/2021	31/12/2020
Land and land rights, with unfinished buildings	120	421
Work in progress and development measures	84	91
Land and land rights, without buildings	183	161
Other inventories	113	129
<b>Total</b>	<b>500</b>	<b>802</b>

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

The carrying amount of »Inventories« pledged as collateral for liabilities amounted to EUR 200 million (previous year: EUR 283 million).

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

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

## Other liabilities

EUR million	31/12/2021	31/12/2020
<b>Liabilities from</b>		
Other taxes	57	40
Employment	11	15
Trade payables	87	63
Non-controlling interests	16	3
Leasing	279	326
Advances received	56	198
Other miscellaneous liabilities	1,422	1,571
<b>Total</b>	<b>1,928</b>	<b>2,217</b>

Other liabilities with maturities of more than twelve months amounted to EUR 297 million (previous year: EUR 285 million) as at the reporting date.

For a detailed description of leasing business, see Note 50.

## 53. Provisions

EUR million	31/12/2021	31/12/2020
Provisions for pensions	1,268	1,667
Provisions for litigation and recourse risk	197	210
Provisions for lending business	247	277
Other personnel-related provisions	150	126
Other provisions	219	243
<b>Total</b>	<b>2,080</b>	<b>2,523</b>

As at the reporting date, »Provisions« of EUR 1,445 million (previous year: EUR 1,955 million) had a remaining term to maturity of over twelve months.

### Provisions for pensions and other post-employment benefits

#### General information

Provisions for pensions and similar obligations primarily consist of provisions for the obligation to pay company pensions, on the occurrence of biometric risks (old age, invalidity, death) based on pension commitments awarded. The nature and amount of the pension payable to employees and beneficiaries entitled to pension benefits are governed by the applicable pension rules (including total commitments or works or company agreements), which depend largely on the date that employment commenced.

A high number of pension arrangements at LBBW were recognized as defined benefit plans until 31 December 2021. These are closed for new policies. In addition, further entitlements or claims exist against LBBW's supplementary pension fund (Zusatzversorgungskasse – ZVK) and the benevolent fund (Unterstützungskasse LBBW e.V); both facilities are closed for new policies. All the aforementioned pension commitments are defined benefit plans within the meaning of IAS 19.

Furthermore there are pension benefits for employees from predecessor institutions which are recognized as defined contribution plans within the meaning of IAS 19, taken over and continued. These are also closed for new policies. To finance this, the relevant Group company contributes set amounts to external pension funds with individual participation by employees.



For most of LBBW's existing pension obligations, plan assets within the meaning of IAS 19 are created after benefit entitlements are transferred to a non-insurance-based pension fund under German law as a legally independent entity.

LBBW (Bank) made changes to payment options and interest for some of its service agreements relating to company pension schemes in the first half of the year. The plan amendment resulted in a non-recurring past service cost of EUR 14 million.

As part of this, measurement factors for payments of the pension credits were adjusted for other individual pension schemes. The amendment to be recognized through other comprehensive income increased pension obligations by EUR 15 million, while net actuarial profit/loss declined by EUR - 10 million after deferred taxes.

In September of the financial year, LBBW (Bank) allocated an initial EUR 66 million to a special fund as part of a new contractual trust arrangement (CTA), creating plan assets pursuant to IAS 19 that are offset with existing pension obligations. A retransfer of assets to the sponsoring undertaking is generally excluded.

At the end of the year, an LBBW subsidiary transferred most of its existing pension obligations to a non-insurance-based pension fund, creating plan assets within the meaning of IAS 19 of EUR 80 million.

This comprises a Basiskonto (retirement account financed by the employer) for employer contributions and an Aufbaukonto (retirement account to which contributions are made by the employee) for contributions from voluntary salary conversion by all employees. The contributions are paid into a contractual trust arrangement (CTA). The obligation vis-à-vis the employees is guided by the performance of the investment. As a minimum, the paid-in amounts are guaranteed (so-called guaranteed minimum performance). These are also defined benefit plans within the meaning of IAS 19.

Some current and former employees are also entitled to aid (medical support). This was entered as defined benefit plans and the corresponding provisions pursuant to IAS 19 were created for employees that are still entitled to aid after entering retirement.

There are no provisioning requirements for the deferred compensation option that is also offered, as this is entered as a defined benefit plan within the meaning of IAS 19.

#### *Commitments outside of Germany*

The employees of Landesbank Baden-Württemberg's London Branch were offered a direct final salary pension 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 statement of financial position***

According to the provisions of IAS 19, the total obligations for the defined benefit plans are calculated annually by an independent actuary. In this process, the present value of the defined benefit obligation is calculated at each reporting date using the projected unit credit method. This calculation takes into consideration not only the pensions and entitlements known at the statement of financial position date, but also the future expected rates of increase of pensionable salaries and pensions, the expected benefit cases (age, invalidity, death), the expected payment arrangements as well as fluctuation rates. In addition to the benefits trend, it is assumed in the measurement of the pension obligations that the active employees' benefit trend will be slightly higher than the average trend up to their 50th year, on account of career development. Earnings and pension trends are based on market inflation. The probabilities of death, invalidity and probabilities of marriage are found in the mortality tables compiled by Prof. Klaus Heubeck. The age used for the start of retirement is 64 years.

The present value of the pension obligations is based on a calculatory interest rate derived from the alternative Willis Towers Watson's RATE:Link methodology. The data basis for determining the interest rate is the AA- rated corporate bonds compiled in Bloomberg for the eurozone by at least half of the rating agencies. Using actuarial methods, a yield curve is derived from this data, and from this a calculatory interest rate of similar maturity to the obligations is established. The premises described above are reviewed annually and adjusted if necessary.

Deviations from the expected development of the pension obligations as well as changes to the calculation parameters (primarily employee turnover rate, salary increase, pension increase or discount rate) lead to so-called actuarial gains or losses. These are recognized directly in Retained earnings or Other comprehensive income in their full amount in the year they arise, resulting in corresponding changes in equity.

The amount to be recorded as an asset or liability is calculated from the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets (if any) at the balance sheet date. The past service cost arises due to changes in the defined benefit plan that impact on the pension entitlements accrued. Interest expense is the share of the increase in the present value of the defined benefit obligation, or the existing plan assets of the pension provisions, that arise because the benefits are closer to settlement. The staff costs equate to the present value of the annual increase in the pension entitlements accrued plus unrecognized past service costs.

The income expected from the plan assets is offset against the interest expense, so that only net interest expense is recognized. The calculatory interest rate is used for calculating net interest income. Service cost and net interest income are reported under Administrative expenses.

### *Risks and management*

In the case of defined benefit plans not transferred to the pension fund under German law, the relevant Group company is obligated to grant benefits pledged to former employees and their dependents. The associated risks are borne by the Group company in question. For the portion of defined benefit plans transferred to the pension fund under German law, beneficiaries are directly entitled to the pension fund. LBBW continues to bear subsidiary liability.

Material risks are statement of financial position, liquidity and investment risks. In accordance with IAS 19, statement of financial position risks arise especially in relation to the impact of pension obligations and pension plan assets on equity, as the difference between expected and actual pension obligations is recognized under »Other comprehensive income« and leads to changes in equity. The basis and amount of statement of financial position risk determine the aforementioned actuarial gains or losses. They can therefore provide relief or be a burden. The main factor in relation to statement of financial position risks are the calculatory interest rate, the yield of the plan assets, as well as the other economic and demographic measurement factors. A further risk after transferring the pension obligations is LBBW's additional funding contribution to the pension fund if the minimum actuarial reserve is not met.

The calculatory interest rate plays a key role in determining the scope of obligations, not least on account of its volatility. The 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 statement of financial position items. Actual salary and pension increases that are higher or lower than assumed are reflected accordingly in losses or gains. With the general contribution and limit systems, the performance of the entitlements and claims in the event of external providers, such as BVV or the statutory pension scheme, impact on the level of provision to be made by the Group company, which can have a relatively strong impact on the pension obligations, especially with lasting trend changes. Besides the economic risks stated, so-called biometric risks also exist. Since a large proportion of the pension obligations is attributable to lifelong benefit entitlements, the risk of longevity in particular must be stated. Deviations in the actual mortality rates observed from the mortality tables also result in gains or losses.

Sensitivity analyses were carried out for the material parameters. In addition to the calculatory interest rate, the most influential parameters examined were the impact of the salary, pension and career trend, as well as the staff turnover and probability of annuitization. The mortality, salary and pension trend impact on the obligations arising from the capital accounts (Basiskonto and Aufbaukonto) and the fluctuation have comparatively little impact, since pension entitlements for active employees do not grow dynamically with the salaries retroactively based on the number of years spent working at the company. This will gradually reduce the statement of financial position risk for the Group companies over time. This does not generally impact the obligations from the LBBW VorsorgeFonds Plus due to offsetting.

Meeting pension obligations entails the payment of pensions and therefore a capital outflow. 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 statement of financial position risk factors described above also affect the liquidity requirements. Plan assets that are produced from the pension payments are available for the obligations of LBBW's pension fund, benevolent fund and supplementary pension fund as well as the obligations of the LBBW VorsorgeFonds Plus. LBBW (Bank) also has plan assets as part of a contractual trust arrangement (CTA). There are no plan assets for additional pension obligations and so the benefit payments must be met from the assets of the Group companies. If sufficient cover is not available, the sponsoring undertakings are required to make additional contributions. The plan assets are subject to investment risk that is countered by careful asset management.

The mandatory protection against the insolvency of LBBW pension obligations applies to commitments given before the elimination of the guarantor's liability in 2005, via the pension insurance association. All pension commitments dating from before this date are insolvency-protected through the guarantor's liability and maintenance obligation.

### Quantitative detailed disclosures

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

EUR million	2021	2020
<b>Balance as at 1 January</b>	<b>4,072</b>	<b>3,967</b>
<b>Changes recognized in the income statement</b>	<b>100</b>	<b>106</b>
Interest expense/income	23	38
Current service cost including the release of pension liabilities	62	68
Past service cost	15	0
<b>Changes recognized in Other comprehensive income</b>	<b>- 7</b>	<b>113</b>
Actuarial gains(+)/losses(-) from changes to the demographic assumptions	39	34
Actuarial gains(+)/losses(-) from changes to the financial assumptions	- 88	109
Experience-based actuarial gains(+)/losses(-)	39	- 30
Changes in exchange rates	3	- 0
<b>Other changes</b>	<b>- 114</b>	<b>- 115</b>
Pension benefits paid	- 117	- 115
Business combinations/disposals	3	0
<b>Balance as at 31 December</b>	<b>4,050</b>	<b>4,072</b>

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
Present value of the pension obligations for active employers	1,585	1,594
Present value of the pension obligations for candidates	576	625
Present value of the pension obligations for retirees	1,889	1,853
<b>Total</b>	<b>4,050</b>	<b>4,072</b>

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
Present value of the accrued but non-vested pension obligations	317	1,467
Present value of the vested pension obligations	3,733	2,605
<b>Total</b>	<b>4,050</b>	<b>4,072</b>

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

EUR million	01/01 - 31/12/2021	01/01 - 31/12/2020
Present value of the pension obligations based on conditional benefits	3	4
Present value of the pension obligations based on future salary increases	334	204
Present value of the pension obligations based on other benefits	3,712	3,864
<b>Total</b>	<b>4,050</b>	<b>4,072</b>

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

in %	31/12/2021	31/12/2020
Fluctuation	4.00	4.00
Discount rate	1.13	0.56
Expected change in income	2.35	1.45
Expected change in pensions	2.20	1.30
Career dynamics	0.50	0.50
Retirement probability <sup>1</sup>	50.00/20.00	50.00

1 Different retirement probabilities are used for different types of obligations.

Life expectancy, marriage probability and disability were calculated using the current 2018G Heubeck mortality tables. Commencement of retirement is determined using the retirement age in accordance with actuarial assumptions.

The following overview shows the sensitivity of the pension obligation as at the statement of financial position date with regard to each isolated change to important assumptions. A change in the individual parameters of 0.5 percentage points would have had the following impact on the pension obligation at the end of the year under review, if all other assumptions remained constant:

31/12/2021 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
<b>Defined benefit pensions</b>		
Change in discount rate	- 315	359
Change in expected income development	98	- 87
Change in expected pension growth	96	- 86
Change in career dynamics	4	- 3
Change in fluctuation	- 1	1
Change in probability of annuitization	1	- 1

31/12/2020

EUR million

	Increase of 0.5 pp	Decrease of 0.5 pp
<b>Defined benefit pensions</b>		
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 probability of annuitization	2	- 2

A one-year increase in life expectancy would lead to a EUR 143 million (previous year: EUR 142 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	31/12/2021	31/12/2020
<b>Time deposits and other cash and cash equivalents</b>	<b>101</b>	<b>9</b>
Level I measurement	96	5
Level II measurement	5	4
<b>Securities</b>	<b>2,226</b>	<b>176</b>
<b>Securities – equity instruments</b>	<b>283</b>	<b>45</b>
<b>Equity instruments from financial institutions</b>	<b>27</b>	<b>33</b>
Level I measurement	27	33
<b>Equity instruments from other financial corporations</b>	<b>46</b>	<b>11</b>
Level I measurement	34	0
Level II measurement	12	11
<b>Equity instruments from other non-financial corporations</b>	<b>210</b>	<b>0</b>
Level I measurement	210	0
<b>Securities – debt instruments</b>	<b>1,944</b>	<b>131</b>
<b>Public sector debt instruments</b>	<b>334</b>	<b>0</b>
Level I measurement	318	0
Level II measurement	16	0
<b>Debt instruments from financial institutions</b>	<b>197</b>	<b>119</b>
Level I measurement	197	119
<b>Debt instruments from other financial corporations</b>	<b>561</b>	<b>12</b>
Level I measurement	546	0
Level II measurement	15	12
<b>Debt instruments from other non-financial corporations</b>	<b>851</b>	<b>0</b>
Level I measurement	851	0
<b>Real estate</b>	<b>1</b>	<b>1</b>
<b>Derivatives</b>	<b>212</b>	<b>0</b>
<b>Level I measurement</b>	<b>212</b>	<b>0</b>
Interest-related derivatives	212	0
<b>Investment funds</b>	<b>243</b>	<b>2,219</b>
Level I measurement	243	2,219
<b>Plan assets</b>	<b>2,783</b>	<b>2,405</b>

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	2021	2020
<b>Balance as at 1 January</b>	<b>2,405</b>	<b>197</b>
<b>Changes recognized in the income statement</b>	<b>14</b>	<b>2</b>
Interest income/expense	14	2
<b>Changes recognized in Other comprehensive income</b>	<b>264</b>	<b>- 2</b>
Income/expense from the plan assets (less the income included in net interest income)	262	- 1
Changes in exchange rates	2	- 2
<b>Other changes</b>	<b>100</b>	<b>2,208</b>
Employer contributions	155	2,224
Pension benefits paid	- 54	- 16
<b>Balance as at 31 December</b>	<b>2,783</b>	<b>2,405</b>

Estimated contributions to plan assets to be paid by LBBW for the coming financial year amount to approximately EUR 7 million (previous year: EUR 8 million).

The present value of defined benefit obligations and the fair value of plan assets can be reconciled with the assets and liabilities as reported in the statement of financial position as follows:

EUR million	31/12/2021	31/12/2020
Present value of defined benefit obligations	4,050	4,072
of which present value of defined benefit obligations from unfunded plans	458	3,577
of which present value of defined benefit obligations from wholly or partially funded plans	3,592	495
Fair value of plan assets	- 2,783	- 2,405
Obligations not covered by plan assets	1,267	1,667
<b>Total</b>	<b>1,267</b>	<b>1,667</b>
of which provisions for pensions	1,268	1,667
of which other assets from surplus of pension obligations	- 1	- 0

The weighted average maturity of the defined benefit obligation is 17.1 years (previous year: 16.8 years).

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

EUR million	31/12/2021	31/12/2020
<b>Maturity analysis</b>		
Up to 1 year	122	125
More than 1 year to 5 years	527	531
More than 5 years to 10 years	769	738
More than 10 years to 15 years	826	778
More than 15 years	3,251	2,796

## Other provisions

### General information

Provisions are recognized for uncertain obligations to third parties and anticipated losses from onerous contracts. The best estimate is the amount required to settle the present obligation at the statement of financial position date and which is most likely to occur.



The other personnel-related provisions include provisions for staff anniversaries, provisions for early retirement and partial retirement and performance-related remuneration. According to the provisions governing long service awards, an anniversary bonus is awarded to employees who have been with the Company for 10, 25, 40 and 50 years, the amount of which is guided by company or collective bargaining agreements. The corresponding anniversary provisions are calculated and set aside. Provisions are also created for concluded partial retirement agreements. The legally required capital preservation of accrued benefits in the case of partial retirement is covered by a two-sided trustee agreement. The appropriated assets held in the custodian accounts is mostly invested in the money market and offset against the corresponding provisions. LBBW offers its employees in the Bank and some subsidiaries a long-term account, the so-called LBBW FlexiWertkonto. It offers employees the opportunity to pay in part of their remuneration in the FlexiWertkonto, which they can use again in the form of time (withdrawal time). A two-sided trustee agreement was drawn up to secure these accrued retirement benefits as prescribed by law. Provisions are created for obligations arising from these accounts and offset against the accrued retirement benefits.

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

As a rule, the same risks apply to all other provisions as for the post-retirement obligations, albeit to a much lesser extent owing to the shorter obligation period.

#### *Quantitative detailed disclosures*

The following table shows changes in other provisions in the year under review:

EUR million	Other personnel-related provisions	Provisions for litigation and recourse risk	Other provisions	Total
<b>Balance as at 1 January 2021</b>	126	210	243	579
Additions	83	67	42	192
Reversals	- 4	- 37	- 6	- 47
Utilization	- 54	- 43	- 57	- 154
Discounting of non-current provisions	0	0	1	1
Compounding of non-current provisions	- 0	- 1	- 1	- 3
Other changes	- 1	0	- 3	- 4
<b>Balance as at 31 December 2021</b>	150	197	219	565

LBBW was faced with various legal proceedings, court actions and other potential legal risks (for example, resulting from Supreme Court rulings) arising in the ordinary course of business. Provisions were recognized for the risks involved in the management and the Group's legal advisors deem payments to be made by LBBW likely and the amounts involved can be estimated with sufficient reliability. There are other legal disputes where the Board of Managing Directors, after consultation with its legal advisors, holds the view that a payment by the Bank is unlikely (recognition as a contingent liability if necessary) or that the final settlement of these disputes does not affect the present consolidated financial statements in any material way.

In total, »Other provisions «with a term of over twelve months in the amount of EUR 299 million were discounted. Negative interest rates could also be used here. Average maturities for »Other provisions« range from one year to 12 years.

Allowances for losses on loans and securities for financial guarantees and off-balance-sheet transactions recognized in accordance with IFRS 9 are included in provisions for or lending business (for information on calculating allowances for losses on loans see Note 21).

The following table shows the development of provisions for or lending business:

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
<i>Balance as at 1 January 2021</i>	11	155	111	0	277
Changes	0	- 58	32	0	- 26
Transfer to Stage 1	7	- 7	0	0	0
Transfer to Stage 2	- 3	3	0	0	0
Transfer to Stage 3	- 0	- 5	5	0	0
Additions	6	16	77	0	99
Reversals	- 9	- 65	- 50	0	- 125
Additions	5	2	17	0	24
Disposals	- 1	- 8	- 19	0	- 29
Other changes	0	0	- 0	0	1
<i>Balance as at 31 December 2021</i>	15	92	141	0	247

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
<i>Balance as at 1 January 2020</i>	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
<i>Balance as at 31 December 2020</i>	11	155	111	0	277

#### 54. Equity

The share capital is the capital paid in by the owners of Landesbank Baden-Württemberg pursuant to Section 5 of the Landesbank Baden-Württemberg Act (Gesetz über die Landesbank Baden-Württemberg) in conjunction with Section 3 of the articles of association of Landesbank Baden-Württemberg. The following entities are holders of the share capital of LBBW:

- Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) with 40.53%,
- State of Baden-Württemberg (state) with 24.99%,
- State Capital of Stuttgart (city) with 18.93%,
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW) with 15.55%.

The capital reserve includes the amount in excess of the (theoretical) nominal value that is achieved when issuing units (offering premium).

In addition to transfers from the net consolidated profit/loss, retained earnings include the Group's share in the unappropriated profit/loss of the consolidated subsidiaries to the extent that these profits were generated since their affiliation to the Group. In addition, retained earnings include the effects of actuarial gains/losses and the associated deferred taxes in connection with the recognition of provisions for pensions. This item also includes realized gains and losses from its own credit rating (own credit spread) and the associated deferred taxes.

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

The »Additional equity components« item includes capital issued by LBBW from an AT1 bond recognized as equity<sup>1</sup> in accordance with IAS 32.16.

EUR million	31/12/2021	31/12/2020
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,211	1,238
Other comprehensive income	65	74
Net consolidated profit/loss	418	172
<b>Shareholders' equity</b>	<b>13,417</b>	<b>13,209</b>
Additional equity components	745	745
Equity attributable to non-controlling interests	35	33
<b>Total</b>	<b>14,197</b>	<b>13,987</b>

Retained earnings included cumulative actuarial gains/losses after tax of EUR – 1,114 million (previous year: EUR – 1,303 million). Profit and loss carryforwards from prior periods were also recognized under Retained earnings.

As part of profit appropriation for 2019 and 2020, EUR 358 million was distributed to the owners of LBBW (Bank) last year in line with the guidelines issued by the ECB.

<sup>1</sup> To be categorized as equity, the capital must be available indefinitely and coupon payments made at the full discretion of the issuer. The AT1 bond issued by LBBW meets these requirements.

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR 1 million (previous year: EUR 38 million) in connection with the measurement of LBBW's own credit rating was included in other comprehensive income. LBBW's own credit spread (OCS) also declined considerably compared to the end of 2020 as a result of narrowing spreads on capital markets for financials.

Equity includes taxes recognized in other comprehensive income of EUR 457 million (previous year: EUR 538 million).

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

## 55. 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 finance and operations, as well as divisional managers from Risk Control, Group Compliance, Finance Controlling, Treasury and Back Office and key Front Office areas. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in risk monitoring, risk methodology and risk strategy for the Group as a whole. The monthly overall risk report and other reports prepared on specific issues as required form the basis for this.

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

The Regulatory/Accounting Committee evaluates at an early stage the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes and takes the measures required. The committee comprises, among other areas, the board members with responsibility for capital markets business and asset management/international business, risk management and compliance and finance and operations, the head of information technology and divisional managers from the Legal division, Risk Control, Group Compliance, Finance, Finance Controlling, Group Auditing, Treasury and 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 as well as other plausible scenarios. Risks within the framework of the LBBW Group's risk-bearing capacity are described before possible measures to limit risks (so-called gross presentation).

See the risk report in the combined management report for details.

### Regulatory capital

LBBW Group's capital ratios are calculated according to the provisions of Article 92 CRR in conjunction with Article 11 CRR. Accordingly, the ratios to be fulfilled at all times are:

- Common equity Tier 1 capital ratio (basis: CET 1 capital) of 4.5%, plus relevant capital buffer
- Tier 1 ratio (basis: common equity Tier 1 capital and additional Tier 1 capital) of 6.0%
- Total capital ratio (basis: common equity Tier 1 and additional Tier 1 capital, as well as supplementary capital) of 8.0%

The ECB is conducting the Supervisory Review and Evaluation Process (SREP). Based on this process, the ECB determined that, beyond the minimum requirements under Article 92 CRR, LBBW is required to maintain a SREP premium of 1.75% in 2021. The practical expedient that states that AT1 and T2 capital can be used in some cases to meet this requirement still applies. Furthermore, a bank-specific countercyclical capital buffer must be held. This capital buffer can be imposed by countries in the European Economic Area and by third-party states for the major risk exposures in their country. In addition to this, the Bank has to meet the requirements of the Pillar II Capital Guidance (P2G) as additional capital guidance.

The ratios result from the relevant capital components in relation to the total exposure amount, expressed in percent. The total exposure amount is calculated as the risk weighted exposure amounts for the credit and dilution risk, the counterparty risk from the trading book business, market price risk (position, foreign currency and commodity position risks), the risks of credit valuation adjustments for OTC derivatives and operational risk. These ratios required by the supervisory authorities were maintained at all times during the 2021 financial year.

The own funds derive from the sum of Tier 1 and Tier 2 capital.

Tier 1 capital consists of common equity Tier 1 capital and additional Tier 1 capital, whereby the common equity Tier 1 capital comprises the paid-in capital, associated premiums (capital reserves), retained earnings and cumulative »Other comprehensive income«.

The additional Tier 1 capital comprises the AT 1 bond issued in 2019 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. Securitization exposures that were previously allocated to risk weighted assets at the alternative risk weighting of 1250% and non-performing risk exposures not offset by corresponding allowances for losses on loans and securities were added as additional deductible items in 2021.

As part of market-smoothing operations, supplementary capital components securitized in securities may be repurchased within the applicable limits. Some directly or indirectly held supplementary capital instruments that have been repurchased must be deducted from the supplementary capital. The fixed ceiling was complied with at all times in 2021.

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 2021:

EUR million	31/12/2021	31/12/2020
<b>Own funds</b>	<b>18,090</b>	<b>18,732</b>
Tier 1 capital	13,456	13,632
of which common equity Tier 1 capital (CET 1)	12,473	12,406
of which additional Tier 1 capital (AT 1)	983	1,226
Supplementary capital (Tier 2)	4,634	5,100
Total amount at risk	84,416	82,042
Total capital ratio (in %)	21.4	22.8
Tier 1 capital ratio (in %)	15.9	16.6
Common equity Tier 1 (CET 1) capital ratio (in %)	14.8	15.1

EUR million	31/12/2021	31/12/2020
<b>Tier 1 capital</b>	<b>13,456</b>	<b>13,632</b>
Paid-in capital instruments	3,484	3,485
Premium	8,240	8,240
Additional Tier 1 capital (AT 1)	983	1,226
Retained profits, cumulative result and other reserves	1,363	1,144
Deductibles from CET 1 capital in accordance with CRR, taking into account transitional provisions	- 614	- 462

### Explanation of the changes in 2021 versus 2020

The common equity Tier I (CET 1) of the LBBW Group increased marginally as against the previous year. This is a result chiefly of actuarial gains and revaluation reserves for securities. Offsetting this, there was a rise in various deductions. New deductions were also to be taken into account for securitization exposures and non-performing loans. Unlike in the previous year, this year LBBW did not include year-end gains for the 2021 financial year in advance.

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 the premature redemption of a bond of EUR 500 million as well as maturities and the amortization of Tier 2 capital components. Other factors included the development of USD, AUD and SGD exchange rates and the effects of first-time adoption per IFRS 9 to be deducted from supplementary capital as. 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.

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 and new transactions. The upturn in the total exposure amount for position, foreign exchange and commodity risk is the result mainly of new transactions and rating changes for exchange-traded debt instruments.

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«.

## 56. Off-balance-sheet transactions and other obligations

### Contingent liabilities

EUR million	31/12/2021	31/12/2020
Sureties and guarantee agreements	8,214	7,232
Other contingent liabilities	195	151
<b>Total</b>	<b>8,409</b>	<b>7,383</b>

Contingent liabilities are dominated by sureties and guarantee agreements.

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

This does not include financial guarantees.

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

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

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



The following liability relationships exist in addition to the contingent liabilities shown in the above table:

- Pursuant to Section 5 (10) of the bylaws of the German Deposit Protection Fund, LBBW undertook to indemnify Bundesverband Deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as a result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.
- For letters of comfort issued please see the list of shareholdings (Note 58).
- 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 institution, provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions: the former Landesbank Schleswig-Holstein Girozentrale, Kiel. In deviation from previous years, LBBW's guarantor's external liability is no longer listed for the time it was a guarantor of the former LRP Landesbank Rheinland-Pfalz, Mainz, as LBBW is already liable as the legal successor of the former LRP Landesbank Rheinland-Pfalz, Mainz, for the liabilities of LRP Landesbank Rheinland-Pfalz, Mainz, that arose by 18 July 2001.

#### Other obligations

EUR million	31/12/2021	31/12/2020
Irrevocable loan commitments	36,137	32,677
<b>Total</b>	<b>36,137</b>	<b>32,677</b>

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

#### Further transactions not included in the statement of financial position and other financial obligations

EUR million	31/12/2021	31/12/2020
Payment obligations and joint liability	802	894
Obligations from investment projects started	104	203
Revocable loan commitments	23,304	22,946
Miscellaneous	154	39
<b>Total</b>	<b>24,365</b>	<b>24,082</b>

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 697 million (previous year: EUR 805 million). In addition to the items shown in the table, obligations of EUR 233 million (previous year: EUR 213 million) arise each year from rental and lease agreements.

## Contingent claims

EUR million	31/12/2021	31/12/2020
Legal disputes	7	7
<b>Total</b>	<b>7</b>	<b>7</b>

## Fiduciary transactions

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

EUR million	31/12/2021	31/12/2020
Loans and advances to banks	944	755
Loans and advances to customers	59	174
Financial investments	2	1
Other assets	23	32
<b>Total trust assets<sup>1</sup></b>	<b>1,027</b>	<b>962</b>
Deposits from banks	1,025	960
Deposits from customers	2	1
Other liabilities	1	0
<b>Total trust liabilities<sup>1</sup></b>	<b>1,027</b>	<b>962</b>

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

## 57. Related party disclosures

Related party transactions are concluded by LBBW in the ordinary course of business.

These include the shareholders of LBBW (see Note 54), 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 60.

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:

31/12/2021 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non- consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	495	4	1	94	1	823
Financial assets measured at fair value through other comprehensive income	699	0	16	171	0	0
Financial assets designated at fair value	22	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,567	0	3	115	0	352
<b>Total assets</b>	<b>2,783</b>	<b>4</b>	<b>20</b>	<b>380</b>	<b>1</b>	<b>1,175</b>
Financial liabilities measured at amortized cost	616	12	55	84	8	12,962
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	29	0	153
Provisions	0	0	0	0	3	0
<b>Total equity and liabilities</b>	<b>616</b>	<b>12</b>	<b>55</b>	<b>113</b>	<b>11</b>	<b>13,115</b>
<b>Off-balance-sheet transactions</b>	<b>327</b>	<b>1</b>	<b>10</b>	<b>72</b>	<b>3</b>	<b>1,219</b>

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
<b>Total assets</b>	<b>3,852</b>	<b>4</b>	<b>30</b>	<b>363</b>	<b>4</b>	<b>1,456</b>
Financial liabilities measured at amortized cost	579	10	44	120	10	11,908
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	53	0	146
Provisions	0	0	0	0	3	0
<b>Total equity and liabilities</b>	<b>580</b>	<b>10</b>	<b>44</b>	<b>174</b>	<b>13</b>	<b>12,054</b>
<b>Off-balance-sheet transactions</b>	<b>383</b>	<b>1</b>	<b>9</b>	<b>90</b>	<b>3</b>	<b>1,080</b>

Related party transactions resulted in material effects in net interest income of EUR 301 million (previous year: EUR 231 million).

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

## 58. List of shareholdings and information on subsidiaries, associates and joint ventures

The share of the associates and joint ventures in the aggregate assets and liabilities, as well as revenues and profits/losses for the period are presented in Note 9.

These consolidated financial statements apply the exemption pursuant to Section 264 (3) HGB and Section 264b HGB for the annual financial statements as at 31 December 2021 of the following fully consolidated companies,. Compared to the previous year, the exemption resolutions for the publication of a subsidiary sub-Group have been newly adopted.

- Berlin Lützowstraße GmbH & Co. KG, Stuttgart
- Dritte Industriehof Objekt-GmbH, Stuttgart
- Eberhardstraße Stuttgart GmbH & Co. KG, Stuttgart
- Employrion Immobilien GmbH & Co. KG, Weil
- Entwicklungsgesellschaft Grunewaldstraße 61-62 mbH & Co. KG, Stuttgart
- Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG, Stuttgart
- Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG, Weil
- Erste Industriehof Objekt-GmbH, Stuttgart
- EuroCityCenterWest GmbH & Co. KG, Stuttgart
- FOM / LEG Generalübernehmer GmbH & Co. KG, Stuttgart
- Fünfte Industriehof Objekt-GmbH, Stuttgart
- Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG, Berlin
- IMBW Capital & Consulting GmbH, Stuttgart
- KI Campus 1 GmbH & Co. KG, Stuttgart
- KI Campus 2 GmbH & Co. KG, Stuttgart
- LEG Projektgesellschaft 2 GmbH & Co. KG, Stuttgart
- LBBW Immobilien Asset Management GmbH, Stuttgart
- LBBW Immobilien Capital Fischertor GmbH & Co. KG, Munich
- LBBW Immobilien Development GmbH, Stuttgart
- LBBW Immobilien Holding GmbH, Stuttgart
- LBBW Immobilien Management Gewerbe GmbH, Stuttgart
- LBBW Immobilien Süd GmbH & Co. KG, Munich
- LBBW Service GmbH, Stuttgart
- Mainz Marina A + B GmbH & Co. KG, Stuttgart
- Nymphenburger Straße München GmbH & Co. KG, Stuttgart
- Pasing Projekt GmbH & Co. KG, Stuttgart
- Schlossgartenbau Objekt-GmbH, Stuttgart
- Turtle Vermögensverwaltungs-GmbH & Co. KG, Frankfurt am Main
- Turtle Portfolio GmbH & Co. KG, Frankfurt am Main
- Ungererstraße München GmbH & Co. KG, Stuttgart
- Vierte Industriehof Objekt-GmbH, Stuttgart
- Zweite Industriehof Objekt-GmbH, Stuttgart

The following overview shows the full list of shareholdings of LBBW in accordance with Section 313 (2) HGB in the consolidated financial statements and Section 285 (11) HGB in the annual financial statements of Landesbank Baden-Württemberg including the statements pursuant to Section 285 (11a) HGB as at the reporting date. The list of shareholdings shows the companies for which a letter of comfort has been issued.

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
<b>I. Companies included in the consolidated financial statements</b>							
<b>1. Subsidiaries</b>							
<b>a. Fully-consolidated subsidiaries (authority over the voting rights)</b>							
1	ALVG Anlagenvermietung GmbH <sup>1, 6, 7, 32</sup>	Stuttgart	100.00		EUR	19,000.00	0.00
2	Austria Beteiligungsgesellschaft mbH <sup>32</sup>	Stuttgart	66.67		EUR	35,596.92	- 561.24
3	Berlin Lützowstraße GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	60.00		EUR	- 4,671.86	1,716.43
4	Centro Alemán de Industria y Comercio de México S.de R.L.de C.V. <sup>2, 32</sup>	Mexico City, Mexico	100.00		MXN	- 9,058.94	7.43
5	Dritte Industriehof Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	701.91	0.00
6	Eberhardstraße Stuttgart GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 3,681.99	- 78.21
7	Employrion Komplementär GmbH <sup>10, 32</sup>	Weil	100.00		EUR	34.32	0.92
8	Entwicklungsgesellschaft Grunewaldstraße 61 - 62 mbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 3,415.44	- 37.99
9	Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 2,202.34	8.45
10	Erste IMBW Capital & Consulting Komplementär GmbH <sup>1, 32</sup>	Weil	100.00		EUR	28.88	0.90
11	Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG <sup>1, 32</sup>	Weil	100.00		EUR	- 34.14	0.00
12	Erste Industriehof Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	474.96	0.00
13	EuroCityCenterWest GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	4,685.96	2,270.22
14	EuroCityCenterWest Verwaltungs-GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	34.45	- 0.55
15	FLANTIR PROPERTIES LIMITED i.L. <sup>1, 31</sup>	Nicosia, Cyprus	100.00		RUB	6,647.75	16,269.62
16	FOM / LEG Generalübernehmer GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 7,877.53	- 688.83
17	Fünfte Industriehof Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	575.02	0.00
18	German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft <sup>5, 32</sup>	Stuttgart	100.00		EUR	7,720.60	0.00
19	German Centre for Industry and Trade Pte. Ltd. <sup>1, 32</sup>	Singapore, Singapore	100.00		SGD	20,852.68	2,424.63
20	IMBW Capital & Consulting GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	250.00	0.00
21	Immobilienvermittlung BW GmbH <sup>32</sup>	Stuttgart	100.00		EUR	3,868.48	1,162.15
22	Industriehof-Aktiengesellschaft <sup>1, 6, 32</sup>	Stuttgart	93.63		EUR	23,281.64	0.00
23	KI Campus 1 GmbH & Co. KG <sup>1</sup>	Stuttgart	100.00		n/s	n/s	n/s
24	KI Campus 2 GmbH & Co. KG <sup>1</sup>	Stuttgart	100.00		n/s	n/s	n/s
25	Kiesel Finance Management GmbH <sup>1, 32</sup>	Baienfurt	90.00		EUR	46.34	2.10
26	Kommunalbau Rheinland-Pfalz GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	2,034.54	39.57

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
27	Landesbank Baden-Württemberg Capital Markets Plc i.L. <sup>30</sup>	London, Great Britain	100.00		EUR	896.00	- 31.00
28	LBBW Asset Management Investmentgesellschaft mbH <sup>3, 7, 32</sup>	Stuttgart	100.00		EUR	37,874.76	18,094.76
29	LBBW Corporate Real Estate Management GmbH <sup>32</sup>	Stuttgart	100.00		EUR	3,431.12	818.69
30	LBBW Immobilien Asset Management GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	1,305.03	0.00
31	LBBW Immobilien Capital Fischertor GmbH & Co. KG <sup>1, 32</sup>	Munich	93.98	94.00	EUR	- 5,215.79	- 6.39
32	LBBW Immobilien Capital GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 2,175.98	23.51
33	LBBW Immobilien Development GmbH <sup>1, 4, 6, 32</sup>	Stuttgart	94.90		EUR	15,394.95	0.00
34	LBBW Immobilien Development Komplementär GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 737.27	- 5.62
35	LBBW Immobilien Investment Management GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	2.83	16.70
36	LBBW Immobilien Kommunalentwicklung GmbH <sup>1, 4, 6, 7, 32</sup>	Stuttgart	81.62		EUR	2,016.51	0.00
37	LBBW Immobilien Management Gewerbe GmbH <sup>1, 6, 32</sup>	Stuttgart	94.90		EUR	3,303.97	0.00
38	LBBW Immobilien Management GmbH <sup>1, 6, 7, 32</sup>	Stuttgart	100.00		EUR	375,715.71	0.00
39	LBBW Immobilien Romania S.R.L. <sup>1, 30</sup>	Bucharest, Romania	100.00		RON	- 33,894.35	- 833.24
40	LBBW Immobilien Süd GmbH & Co. KG <sup>1, 32</sup>	Munich	100.00		EUR	- 33,600.51	346.34
41	LBBW Immobilien-Holding GmbH <sup>5, 32</sup>	Stuttgart	100.00		EUR	402,050.54	0.00
42	LBBW Leasing GmbH i.L. <sup>32</sup>	Mannheim	100.00		EUR	24,983.17	- 21.26
43	LBBW México <sup>2, 32</sup>	Mexico City, Mexico	100.00		USD	4,982.77	2,422.79
44	LBBW Service GmbH <sup>5, 32</sup>	Stuttgart	100.00		EUR	224.67	0.00
45	LBBW US Real Estate Investment LLC <sup>35</sup>	Wilmington, USA	100.00		USD	52,130.86	3,941.23
46	LBBW Venture Capital Gesellschaft mit beschränkter Haftung <sup>32</sup>	Stuttgart	100.00		EUR	50,561.84	1,616.50
47	LEG Projektgesellschaft 2 GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	1,852.71	- 2,873.76
48	LEG Verwaltungsgesellschaft 2 mbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	26.79	- 0.42
49	LIAM Horizont Stuttgart GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	30.41	- 1.02
50	LOOP GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	198.08	5.34
51	Löwentor Stuttgart Komplementär GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	28.78	0.60
52	Löwentor Stuttgart Projekt GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	70.00		EUR	8,289.67	- 386.93
53	LRP Capital GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	3,328.58	- 80.05
54	Lyoner Quartier GmbH & Co. KG <sup>1, 32</sup>	Frankfurt am Main	100.00		EUR	- 123.25	6,683.55
55	Mainz Marina A + B GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	0.79	- 0.21

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
56	MMV Bank GmbH <sup>7, 32</sup>	Koblenz	100.00		EUR	53,205.76	12,007.44
57	MMV Leasing Gesellschaft mit beschränkter Haftung <sup>1, 6, 7, 32</sup>	Koblenz	100.00		EUR	21,000.00	0.00
58	MMV Versicherungsdienst GmbH <sup>1, 6, 32</sup>	Koblenz	100.00		EUR	27.05	0.00
59	MMV-Möbilen Verwaltungs- und Vermietungsgesellschaft mbH <sup>1, 6, 7, 32</sup>	Koblenz	100.00		EUR	26.00	0.00
60	Nymphenburger Straße München GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	448.46	245.53
61	Nymphenburger Straße München Komplementär GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	19.08	- 1.25
62	Pasing Projekt GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 2,696.95	2,696.27
63	Projekt 20 Verwaltungs GmbH <sup>1, 32</sup>	Munich	100.00		EUR	44.18	1.17
64	Projektgesellschaft SMK 69 mbH <sup>1, 32</sup>	Eschborn	60.00		EUR	- 563.44	- 500.14
65	Revaler Straße Grundbesitz GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 869.85	- 551.95
66	Schlossgartenbau Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	18,560.61	0.00
67	Schlossgartenbau-Aktiengesellschaft <sup>1, 6, 32</sup>	Stuttgart	92.68		EUR	6,592.42	0.00
68	SG Management GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	13,018.23	- 717.20
69	Signaris GmbH <sup>1, 32</sup>	Stuttgart	94.90		EUR	3,629.08	- 3,523.73
70	SLN Maschinen-Leasing Verwaltungs-GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	1,588.01	454.34
71	SLP Möbilen-Leasing Verwaltungs GmbH <sup>1, 32</sup>	Mannheim	100.00		EUR	346.69	61.02
72	Süd Beteiligungen GmbH <sup>32</sup>	Stuttgart	100.00		EUR	137,446.08	- 837.54
73	Süd KB Sachsen GmbH <sup>1, 32</sup>	Leipzig	100.00		EUR	9,825.79	1,781.60
74	Süd KB Unternehmensbeteiligungsgesellschaft mbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	44,723.95	- 2,191.76
75	Süd-Kapitalbeteiligungs-Gesellschaft mbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	61,181.87	0.00
76	SüdFactoring GmbH <sup>3, 5, 7, 32</sup>	Stuttgart	100.00		EUR	70,000.00	0.00
77	SüdLeasing Agrar GmbH <sup>1, 7, 32</sup>	Mannheim	100.00		EUR	3,311.57	632.79
78	SüdLeasing GmbH <sup>5, 7, 32</sup>	Stuttgart	100.00		EUR	33,642.29	- 357.27
79	targens GmbH <sup>32</sup>	Stuttgart	100.00		EUR	6,735.60	3,399.66
80	Turtle 1. Verwaltungs-GmbH <sup>1, 32</sup>	Frankfurt am Main	100.00		EUR	- 27.75	- 29.53
81	Turtle Portfolio GmbH & Co. KG <sup>1, 32</sup>	Frankfurt am Main	100.00		EUR	- 24,259.24	- 229.67
82	Turtle Vermögensverwaltungs-GmbH & Co. KG <sup>1, 32</sup>	Frankfurt am Main	100.00		EUR	- 20,166.25	538.61
83	Ungererstraße München GmbH & Co. KG <sup>1, 32</sup>	Stuttgart	100.00		EUR	- 103.89	- 104.89
84	Vierte Industriehof Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	1,176.78	0.00
85	zob Esslingen Grundbesitz GmbH <sup>1, 4, 32</sup>	Stuttgart	100.00		EUR	1,717.73	440.78
86	Zweite IMBW Capital & Consulting Komplementär GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	24.34	1.13
87	Zweite Industriehof Objekt-GmbH <sup>1, 6, 32</sup>	Stuttgart	100.00		EUR	19,825.72	0.00
88	Zweite LBBW US Real Estate GmbH <sup>32</sup>	Leipzig	100.00		EUR	54,595.77	- 15,218.77

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
<b>b. Fully consolidated subsidiaries (authority over contractual agreements)</b>							
89	Employrion Immobilien GmbH & Co. KG <sup>1, 32</sup>	Weil	35.00	50.00	EUR	8.00	0.00
90	Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG <sup>1, 30</sup>	Berlin	39.94	50.00	EUR	- 8,755.33	0.00
91	Weinberg Capital Designated Activity Company <sup>10, 32</sup>	Dublin, Ireland			EUR	50.00	- 20.00
92	Weinberg Funding Ltd. <sup>10, 32</sup>	St. Helier, Jersey, United Kingdom			EUR	3.55	- 0.05
<b>2. Joint ventures accounted for using the equity method</b>							
93	ARGE ParkQuartier Berg <sup>1, 30</sup>	Stuttgart	50.00		EUR	403.63	- 10.26
94	Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) <sup>1, 32</sup>	Bad Kreuznach	50.00		EUR	941.48	- 181.26
95	GIZS GmbH & Co. KG <sup>32</sup>	Frankfurt am Main	33.33		EUR	15,947.17	- 3,094.65
96	OVG MK6 Komplementär GmbH <sup>1, 32</sup>	Berlin	50.00		EUR	109.82	- 4.66
97	Parcul Banatului SRL <sup>1, 32</sup>	Bucharest, Romania	50.00		RON	60.65	- 134.18
<b>3. Associates accounted for using the equity method</b>							
98	Altstadt-Palais Immobilien GmbH & Co. KG <sup>1, 32</sup>	Weil	40.00	50.00	EUR	- 61.23	- 4.05
99	BWK GmbH Unternehmensbeteiligungsgesellschaft <sup>32</sup>	Stuttgart	40.00		EUR	222,418.73	- 8,107.15
100	BWK Holding GmbH Unternehmensbeteiligungsgesellschaft <sup>32</sup>	Stuttgart	40.00		EUR	12,264.12	847.63
101	EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG <sup>1, 32</sup>	Heidelberg	33.33		EUR	6,359.63	- 555.99
102	Hypo Vorarlberg Bank AG <sup>1, 7, 32</sup>	Bregenz, Austria	23.13		EUR	1,155,908.37	36,389.51



No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
<b>II. Companies not included in the consolidated financial statements due to being of minor influence</b>							
<b>1. Subsidiaries</b>							
<b>a. Subsidiaries not included (authority over the voting rights)</b>							
103	Berlin Lützowstraße Komplementär GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	14.86	0.86
104	DEBTVISION GmbH <sup>1, 32</sup>	Stuttgart	80.00		EUR	1,927.16	- 2,058.50
105	German Centre for Industry and Trade Beijing Co., Ltd. <sup>32</sup>	Beijing, China	100.00		CNY	7,057.39	1,424.46
106	Heurika Mobilien-Leasing GmbH <sup>1, 4, 32</sup>	Mannheim	100.00		EUR	251.36	6.98
107	Karin Mobilien-Leasing GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	884.31	0.00
108	KB Projekt GmbH <sup>1, 32</sup>	Frankfurt am Main	100.00		EUR	50.20	- 0.83
109	Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH <sup>10, 30</sup>	Berlin	100.00		EUR	30.25	1.78
110	Laurus Grundstücksverwaltungsgesellschaft mbH i.L. <sup>32</sup>	Stuttgart	100.00		EUR	1,302.30	33.46
111	LBBW (Schweiz) AG <sup>32</sup>	Zurich, Switzerland	100.00		CHF	8,452.90	- 340.21
112	LBBW Gastro Event GmbH <sup>5, 32</sup>	Stuttgart	100.00		EUR	130.00	0.00
113	LBBW Pensionsmanagement GmbH <sup>5, 32</sup>	Stuttgart	100.00		EUR	25.00	0.00
114	LBBW REPRESENTAÇÃO LTDA. <sup>2, 32</sup>	Sao Paulo, Brazil	100.00		BRL	162.93	28.26
115	LEG Osiris 4 GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	25.41	- 1.68
116	LGZ-Anlagen-Gesellschaft mit beschränkter Haftung i.L. <sup>32</sup>	Mainz	100.00		EUR	2,843.66	- 14.95
117	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG i.L. <sup>32</sup>	Erfurt	99.77	24.00	EUR	1,153.32	4,563.18
118	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG i.L. <sup>32</sup>	Dusseldorf	100.00	15.00	EUR	3,241.20	6,661.90
119	LLC German Centre for Industry and Trade <sup>32</sup>	Moscow, Russia	100.00		RUB	1,967.17	- 47.49
120	MLP Verwaltungs GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	106.31	0.00
121	MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung <sup>1, 6, 30</sup>	Koblenz	100.00		EUR	26.43	0.00
122	Pollux Vierte Beteiligungsgesellschaft mbH <sup>32</sup>	Stuttgart	100.00		EUR	2,435.06	162.78
123	SL Bayern Verwaltungs GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	65.00	0.00
124	SL Bremen Verwaltungs GmbH <sup>1, 32</sup>	Mannheim	100.00		EUR	1,102.04	182.34
125	SL BW Verwaltungs GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	39.64	0.00
126	SL Düsseldorf Verwaltungs GmbH <sup>1, 32</sup>	Mannheim	100.00		EUR	598.14	- 3.24
127	SL Operating Services GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	80.41	0.00
128	SL RheinMainSaar Verwaltungs GmbH <sup>1, 32</sup>	Mannheim	100.00		EUR	56.82	- 0.71
129	SL Schleswig-Holstein Verwaltungs GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	91.56	0.00

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
130	SL Ventus GmbH & Co. KG i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	465.99	- 4.16
131	Städtische Pfandleihe Stuttgart GmbH <sup>32</sup>	Stuttgart	100.00		EUR	3,751.17	172.38
132	Süd Mobilien-Leasing GmbH i.L. <sup>1, 32</sup>	Stuttgart	100.00		EUR	28.28	0.00
133	Süd Verwaltung Schweiz GmbH i.L. <sup>32</sup>	Zurich, Switzerland	100.00		CHF	123.55	22.44
134	SüdLeasing Finance GmbH <sup>1, 32</sup>	Stuttgart	100.00		EUR	23.26	- 1.04
135	SüdLeasing Finance-Holding GmbH i.L. <sup>1, 32</sup>	Stuttgart	100.00		EUR	174.58	0.00
136	targens Suisse SA <sup>1</sup>	Schwanden, Switzerland	100.00		n/s	n/s	n/s
137	Yankee Properties II LLC <sup>10</sup>	Wilmington, USA		100.00	n/s	n/s	n/s
138	Yankee Properties LLC <sup>26</sup>	New York, USA	100.00		USD	575.12	- 23.35
139	Zenon Mobilien-Leasing GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	36.61	0.00
140	Zorilla Mobilien-Leasing GmbH i.L. <sup>1, 32</sup>	Mannheim	100.00		EUR	33.79	0.00
141	Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH <sup>1, 32</sup>	Munich	100.00		EUR	45.38	1.52
<b>b. Subsidiaries not included (authority over contractual agreements)</b>							
142	Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A i.L. <sup>21</sup>	Luxembourg, Luxembourg	100.00		EUR	5,897.89	- 248.71
143	LBBW AM-Start <sup>10, 22</sup>	Stuttgart			EUR	60,256.20	3,256.15
144	LBBW Gesund Leben <sup>10, 16</sup>	Stuttgart			EUR	21,120.18	721.86
145	LBBW High Yield 2027 <sup>10, 20</sup>	Stuttgart			EUR	48,045.80	420.18
146	SPKED Smart Balance <sup>10</sup>	Stuttgart			n/s	n/s	n/s
147	Weinberg Capital LLC <sup>10</sup>	Wilmington, USA			n/s	n/s	n/s
<b>2. Joint ventures not accounted for using the equity method</b>							
148	German Centre for Industry and Trade India Holding-GmbH i.L. <sup>1, 32</sup>	Munich	50.00		EUR	30.07	- 12.91
149	GIZS Verwaltungs-GmbH <sup>32</sup>	Frankfurt am Main	33.33		EUR	40.42	6.44
150	Projektgesellschaft Hangweide GbR <sup>1, 10</sup>	Stuttgart		33.33	n/s	n/s	n/s
151	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG <sup>1, 32</sup>	Tübingen	75.02		EUR	3,661.76	- 29.68

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
<b>3. Associates not accounted for using the equity method</b>							
152	AGVS Holding GmbH <sup>1, 32</sup>	Villingen-Schwenningen	45.00		EUR	21,185.67	247.95
153	Deharde GmbH <sup>1, 32</sup>	Varel	39.47		EUR	2,885.91	593.82
154	EURAMCO Immobilien GmbH <sup>1, 32</sup>	Aschheim-Dornach	49.00		EUR	6.61	- 7.16
155	FABMATICS Holding GmbH <sup>1, 32</sup>	Dresden	50.00		EUR	8,463.86	1,346.97
156	Fischer Panda GmbH <sup>1, 32</sup>	Paderborn	49.00		EUR	9,915.26	3,116.63
157	Grundstücks- Vermögens- und Verwaltungs-GbR Stuttgart/Leinfelden-Echterdingen <sup>1, 30</sup>	Stuttgart	29.09		EUR	779.06	- 27.71
158	Grundstücks-, Vermögens- und Verwaltungs-GbR Wolfstor 2, Esslingen i.L. <sup>1, 32</sup>	Stuttgart	30.99		EUR	114.97	- 2.22
159	Grundstücks-, Vermögens- und Verwaltungs-GbR Ludwigsburg »Am Schloßpark« i.L. <sup>1, 32</sup>	Stuttgart	44.64		EUR	143.75	- 59.83
160	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart/Fellbach i.L. <sup>1, 32</sup>	Stuttgart	42.63		EUR	160.97	5.10
161	Janoschka AG <sup>1, 32</sup>	Kippenheim	39.80		EUR	18,925.14	559.59
162	Kiesel Finance GmbH & Co. KG <sup>1, 10, 32</sup>	Baienfurt		75.00	EUR	625.01	1,120.32
163	KKL Holding GmbH <sup>1, 32</sup>	Dusseldorf	48.27	47.20	EUR	20,073.33	2,606.34
164	Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	20.00		EUR	1,022.58	0.00
165	Mittelständische Beteiligungsgesellschaft Sachsen mbH <sup>32</sup>	Dresden	25.27		EUR	49,446.04	276.99
166	MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG i.L. <sup>32</sup>	Dusseldorf	94.00	49.00	EUR	2,017.28	3,245.78
167	Siedlungswerk GmbH Wohnungs- und Städtebau <sup>7, 32</sup>	Stuttgart	25.00	25.00	EUR	268,438.42	15,571.74
168	SL Mobilen-Leasing GmbH & Co. ENERCON KG <sup>1, 10, 32</sup>	Mannheim		80.00	EUR	18,125.37	647.03
169	SLN Maschinen Leasing GmbH & Co. OHG <sup>1, 10, 32</sup>	Stuttgart		75.00	EUR	- 4,295.72	- 1,135.50
170	SLP Mobilen-Leasing GmbH & Co. OHG <sup>1, 10, 32</sup>	Mannheim		75.00	EUR	616.88	81.90
171	Xavin GmbH <sup>1, 32</sup>	Stuttgart	29.94		EUR	- 144.02	- 329.57
<b>III. Equity investments within the meaning of Section 271 (1) HGB<sup>9</sup></b>							
172	»PORT MENIER« GmbH & Co. KG i.L. <sup>1, 34</sup>	Bramstedt	0.15		EUR	68.86	- 60.36
173	1701 JFK Boulevard Philadelphia L.P. i.L. <sup>1, 24</sup>	Wilmington, USA	0.03		USD	97,659.03	2,205.05
174	3YOURMIND GmbH <sup>1, 30</sup>	Berlin	4.73		EUR	349.95	- 3,579.66
175	5Analytics GmbH i.L. <sup>1, 28</sup>	Köngen	0.75		EUR	77.20	- 629.99
176	ABE Clearing S.A.S. à capital variable <sup>32</sup>	Paris, France	2.08		EUR	36,533.00	5,354.00
177	Abingworth Bioventures III L. P. <sup>1, 32</sup>	London, Great Britain	0.44		USD	1,297.90	20.20

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
178	Achte Real Estate Poolgesellschaft mbH & Co. Wohnungs-KG i.L. <sup>1, 32</sup>	Berlin	0.46		EUR	9,604.51	2,638.56
179	Acousia Therapeutics GmbH <sup>1, 32</sup>	Tübingen	12.35		EUR	1,884.93	- 3,056.05
180	ActiTrex GmbH <sup>1, 32</sup>	Mainz	19.41		EUR	- 188.43	- 230.93
181	ADLATUS Robotics GmbH <sup>1, 32</sup>	Ulm	0.74		EUR	- 1,042.67	- 1,338.73
182	African Export-Import Bank <sup>31</sup>	Cairo, Egypt	0.04		USD	2,978,562.46	311,115.53
183	AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung <sup>32</sup>	Frankfurt am Main	3.29		EUR	261,565.10	8,372.00
184	ALPHA CEE II L.P. <sup>1, 32</sup>	Grand Cayman, Cayman Islands	2.41		EUR	57,140.00	13,706.00
185	amcure GmbH <sup>1, 30</sup>	Eggenstein-Leopoldshafen	18.26		EUR	- 503.85	- 2,138.11
186	Bain Capital VIII L. P. <sup>1, 32</sup>	Grand Cayman, Cayman Islands	0.26		USD	6,364.19	- 223.24
187	Biametrics GmbH i.L. <sup>1, 27</sup>	Tübingen	17.47		EUR	- 508.59	- 1,218.76
188	Bürgschaftsbank Sachsen GmbH <sup>32</sup>	Dresden	27.96	18.44	EUR	44,259.93	174.50
189	CCP Systems AG i.L. <sup>1, 25</sup>	Stuttgart	0.96		EUR	9,182.77	- 10,654.37
190	CME Group Inc. <sup>33</sup>	Wilmington, USA	0.00		USD	23,311,659.59	1,863,411.18
191	Code Intelligence GmbH <sup>1, 32</sup>	Bonn	15.11		EUR	1,810.29	- 640.37
192	Computomics GmbH <sup>1, 32</sup>	Tübingen	0.92		EUR	- 1,507.31	- 219.19
193	CorTec GmbH <sup>1, 32</sup>	Freiburg	5.95		EUR	4,571.10	- 4,830.86
194	crealytics GmbH <sup>1, 32</sup>	Passau	9.86		EUR	8,113.04	- 738.14
195	CVC European Equity Partners IV (A). L. P. <sup>1, 32</sup>	Grand Cayman, Cayman Islands	0.29		EUR	5,853.10	- 10,400.66
196	Depository Trust & Clearing Corporation <sup>33</sup>	New York, USA	0.00	0.02	USD	2,378,229.83	187,559.27
197	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung <sup>7, 32</sup>	Stuttgart	8.11		EUR	211,904.74	8,185.67
198	Doughty Hanson & Co. IV Partnership 2 <sup>1, 32</sup>	London, Great Britain	4.04		EUR	14,796.30	- 1,102.59
199	Dritte SHS Technologiefonds GmbH & Co. KG i.L. <sup>1, 32</sup>	Tübingen	4.94		EUR	25,836.13	1,434.97
200	Erste IFD geschlossener Immobilienfonds für Deutschland GmbH & Co. KG i.L. <sup>1, 32</sup>	Hamburg	0.18		EUR	1,550.77	- 111.31
201	EXCIVA GmbH <sup>1, 32</sup>	Heidelberg	15.81		EUR	94.15	- 663.20
202	FL FINANZ-LEASING GmbH <sup>32</sup>	Wiesbaden	17.00		EUR	- 496.12	212.97
203	Fludicon GmbH i.L. <sup>1, 25</sup>	Darmstadt	7.88		EUR	516.90	- 2,184.41

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
204	GbR VÖB-ImmobilienAnalyse <sup>13</sup>	Bonn	25.00	20.00	n/s	n/s	n/s
205	GLB GmbH & Co. OHG <sup>12,32</sup>	Frankfurt am Main	30.05		EUR	2,776.79	- 61.40
206	GLB-Verwaltungs-GmbH <sup>12,32</sup>	Frankfurt am Main	30.00		EUR	59.63	1.98
207	Grundstücks- Vermögens- und Verwaltungs-GbR Leonberg/ Ditzingen i.L. <sup>1,30</sup>	Stuttgart	0.37		EUR	1,467.64	- 0.65
208	Grundstücks-, Vermögens- und Verwaltungs-GbR Esslingen-Stuttgart i.L. <sup>1,32</sup>	Stuttgart	13.57		EUR	166.16	- 2.14
209	Grundstücks-, Vermögens- und Verwaltungs-GbR Sillenbacher Markt i.L. <sup>1,32</sup>	Stuttgart	0.02		EUR	848.03	144.92
210	Grundstücks-, Vermögens- und Verwaltungs-GbR Stuttgart-Mitte II i.L. 1, 30	Stuttgart	0.13		EUR	484.60	- 0.27
211	Grundstücks-Vermögens- und Verwaltungs-GbR, Leinfelden-Echterdingen/Stuttgart-Möhringen i.L. <sup>1,32</sup>	Stuttgart	0.11		EUR	352.55	- 20.94
212	HANSA TREUHAND Dritter Beteiligungsfonds GmbH & Co. KG i.L. <sup>1,30</sup>	Hamburg	0.03		EUR	702.16	- 137.54
213	HANSA TREUHAND Zweiter Beteiligungsfonds GmbH & Co. KG i.L. <sup>1,15</sup>	Hamburg	0.16		EUR	- 1,784.66	- 528.00
214	Heidelberg Innovation BioScience Venture II GmbH & Co. KG i.L. <sup>1,32</sup>	Heidelberg	3.83		EUR	1,751.34	2,611.76
215	Humboldt Multi Invest B S.C.A., SICAV-FIS i.L. <sup>1,11,21</sup>	Luxembourg, Luxembourg	99.93		EUR	6,928.35	- 165.43
216	Icon Brickell LLC <sup>1</sup>	Miami, USA	13.35		n/s	n/s	n/s
217	Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	4.76		EUR	153.39	0.00
218	Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	15.28		EUR	1,299.87	0.00
219	Kreditgarantiegemeinschaft des Gartenbaues Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	4.50		EUR	138.31	0.00
220	Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	9.14		EUR	1,021.91	0.00
221	Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH <sup>32</sup>	Stuttgart	9.76		EUR	1,001.05	0.00
222	Kunststiftung Baden-Württemberg gGmbH <sup>32</sup>	Stuttgart	2.00	0.61	EUR	10,569.89	137.41
223	Maehler & Kaege AG i. I. <sup>1,23</sup>	Ingelheim	7.50	9.26	EUR	- 2,041.59	67.06
224	Marco Polo Network Operations (Ireland) Limited <sup>1,32</sup>	Cork, Ireland	1.69		USD	- 17,118.57	- 21,895.99
225	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung <sup>32</sup>	Stuttgart	9.94	8.33	EUR	83,351.77	2,055.84
226	MFP Munich Film Partners New Century GmbH & Co. HAM Productions KG i.L. <sup>1,32</sup>	Grünwald	0.50		EUR	4,385.60	605.56
227	NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Villingen-Schwenningen KG i.L. <sup>8,32</sup>	Dusseldorf	5.00	6.00	EUR	0.00	- 2.17
228	Paramount Group Operating Partnership LP <sup>1</sup>	Wilmington, USA	2.71		n/s	n/s	n/s
229	PARAMOUNT GROUP, INC. <sup>1,33</sup>	Lutherville, USA	0.50	0.55	USD	3,994,810.69	- 21,854.21

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
230	Phenex Pharmaceuticals AG <sup>1, 32</sup>	Heidelberg	8.90		EUR	- 22,841.41	- 11,792.66
231	Poldergesellschaft Neumühlen-Westkai mbH <sup>1, 30</sup>	Hamburg	16.67		EUR	145.76	0.00
232	Reha-Klinik Aukammtal GmbH & Co Betriebs-KG i.L. <sup>1</sup>	Wiesbaden	5.54		n/s	n/s	n/s
233	RSU Rating Service Unit GmbH & Co. KG <sup>32</sup>	Munich	18.80		EUR	9,693.14	632.38
234	RWSO-Grundstücksgesellschaft TBS der Württembergischen Sparkassenorganisation <sup>32</sup>	Stuttgart	10.00	8.48	EUR	5,023.82	369.99
235	S CountryDesk GmbH <sup>32</sup>	Cologne	2.50		EUR	704.30	140.14
236	Schiffahrts-Gesellschaft »HS ALCINA« mbH & Co. KG i.L. <sup>1, 19</sup>	Hamburg	0.04		EUR	351.16	- 3,497.00
237	Schiffahrts-Gesellschaft »HS MEDEA« mbH & Co. KG i.L. <sup>1, 29</sup>	Hamburg	0.16		EUR	648.43	- 9.50
238	Schiffahrts-Gesellschaft »HS MOZART« mbH & Co. KG i.L. <sup>1, 26</sup>	Hamburg	0.23		EUR	- 7,619.62	n/s
239	Schiffahrts-Gesellschaft »HS OCEANO« mbH & Co. KG i.L. <sup>1, 14</sup>	Hamburg	0.04		EUR	- 4,701.27	n/s
240	Schiffahrts-Gesellschaft »HS ONORE« mbH & Co. KG i.L. <sup>1, 26</sup>	Hamburg	0.04		EUR	16,149.92	- 2,643.64
241	SE.M.LABS GmbH i.L. <sup>1, 27</sup>	Stuttgart	0.75		EUR	- 474.89	- 331.64
242	SI-BW Beteiligungsgesellschaft mbH & Co. KG <sup>32</sup>	Stuttgart	4.00	3.96	EUR	43,751.31	1,204.61
243	stimOS GmbH <sup>1, 32</sup>	Constance	1.05		EUR	- 977.36	- 521.08
244	Synapticon GmbH <sup>1, 32</sup>	Schönaich	0.49		EUR	1,794.45	- 4,125.28
245	tado GmbH <sup>1, 32</sup>	Munich	1.21		EUR	1,386.73	- 10,627.06
246	Technologiegründerfonds Sachsen Plus GmbH & Co. KG <sup>1, 32</sup>	Leipzig	7.12	7.12	EUR	26,392.20	- 1,851.85
247	Technologiegründerfonds Sachsen Seed GmbH & Co. KG <sup>1, 32</sup>	Leipzig	3.34		EUR	4,635.21	- 214.16
248	Technologiegründerfonds Sachsen Start up GmbH & Co. KG <sup>1, 32</sup>	Leipzig	11.16		EUR	7,012.55	- 659.05
249	Teralytics AG <sup>1, 32</sup>	Zurich, Switzerland	7.47		CHF	913.59	- 7,459.96
250	tocario GmbH i.L. <sup>1, 17</sup>	Stuttgart	0.77		EUR	- 677.02	- 381.16
251	VCM Golding Mezzanine GmbH & Co. KG <sup>1, 32</sup>	Munich	3.89		EUR	3,025.66	57.74
252	Visa Inc. <sup>18</sup>	San Francisco, USA	0.00		USD	33,252,830.86	10,890,835.10
253	VRP Venture Capital Rheinland-Pfalz GmbH & Co. KG i.L. <sup>1, 32</sup>	Mainz	16.65		EUR	918.86	3,694.69

No.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
254	VRP Venture Capital Rheinland-Pfalz Nr. 2 GmbH & Co. KG i.L. <sup>1, 32</sup>	Mainz	16.65		EUR	666.40	5,117.83
255	Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG <sup>1, 32</sup>	Leipzig	13.68	13.72	EUR	15,191.16	15,359.48
256	Wirtschaftsförderung Region Stuttgart GmbH <sup>1, 32</sup>	Stuttgart	16.06		EUR	2,968.76	- 3,332.79
257	Zweifundfünfzigste IFH geschlossener Immobilienfonds für Holland GmbH & Co. KG i.L. <sup>1, 24</sup>	Hamburg	1.05		EUR	25,654.00	- 14,921.34

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 Is a structured entity in accordance with IFRS 12 at the same time.

9 Financial instruments pursuant to IFRS.

10 No shareholdings within the meaning of section 285 no. 11 HGB.

11 Classification as equity investment, as the company is in liquidation and no longer makes any relevant decisions.

12 Classification as equity investment, as no relevant decisions are made any longer and liquidation is expected.

13 Classification as equity investment, as the company does not generate any commercial activities.

14 The information is based on the last available annual financial statements as at 04/04/2018.

15 The information is based on the last available annual financial statements as at 25/07/2017.

16 The information is based on the last available annual financial statements as at 30/06/2021.

17 The information is based on the last available annual financial statements as at 30/09/2019. Liquidation closing balance sheet.

18 The information is based on the last available annual financial statements as at 30/09/2021. Consolidated financial statements.

19 The information is based on the last available annual financial statements as at 30/11/2018.

20 The information is based on the last available annual financial statements as at 31/03/2021.

21 The information is based on the last available annual financial statements as at 31/07/2014.

22 The information is based on the last available annual financial statements as at 31/10/2020.

23 The information is based on the last available annual financial statements as at 31/12/2004.

24 The information is based on the last available annual financial statements as at 31/12/2012.

25 The information is based on the last available annual financial statements as at 31/12/2014.

26 The information is based on the last available annual financial statements as at 31/12/2015.

27 The information is based on the last available annual financial statements as at 31/12/2017.

28 The information is based on the last available annual financial statements as at 31/12/2018.

29 The information is based on the last available annual financial statements as at 31/12/2018. Short financial year from 01/12/2018 to 31/12/2018.

30 The information is based on the last available annual financial statements as at 31/12/2019.

31 The information is based on the last available annual financial statements as at 31/12/2020 in accordance with IFRS.

32 The information is based on the last available annual financial statements as at 31/12/2020.

33 The information is based on the last available annual financial statements as at 31/12/2020. Consolidated financial statements.

34 The information is based on the last available annual financial statements as at 31/12/2020. Liquidation closing balance sheet.

35 The information is based on the last available annual financial statements as at 31/12/2021 in accordance with IFRS.

## 59. Employees

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

	2021			2020		
	Male	Female	Total	Male	Female	Total
Full-time	4,569	2,486	7,055	4,645	2,589	7,234
Part-time	329	2,572	2,901	305	2,588	2,893
Trainees <sup>1</sup>	140	152	293	195	128	323
<b>Total</b>	<b>5,038</b>	<b>5,210</b>	<b>10,248</b>	<b>5,144</b>	<b>5,305</b>	<b>10,449</b>

1 Including students at universities of cooperative education.

## 60. Executive and supervisory bodies and positions held

### Members of the executive and supervisory bodies

#### Board of Managing Directors

##### Chairman

RAINER NESKE  
Central Divisions

##### Members

ANASTASIOS AGATHAGELIDIS  
Risk Management and  
Compliance

ANDREAS GÖTZ  
Private and Business  
Customers/Savings Banks  
(since 1 January 2022)

KARL MANFRED LOCHNER  
Corporate Customers

STEFANIE MÜNZ  
Finance and Operations

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

THORSTEN SCHÖNENBERGER  
Real Estate and Project Finance



## Supervisory Board

### Chairman

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

BERNHARD ILG  
(since 27 September 2021)  
Lord Mayor (retired)

CHRISTIAN ROGG  
Employee Representative of  
Landesbank Baden-Württemberg

### Deputy Chairman

DR. DANYAL BAYAZ  
(member since 17 August 2021,  
Deputy Chairman since  
1 September 2021)  
Minister of Finance of the  
State of Baden-Württemberg

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

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

BETTINA KIES-HARTMANN  
Employee Representative of  
Landesbank Baden-Württemberg

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

EDITH SITZMANN  
(until 12 May 2021)  
Minister (retired)

FRITZ KUHN  
(until 6 January 2021)  
Lord Mayor (retired)

### Members

SABINE LEHMANN  
Employee Representative of  
Landesbank Baden-Württemberg

WIEBKE SOMMER  
Employee Representative of  
Landesbank Baden-Württemberg

JÖRG ARMBORST  
Employee Representative of  
Landesbank Baden-Württemberg

DR. FRANK NOPPER  
(since 16 March 2021)  
Lord Mayor of the  
state capital of Stuttgart

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

JENS BAUMGARTEN  
Employee Representative of  
Landesbank Baden-Württemberg

DR. FRITZ OESTERLE  
Attorney at law

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

WOLFGANG DIETZ  
Lord Mayor of the town of  
Weil am Rhein

MARTIN PETERS  
Managing Partner of the  
Eberspächer group of companies

HELMUT HIMMELSBACH  
(until 21 May 2021)  
Lord Mayor (retired)

PROF. WOLFGANG  
REINHART MDL  
(until 30 September 2021)  
Attorney at law

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

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

NORBERT ZIPF  
Employee Representative of  
Landesbank Baden-Württemberg

## Remuneration of and defined benefit pension commitments to members of the committees

EUR million	Board of Managing Directors		Supervisory Board	
	2021	2020	2021	2020
<b>Remuneration</b>				
Salaries, remuneration and short-term benefits <sup>1</sup>	6.5	6.5	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations) <sup>2</sup>	8.3	12.1	0.0	0.0
<b>Remuneration for former members and their dependents</b>				
Salaries, remuneration and short-term benefits	13.9	12.7	0.0	0.0
Post-employment benefits (total obligations from defined benefit obligations) <sup>2</sup>	178.1	175.6	0.0	0.0

1 Including attendance allowance.

2 Provisions for pensions including assistance provisions.

As at 31 December 2021, loans granted to and contingent liabilities assumed in favor of members of the Board of Managing Directors and members of the Supervisory Board came to EUR 4 million (previous year: EUR 4 million) of which EUR 3 million (previous year: EUR 3 million) were accounted for by members of the Board of Managing Directors and EUR 1 million (previous year: EUR 1 million) by members of the Supervisory Board.

The loans were extended with an interest rate of between 1.23% and 9.65% and have a remaining term extending from a few months to 18 years. The banking transaction were concluded with all of the cited persons at arm's length terms and collateral requirements.

As in the previous year, no advances were made in the 2021 financial year.

## Positions held

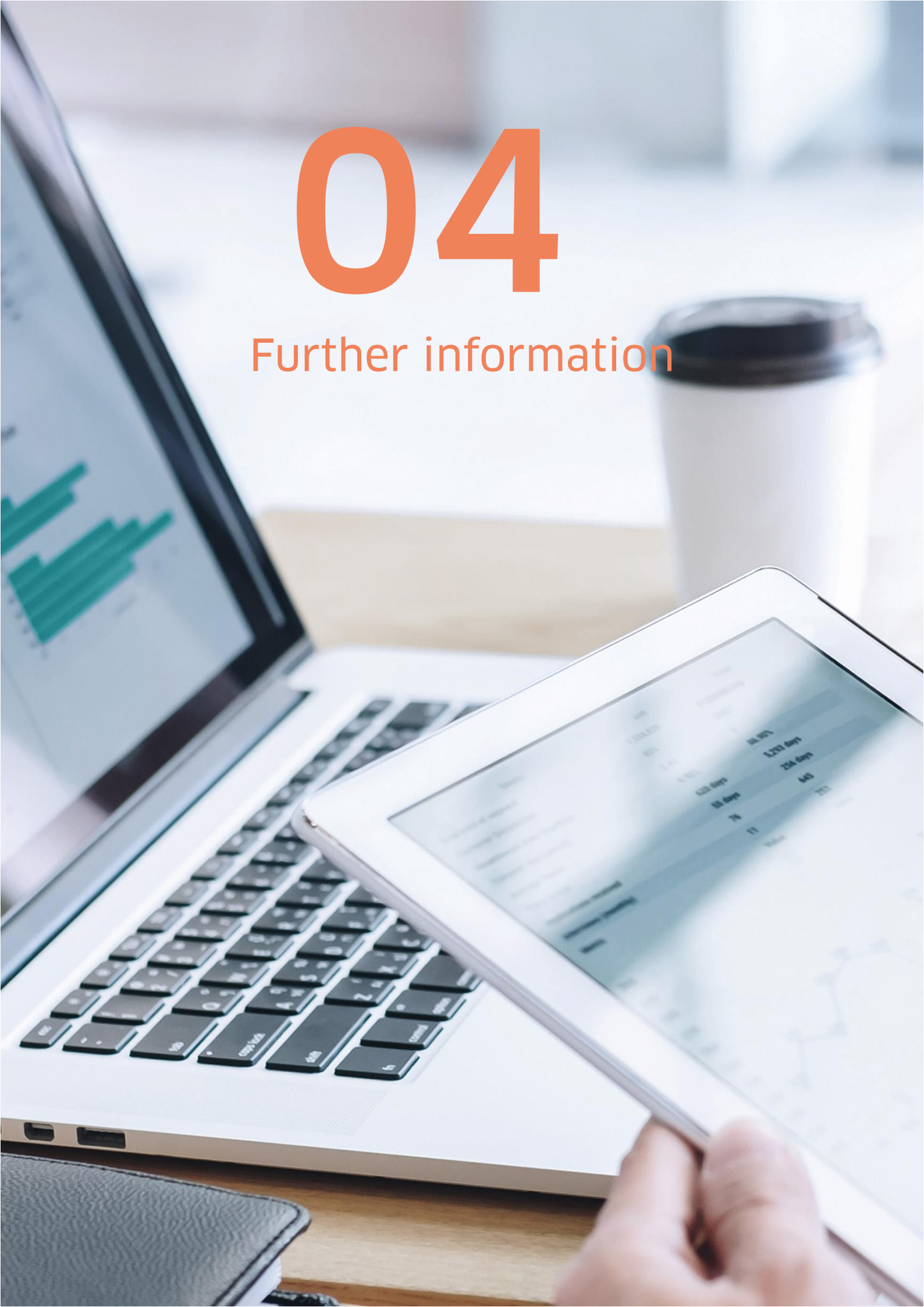
Offices held by legal representatives of LBBW and members of the AidA<sup>1</sup> Board of Managing Directors on statutory supervisory boards and similar supervisory bodies of large companies and banks, as well as offices held by employees of LBBW on statutory supervisory boards of large companies and banks are listed below:

Company	Position	Incumbent
AVAG Holding SE, Augsburg	Supervisory Board	Karl Manfred Lochner from 16/04/2021
Deutscher Sparkassenverlag GmbH, Stuttgart	Supervisory Board	Andreas Götz
Eurex Clearing Aktiengesellschaft, Frankfurt am Main	Supervisory Board	Dr. Thilo Roßberg
EUWAX AG, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken Deputy Chairman of the Supervisory Board from 17/06/2021
KIC InnoEnergy SE, Eindhoven	Supervisory Board	Axel Weisheit
Kreditanstalt für Wiederaufbau, Frankfurt am Main	Board of Supervisory Directors	Rainer Neske from 06/01/2021
Landeskreditbank Baden-Württemberg – Förderbank –, Karlsruhe	Administrative Board	Claudia Diem from 09/03/2021
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken
	Supervisory Board	Cara Friederike Schulze
LBBW Immobilien Management GmbH, Stuttgart	Chairman of the Supervisory Board	Thorsten Schönenberger
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis from 01/01/2021
	Supervisory Board	Jürgen Dosenbach
	Supervisory Board	Claudia da Silva Oliveira
	Supervisory Board	Sabine Koster
Mainzer Stadtwerke AG, Mainz	Supervisory Board	Hannsgeorg Schöning
MMV Bank GmbH, Koblenz	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis ab 01.01.2021 Mitglied; seit 24.02.2021 Deputy Chairman of the Supervisory Board
	Supervisory Board	Peter Hähner
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board	Karl Manfred Lochner
	Deputy Chairman of the Advisory Board	Anastasios Agathagelidis member from 01/01/2021; Deputy Chairman of the Advisory Board since 24/02/2021
	Advisory Board	Peter Hähner
Siedlungswerk GmbH Wohnungs- und Städtebau, Stuttgart	Deputy Chairman of the Supervisory Board	Thorsten Schönenberger
	Supervisory Board	Andreas Götz
	Supervisory Board	Thomas Christian Schulz
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis ab 01.01.2021 Mitglied; seit 25.02.2021 Deputy Chairman of the Supervisory Board
	Supervisory Board	Norwin Graf Leutrum von Ertingen
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Anastasios Agathagelidis ab 01.01.2021 Mitglied; seit 25.02.2021 Deputy Chairman of the Supervisory Board
	Supervisory Board	Norwin Graf Leutrum von Ertingen
VPV Lebensversicherungs-Aktiengesellschaft, Stuttgart	Supervisory Board	Claudia Diem
Württembergische Versicherung Aktiengesellschaft, Stuttgart	Supervisory Board	Claudia Diem

<sup>1</sup> 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, 1 March 2022

The Board of Managing Directors

RAINER NESKE

Chairman

ANASTASIOS AGATHAGELIDIS

ANDREAS GÖTZ

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

# Independent auditor's report

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

## Report on the audit of the consolidated financial statements and of the combined management report

### Audit Opinions

We have audited the consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, and its subsidiaries (the Group) which comprise the statement of financial position as at 31 December 2021, and the income statement and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from 1 January to 31 December 2021, 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 2021. In accordance with the German legal requirements, we have not audited the content of the combined non-financial statement contained in the »Combined non-financial statement« section of the combined management report.

### In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) 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 2021 and of its financial performance for the financial year from 1 January to 31 December 2021, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the combined non-financial statement contained in the »Combined non-financial statement« section of the combined management report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.



## Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as »EU Audit Regulation«) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the »Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report« section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

## Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. 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

*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 33.3 billion), »Financial assets designated at fair value« (EUR 1.4 billion), »Financial assets mandatorily measured at fair value through profit or loss« (EUR 37.0 billion), »Financial liabilities designated at fair value« (EUR 4.9 billion) and »Financial liabilities mandatorily measured at fair value through profit or loss« (EUR 23.7 billion), no market prices are observable on the main market determined by Landesbank Baden-Württemberg. If prices quoted in active markets are not available, measurement methods, prices for similar assets or liabilities on active markets, prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for measurement models are based on inputs observable on the markets, if available.

In the case of model-based measurements, there are increased risks from valuation uncertainties (e.g. due to the use of inappropriate measurement models or inappropriate characteristics of input factors) and from larger acceptable ranges of the judgments and assumptions needed in

measuring these trading transactions and loans. For this reason, we identified the determination of fair values using measurement models to be a key audit matter.

For information on accounting and measurement of trading transactions and loans, refer to the notes to the consolidated financial statements in section 22 »Determining fair value«, section 42 »Fair value and carrying amounts 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 models. For this purpose, we assessed the appropriateness and effectiveness of the internal controls relevant for measuring these trading transactions and loans, especially by satisfying ourselves of the appropriateness and effectiveness of the audit-relevant controls relating to the Independent Price Verification (IPV) and the model validation. Calling in our internal valuation specialists, who are part of the audit team, we assessed the suitability of the used measurement models in compliance with the requirements of IFRS 13 for products selected according to risk-based criteria.

As at the reporting date, on a sample basis, our internal valuation specialists performed an additional separate, independent remeasurement and/or plausibility check of the trading transactions and loans categorized into level 2 and level 3 of the IFRS 13 measurement hierarchy and recognized at fair value and compared them with the measurement carried out by Landesbank Baden-Württemberg.

## 2. Determination of allowances for credit losses

- a) As at 31 December 2021, 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 166.3 billion, corresponding to 59% of total assets. Of these loans and advances, existing allowances for credit losses totaling EUR 1,320.4 million have already been deducted. The allowances for credit losses contain both stage 3 specific valuation allowances of EUR 517.2 million and stage 1 and stage 2 valuation allowances calculated on a parameter basis of EUR 803.2 million. There are also contingent liabilities and other obligations of EUR 44.4 billion as well as revocable loan commitments of EUR 23.3 billion for which credit business-related provisions of EUR 247.1 million have been set up. In 2021, the allowances for credit losses (including credit business-related provisions) include net additions to loss allowance adjustments totaling EUR 155.0 million.

For impaired financial instruments (stage 3), potential allowances for credit losses are calculated using the method stipulated by the Bank from the difference of the current carrying amount of the loan or advance and the expected future incoming payments derived from at least two scenarios which are discounted on the basis of the original effective interest rate of the loan or advance. For assets that are not significant, the estimate for the allowances for credit losses is the same as for stage 2 allowances for credit losses based on parameters. Relevant provisions may need to be set up for 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 life-time 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 loss allowance adjustments in allowances for credit losses and in credit business-related provisions in order to take appropriate account of its expectations in relation to the economic development.

The lending business is a core business activity at Landesbank Baden-Württemberg. For both the individual and the model-based measurement of loans and advances and the calculation of the probable settlement amount of provisions, there is an increased risk that the level of potentially necessary allowances for credit losses is not appropriate. Judgments of the executive directors of the Bank are made, for example, with regard to modeling the measurement models, to the estimates of assumptions and input factors such as expected future incoming payments and with regard to the valuation of collateral or of expected defaults. As the recoverability of financial assets measured at amortized cost and, correspondingly, the appropriate calculation of allowances for credit losses is subject to uncertainty, this matter was particularly important in our audit.

The statements on the determination of allowances for credit losses are contained in the notes to the consolidated financial statements in section 21 »Allowances for losses on loans and securities«.

- b) In the context of our risk-based audit approach, we audited both the relevant internal control system and also performed substantive audit procedures based on our risk assessment. The tests of design and implementation and of operating effectiveness covered the processes of identifying indications of an impairment (risk early recognition – monitoring, intensified support, restructuring or liquidation), of assessing customer credit ratings, of measuring collateral and of determining impairments based on cash flows (calculation of stage 3 specific value adjustment). In addition, we implemented a test of design and implementation and of operating effectiveness of the processes for calculating the allowances for credit losses for stage 1 and stage 2 financial instruments and the allowances for credit losses for stage 3 financial instruments calculated on a parameter basis.

On the basis of risk-based perspectives and representatively selected samples, we also examined and assessed the appropriate identification of indications of an impairment and the measurement of loans and advances that needed to be tested for impairment according to an evaluation of Landesbank Baden-Württemberg, including the appropriateness of the estimated values. For measuring loans and advances, we inspected the underlying assumptions, particularly the amount and time of the expected future payments, including the returns from existing collateral and the discounting of the payments in the respective scenarios, including the scenario weighting.

We called in 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 loss allowance 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 loss allowance adjustments established and the appropriateness of the amount of allowances on the basis of evidence.

In addition, we checked the disclosures in the notes to the consolidated financial statements for completeness and accuracy.

## Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises

- the report of the supervisory board,
- the combined non-financial statement pursuant to Sections 289b to 289e in conjunction with 315b and 315c HGB contained in the »Combined non-financial statement« section of the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. Otherwise, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

## Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud 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 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 for the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

## Other legal and regulatory requirements

### *Report on the Audit of the Electronic Reproductions of the Consolidated Financial Statements and of the Combined Management Report Prepared for Publication Pursuant to Section 317 (3a) HGB*

#### **Audit Opinion**

We have performed an audit in accordance with Section 317 (3a) HGB to obtain reasonable assurance whether the electronic reproductions of the consolidated financial statements and of the combined management report (hereinafter referred to as »ESEF documents«) prepared for publication, contained in the provided file, which has the SHA-256 value 5AF83CD38F54CB60AA8949D29DD4F26C1A38611B28373C1C4F8C4D4237111329, meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB (»ESEF format«). In accordance with the German legal requirements, this audit only covers the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format, and therefore covers neither the information contained in these electronic reproductions nor any other information contained in the file identified above.

In our opinion, the electronic reproductions of the consolidated financial statements and of the combined management report prepared for publication contained in the provided file identified above meet, in all material respects, the requirements for the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 January to 31 December 2021 contained in the »Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report« above, we do not express any assurance opinion on the information contained within these electronic reproductions or on any other information contained in the file identified above.

#### **Basis for the Audit Opinion**

We conducted our audit of the electronic reproductions of the consolidated financial statements and of the combined management report contained in the provided file identified above in accordance with Section 317 (3a) HGB and on the basis of the IDW Auditing Standard: Audit of the Electronic Reproductions of Financial Statements and Management Reports Prepared for Publication Purposes Pursuant to Section 317 (3a) HGB (IDW AuS 410 (10.2021)). Our responsibilities in this context are further described in the »Group Auditor's Responsibilities for the Audit of the ESEF Documents« section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

### *Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Documents*

The executive directors of the parent are responsible for the preparation of the ESEF documents based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal controls that they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements for the electronic reporting format pursuant to Section 328 (1) HGB.

The supervisory board is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

### *Group Auditor's Responsibilities for the Audit of the ESEF Documents*

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.
- obtain an understanding of internal control relevant to the audit on the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- evaluate the technical validity of the ESEF documents, i.e. whether the provided file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, on the technical specification for this electronic file.
- evaluate whether the ESEF documents enable a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited combined management report.
- evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, in the version in force at the balance sheet date, enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as Group auditor by the annual general meeting on 18 May 2021. We were engaged by the supervisory board on 18 June 2021. We have been the group auditor of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, without interruption since the financial year 2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

**Other matter – use of the auditor's report**

Our auditor's report must always be read together with the audited consolidated financial statements and the audited combined management report as well as with the audited ESEF documents. The consolidated financial statements and the combined management report converted into the ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our audit opinion contained therein are to be used solely together with the audited ESEF documents made available in electronic form.

**German public auditor responsible for the engagement**

The German Public Auditor responsible for the engagement is Herbert Apweiler.

Stuttgart/Germany, 4 March 2022

Deloitte GmbH  
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Klaus Löffler

Herbert Apweiler

Wirtschaftsprüfer  
(German Public Auditor)

Wirtschaftsprüfer  
(German Public Auditor)

# Limited assurance report of the independent practitioner

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

## Our Engagement

We have performed a limited assurance engagement on the consolidated non-financial statement of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, (»the Company«) for the financial year from January 1 to December 31, 2021, which is included in the combined management report on the parent and the group (hereafter referred to as »combined management report«), and which is combined with the non-financial statement of the Company.

Our engagement did not cover the external sources of documentation or expert opinions marked as unaudited to which reference is made in the combined non-financial statement.

## Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the combined non-financial statement in accordance with Sections 289c to 289e German Commercial Code (HGB), Section 315c in conjunction with Sections 289c to 289e HGB and Article 8 of Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (hereafter referred to as »EU Taxonomy Regulation«) and the delegated acts adopted thereon, as well as with their own interpretation of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon, as is presented in section »Disclosures in accordance with Annex XI Article 8 of the Taxonomy Regulation« of the combined non-financial statement.

These responsibilities of the executive directors of the Company include the selection and application of appropriate methods regarding the combined non-financial statement and the use of assumptions and estimates for individual non-financial disclosures of the combined non-financial statement which are reasonable under the given circumstances. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of a combined non-financial statement that is free from material misstatement due to fraudulent behavior (manipulation of the non-financial statement) or error.



Some of the wording and terminology contained in the EU Taxonomy Regulation and the delegated acts adopted thereon are still subject to considerable interpretation uncertainty and have not yet been officially clarified. Therefore, the executive directors have laid down their own interpretation of the EU Taxonomy Regulation and of the delegated acts adopted thereon in section »Disclosures in accordance with Annex XI Article 8 of the Taxonomy Regulation« of the combined non-financial statement. They are responsible for the reasonableness of this interpretation. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation is prone to uncertainty.

### **Independence and Quality Assurance of the Audit Firm**

We have complied with the German professional requirements on independence and other professional rules of conduct.

Our firm applies the national statutory rules and professional announcements – particularly of the »Professional Charter for German Public Auditors and German Sworn Auditors« (BS WP/vBP) and of the IDW Quality Assurance Standard »Quality Assurance Requirements in Audit Practices« (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW) and does therefore maintain a comprehensive quality assurance system comprising documented regulations and measures in respect of compliance with professional rules of conduct, professional standards, as well as relevant statutory and other legal requirements.

### **Responsibilities of the Practitioner**

Our responsibility is to express a conclusion on the combined non-financial statement based on our work performed within our limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised) »Assurance Engagements Other than Audits or Reviews of Historical Financial Information«, adopted by the IAASB. This Standard requires that we plan and perform the assurance engagement so that we can conclude with limited assurance whether matters have come to our attention to cause us to believe that the combined non-financial statement of the Company, with the exception of the external sources of documentation or expert opinions referenced therein, has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB, Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the interpretation by the executive directors presented in section »Disclosures in accordance with Annex XI Article 8 of the Taxonomy Regulation« of the combined non-financial statement.

The procedures performed in a limited assurance engagement are less in extent than in a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgment.

Within the scope of our limited assurance engagement, which we performed between November 1, 2021 to February 25, 2022, we performed, among others, the following procedures and other work:

- Obtaining an understanding of the structure of the Group's sustainability organization and of the stakeholder engagement,
- Inquiries of the executive directors and relevant personnel who have been involved in the preparation process, about the preparation process, about the system of internal control relating to this process, as well as about disclosures in the combined non-financial statement,
- Identification of probable risks of material misstatements in the consolidated combined non-financial statement,
- Analytical evaluation of selected disclosures contained in the combined non-financial statement,
- Cross validation of selected disclosures and the corresponding data in the combined management report,
- Evaluation of the presentation of the combined non-financial statement, and
- Evaluation of the process to identify taxonomy-eligible economic activities and the corresponding disclosures in the combined non-financial statement.

The determination of the disclosures pursuant to Article 8 of the EU Taxonomy Regulation requires the executive directors to make interpretations of indefinite legal concepts. As there is the inherent risk that indefinite legal concepts may allow for various interpretations, the legal conformity of the interpretation, and hence our related examination, is prone to uncertainty.

## Practitioner's Conclusion

Based on the work performed and the evidence obtained, nothing has come to our attention that causes us to believe that the combined non-financial report of the Company for the financial year from January 1 to December 31, 2021 has not been prepared, in all material respects, in accordance with Sections 289c to 289e HGB, Section 315c in conjunction with Sections 289c to 289e HGB and the EU Taxonomy Regulation and the delegated acts adopted thereon, as well as with the interpretation by the executive directors presented in section »Disclosures in accordance with Annex XI Article 8 of the Taxonomy Regulation« of the combined non-financial statement.

With respect to the analysis of materiality, we draw attention to the fact that in anticipation of the Corporate Sustainability Reporting Directive the EU Commission provided a clarification of the definition of »double materiality«, according to which the existence of only one of the two perspectives (inside-out or outside-in) will be relevant for the combined non-financial statement in the future. We recommend that the definition of materiality be reviewed at an early stage, that the stakeholder dialogs used to collect the key ESG issues from the perspective of the stakeholders be renewed as part of the materiality analysis and that the integration of other external sources of information be examined. Based on the recent contractual agreement on the purchase of Berlin Hyp AG, Berlin/Germany, we also recommend a review of the underlying scope of consolidation of the combined non-financial statement.

Our conclusion was not modified in this respect.

We do not express a conclusion on the external sources of documentation or expert opinions marked as unaudited to which reference is made in the combined non-financial statement.

## Restriction of Use

We issue this report as stipulated in the engagement letter agreed with the Company (including the »General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (German Public Auditors and Public Audit Firms)« as of January 1, 2017 promulgated by the Institut der Wirtschaftsprüfer (IDW)).

We draw attention to the fact that the assurance engagement was performed for the purposes of the Company and the report is solely designed for informing the Company about the findings of the assurance engagement. Therefore, it may not be suitable for another than the aforementioned purpose. Hence, this report should not be used by third parties as a basis for any (asset) decision.

We are liable solely to the Company. However, we do not accept or assume liability to third parties. Our conclusion was not modified in this respect.

Stuttgart/Germany, 4 March 2022

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

[www.LBBW.de](http://www.LBBW.de)

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