LBBW

Breaking new ground

Half-yearly financial report 2022

Key figures of the LBBW Group

Income Statement (EUR million)	01/01 – 30/06/2022	01/01 – 30/06/2021
Net interest income	1,039	1,026
Net fee and commission income	322	294
Net gains/losses on remeasurement and disposal	125	51
of which allowances for losses on loans and securities	– 85	– 63
Other operating income/expenses	76	62
Total operating income/expenses	*1,563*	*1,433*
Administrative expenses	– 897	– 868
Expenses for bank levy and deposit guarantee system	– 188	– 137
Net income/expenses from restructuring	– 2	0
Consolidated profit/loss before tax	*476*	*428*
Income taxes	– 160	– 145
Net consolidated profit/loss	*315*	*283*
Key figures in %	01/01 – 30/06/2022	01/01 – 30/06/2021
Return on equity (RoE)	6.8	6.3
Cost/income ratio (CIR)	66.0	67.2
Balance sheet figures (EUR billion)	30/06/2022	31/12/2021
Total assets	329.4	282.3
Equity	14.2	14.2
Ratios in accordance with CRR/CRD V (after full implementation)	30/06/2022	31/12/2021
Risk weighted assets (EUR billion)	91.4	84.6
Common equity tier 1 (CET 1) capital ratio (in %)	13.6	14.6
Total capital ratio (in %)	19.7	21.4
Employees	30/06/2022	31/12/2021
Group	9,785	9,893

Differences are due to rounding effects.

Rating (1 August 2022)

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

Key figures of the LBBW Group

Foreword by the Board of Managing Directors

Dear Readers,

Russia's attack on Ukraine also dominated the first half of 2022 for LBBW. We are all shocked and appalled by the immense suffering the people there are experiencing. Our employees are also getting involved in helping Ukraine in a number of ways, including through donations within the bank and by actively supporting refugees at our branches.

In terms of the economy, the war has dampened economic prospects perceptibly, further fueled inflation and created significant turbulence on financial markets. Despite these tougher conditions, LBBW maintained its growth trajectory and enjoyed very satisfactory performance on the basis of its robust and resilient business model. Thanks to strong customer business and a still unremarkable risk situation, LBBW generated net consolidated profit before tax of EUR 476 million.

In corporate customer business, we further expanded our position in the growth area of corporate finance and in interest rate, currency and commodities management. In the Real Estate/Project Finance segment, income picked up both in real estate financing and in the real estate development business. Capital Markets Business saw good developments in investment and hedging products. At the same time, we further strengthened the Asset and Wealth Management growth area. In retail customer business, income picked up in almost all product areas.

The risk situation remains very solid despite the considerable uncertainties regarding economic development. Nevertheless, we increased our provisions by a further EUR 90 million by way of a model adjustment in view of the numerous macroeconomic and geopolitical risks.

At 13.6%, the common equity Tier 1 capital ratio (fully loaded) still easily exceeds regulatory requirements, although it has declined compared to the end of 2021 due primarily to business expansion.

One milestone in our strategic further development was the successful acquisition of the commercial real estate financier Berlin Hyp, which closed with effect from 1 July. This means that Berlin Hyp is not yet included in our net profit/loss for the first half of the year. With the highly-profitable Berlin Hyp, we are significantly expanding one of our established core business areas and are improving the overall structure of the LBBW Group. At the same time, we are developing the leading competence center for commercial real estate financing within the Sparkassen-Finanzgruppe.

Climate change remains the greatest challenge facing humanity. Given this, we do our best to support the inevitable changes to the economy and help our customers by providing extensive advice and a wide range of products. In recent months, for example, we have adapted the LBBW Green Bond Framework in view of the EU Taxonomy. We are also consistently driving the lending portfolio's focus on the Paris Climate Agreement. Our goal is to boost the sustainable business volume to at least EUR 250 billion by 2025.

The repercussions of the war in Ukraine are affecting us and our customers in a number of ways. We unconditionally support the international sanctions and enforce these consistently. Thanks to low exposure related directly to Russia, for which we have already made provisions, primarily in Capital Markets business, and careful internal crisis management, the immediate impact of the conflict on LBBW has so far been relatively limited.

By contrast, the extent of the strain on the economy as a whole is difficult to assess at present and uncertainty is high. In addition to the war in Ukraine, ongoing supply chain disruption, high inflation, interest rate hikes and uncertainty regarding the pandemic are taking a toll on economic activity in Germany and across large swathes of the world. However, our stable, well-balanced business model of a medium-sized universal bank puts us in an excellent position to successfully tackle the challenges ahead.

We would like to thank all of our business partners for their good and trusting collaboration in the past. Our customers can rest assured that we at LBBW will do everything we can to support you in these turbulent times. That is a promise from the Board of Managing Directors and the bank’s employees!

Sincerely,

RAINER NESKE
Chairman

ANASTASIOS AGATHAGELIDIS

ANDREAS GÖTZ

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

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Interim group management report as of 30 June 2022

Interim group management report

This interim group management report for the first half of 2022 covers the LBBW Group as at the reporting date 30 June 2022, excluding Berlin Hyp. The figures for H1 2022 do not account for Berlin Hyp as the transaction did not close until 1 July 2022. LBBW will publish consolidated figures including Berlin Hyp for the first time in the 2022 annual financial statements. The forecast report and the consolidated interim financial statements include a brief discussion of the acquisition of Berlin Hyp as at 1 July 2022 under Events after the reporting period.

Business report for the Group

The first half of the 2022 financial year was initially shaped in January and February by developments in the pandemic, before being overshadowed by the war in Ukraine and the resulting challenges for the economy and financial markets from February onwards. Economic output in Germany rose by 0.8% compared to the previous quarter in Q1. German GDP then stagnated in the second quarter. The eurozone generated growth of 0.5% in the first quarter and 0.75% in the second quarter. In the US, GDP fell by 1.6% quarter on quarter and by 0.9% in the second quarter (annualized). China enjoyed a q-o-q upturn of 1.4% in the first quarter, before shrinking by 2.6% in Q2.

Inflation continued to rise in the first half of the year. German inflation in December 2021 was 5.3%, rising to 7.9% by May; the decline to 7.6% in June is a result of the relief package. The rise in inflation in the eurozone was even more pronounced. After coming to 5.0% in December of the previous year, prices climbed by 8.6% in June 2022. In Germany and the eurozone, this was driven chiefly by the hike in the cost of household energy and fuel, with food prices also increasing more sharply than previously.

Faced with this situation, central banks in the US and the eurozone reversed their previously expansive monetary policy. The US Federal Reserve began its new approach in mid-March and raised the Fed Funds Target Rate by 25 bp to between 0.25% and 0.50%. It has since increased interest rates further to between 2.25% and 2.50%. The ECB later followed in the Fed’s footsteps, approving the first interest rate hike on 21 July. Interest rates were raised by 50 bp to 0.50% (main refinancing rate) and 0% (deposit facility rate). The ECB had previous ended net purchases under its PEPP bond buying program at the end of March and under the APP at the end of June.

On the bond market, 10-year German government bonds started the year with a yield of – 0.17%. Yields rose to over 1.70% by June, peaking at 1.76% in the first half of 2022 before declining to 1.37% at the end of June. The EUR/USD exchange rate at the start of the year was just under USD 1.13 to the euro, declining to USD 1.04 by the mid-year mark – the lowest level seen in the reporting period. Equities mostly lost ground in the first half of the year, with the DAX declining from 15,884 points at the start of January to 12,783 at the end of June. In the US, the Dow Jones Industrial market barometer declined from 36,398 to 30,775 in the reporting period. Performance on real estate markets was mixed in the period under review. Prices of residential and office properties in Germany increased in the first quarter. The decline in retail property prices slowed. In the US, the declining vacancy rate for office properties seen in the second half of 2021 came to a halt in Q1 2022. US house prices climbed significantly in the first few months of the year. In the UK, the vacancy rate in the core London market stabilized and office prices picked up. House prices also continued to trend upwards rapidly in the UK in the first few months of the year.

Business performance of the LBBW Group in the first half of 2022 – Results of operations, net assets and financial position

LBBW is continuing to grow in a challenging environment. Successful H1 shaped by operating income performance in customer segments. Combined with preparation for acquisition of Berlin Hyp

Business development

Operating activities in the first half of 2022 were affected by Russia's war against Ukraine. Resulting geopolitical uncertainties, sanctions and supply chain disruption led to increased capital market volatility, rising interest rates and inflation in excess of 8%. In spite of this very challenging environment, LBBW maintained its growth and improved its consolidated profit before tax by EUR 48 million to EUR 476 million thanks to good performance in its customer segments – regardless of a substantial increase in expenses for the bank levy and deposit guarantee system. Thanks to low exposure related directly to Russia and Ukraine alongside crisis management, the immediate impact of the conflict on LBBW was relatively limited. Nevertheless, existing model adjustments were increased further considering the numerous macroeconomic and geopolitical risks. Greater levels of uncertainty prompted higher demand for hedging products in interest rate, currency and commodities management, as well as higher demand for loans among customers to secure their liquidity.

After signing the purchase agreement to acquire Berlin Hyp in January, the closing was prepared in the first half of the year and concluded on 1 July 2022. The acquisition did not have any direct impact on LBBW's results of operations, net assets and financial position as at the reporting date 30 June 2022. Please see the Forecast and opportunity report or the Notes for further information on the effects of the acquisition. Bringing in the real estate financier Berlin Hyp establishes a competence center for commercial real estate financing in the savings banks sector.

In terms of the *Business focus* strategic cornerstone, LBBW supported its customers in these challenging times shaped by the war between Russia and Ukraine. For example, it quickly expanded existing lines of credit based on customer needs and supported payment transactions processing, as well as organizing information events. Ukrainian refugees can also access free basic accounts and information in their own language.

LBBW's strong position in corporate customer business was acknowledged when it was named a top 3 customer bank in the most recent »FINANCE« bank survey. Higher liquidity requirements at many companies due to the crisis increased demand for loans. The German Schuldschein market also saw high levels of activity in H1 2022, with LBBW again supporting its customers as the market leader. In addition, demand for sustainability and sustainable financing consulting remained high and LBBW was able to further consolidate its role as a leading sustainability advisory bank.

In areas that will be key in the future, such as the roll-out of glass fiber and offshore wind energy, LBBW increased its market position further in the first six months of 2022. Its outstanding digital infrastructure expertise was acknowledged when it received the Real Estate Capital Europe Award 2021 for providing project financing for a data center as the financing of the year. The strategic acquisition of »ACTEUM Investment GmbH« significantly expanded LBBW Immobilien's investment management business area and doubled gross fund assets by about EUR 0.5 billion to EUR 1.0 billion.

Difficult market phases also allowed LBBW to further expand business with its customers in Capital Markets Business. There was increased demand primarily for structured currency products and products to manage interest rate risks. Certificates sales volumes remained high. Sales volume was increased further, especially with savings banks as the most important target group.

Despite greater market volatility, demand for asset management solutions was undiminished. Customers are increasingly focusing on sustainable investments here. In the sustainable asset management category, BW-Bank's asset management took first place out of all the banks ranked by the »Capital« magazine in May 2022. As well as asset management, BW-Bank's foundation management also received praise and was awarded the prestigious Fuchs Professional Rating prize for foundation managers for the fourth time in a row.

On the capital market, LBBW recently published an update to the LBBW Green Bond Framework (GBF), which was adjusted to account for the EU Taxonomy and represents a milestone in the strategic ***sustainability*** cornerstone. The independent ratings agency ISS ESG believes that LBBW's latest GBF makes a significant contribution to achieving the United Nations' Sustainable Development Goals. Other milestones were reached in the Group-wide »sustainability« project, including in meeting regulatory requirements and structuring our lending portfolio in line with the goals of the Paris Agreement. Together with the Stuttgart-based service specialist Leadec, the LBBW subsidiary SüdFactoring also developed and concluded Germany's first ESG-linked factoring agreement.

To optimize ***digitalization***, LBBW recently integrated its DEBTVISION platform into its new sales processes for corporate Schuldschein transactions. Digital solutions were stepped up in corporate customer business and the rate of growth for new customers on the corporates portal remained in double digits. High demand for digital processes such as the »digital guarantee« helps LBBW ensure cost-efficient processing of standard products.

Agile working methods and practices were part and parcel of LBBW employees' day-to-day work in 2022, too. One example of this is LBBW's ideas management, which is widely used, enjoys high-quality submissions and translates into greater efficiency and economic success. In the first half of 2022, proposals with a value in the middle single digit bracket (in euro) were implemented.

The key financial indicators (financial performance indicators) confirm LBBW's very good business performance in the first half of 2022.

The ***cost/income ratio (CIR)***[1] improved to 66.0% compared to 67.2% in the previous year, primarily in connection with income. Income rose by EUR 152 million, a result primarily of far higher net gains from financial instruments measured at fair value through profit or loss, as well as higher interest and net fee and commission income. This was offset chiefly by a rise in expenses for the bank levy/deposit guarantee system, as well as higher other administrative expenses in connection with project activities. The figure also performed far better than expected in planning thanks to both income and expenses. ***Return on equity (RoE)***[2] rose to 6.8% (previous year: 6.3%), markedly higher than target. This also reflected the improved income and cost situation.

The LBBW Group's ***common equity Tier 1 capital ratio*** as at 30 June 2022 remained well in excess of the regulatory capital requirements (CRR/CRD V »fully loaded«). At 13.6%, however, the ratio was lower than at the previous year-end (14.6%), primarily on account of an increase in business that was also higher than target. In addition, changes and model premiums due to the crisis also had an impact. This means that the ratio is currently still lower than the target set at the end of the year.

In connection with the acquisition of Berlin Hyp, the European Central Bank maintained the 1.88% Pillar 2 capital requirement, 1.06% of which must be backed by CET 1 capital. The German Federal Financial Supervisory Authority (BaFin) left the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (Kreditwesengesetz, KWG) unchanged at 0.75%. The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. Since 1 March 2022, LBBW has therefore been required to maintain a common equity Tier 1 capital ratio of 8.81% (previously: 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. This will have to be complied with from 1 February 2023. Another BaFin general ruling relates to introducing a systematic buffer of 2.0%, although this is limited to receivables secured by German residential properties. The ECB's capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital, still applies. In addition, a partial amount of CET1 capital is held to meet the Tier 1 capital requirements that go beyond this.

Other LBBW Group indicators developed as follows.

Risk weighted assets (RWA) increased to EUR 91.4 billion (previous year: (31 December 2021: EUR 84.6 billion)) in connection with business growth in the reporting period. As well as greater volumes in the lending business, this change was driven chiefly by crisis-related market risk effects caused mainly by high market volatility due to the war between Russia and Ukraine.

LBBW's ***leverage ratio*** was 4.2% on 30 June 2022 (fully loaded in accordance with CRR II/CRD V), remaining lower than at the end of the previous year (5.0%). The decline in the leverage ratio is primarily due to higher risk exposures, a result chiefly of increased balances with central banks. Nonetheless, it remains significantly above the current regulatory minimum of 3.0%.

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

Results of operations

Consolidated profit before tax picked up by EUR 48 million year on year to EUR 476 million in the first half of 2022 despite the numerous challenges presented by the Russia/Ukraine conflict. Income fared particularly well, with all operating segments reporting improvements on the previous year. Under the exceptional general conditions, underlying allowances for losses on loans and securities remained unremarkable thanks to the high quality of the lending portfolio. Nevertheless, additional model adjustments were made due to the current crises.

The condensed income statement for the LBBW Group has been presented below:

	01/01/2022 – 30/06/2022	01/01/2021 – 30/06/2021	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,039	1,026	13	1.3
Net fee and commission income	322	294	28	9.5
Net gains/losses on remeasurement and disposal	125	51	74	> 100
of which allowances for losses on loans and securities	– 85	– 63	– 22	34.1
Other operating income/expenses	76	62	14	23.3
Total operating income/expenses	*1,563*	*1,433*	*130*	*9.1*
Administrative expenses	– 897	– 868	– 29	3.3
Expenses for bank levy and deposit guarantee system	– 188	– 137	– 52	37.7
Net income/expenses from restructuring	– 2	0	– 2	-
Consolidated profit/loss before tax	*476*	*428*	*48*	*11.1*
Income taxes	*– 160*	– 145	– 16	10.9
Net consolidated profit/loss	*315*	*283*	*32*	*11.2*

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

Operating growth in almost all divisions improved ***net interest income*** by EUR 13 million against the previous year to EUR 1,039 million. Especially in real estate and project financing business and in corporate customer business, higher financing volumes contributed more to net interest income. The Private Customers/Savings Banks segment performed well, with higher margins and greater volumes resulting in a year-on-year increase on the previous year figure. On the other hand, non-recurring effects in particular were lower than in the previous year. The bonus from participating in targeted longer-term refinancing operations (TLTRO III) reduced by EUR 42 million to EUR 68 million (previous year: EUR 110 million). Excess liquidity held by the European Central Bank at negative interest rates remained high, putting significant strain on net interest income. Rising interest rates also meant that fewer loans were repaid early and so early termination fees were substantially lower.

Net fee and commission income improved by EUR 28 million to EUR 322 million. All types of commission saw an improvement here, without exception. Thanks to high demand for loans, net gains from the lending business improved significantly and were far higher than the previous year’s figure of EUR 56 million at EUR 66 million. Income in the payments business also fared well, increasing perceptibly by EUR 7 million to EUR 53 million (previous year: EUR 46 million). Income from asset management rose by EUR 4 million to EUR 38 million (previous year: EUR 35 million) thanks to more mandates agreed in the reporting period. The securities and custody business proved a stable source of income, picking up by EUR 2 million to EUR 135 million.

Net gains/losses on remeasurement and disposal enjoyed a marked EUR 74 million upturn to EUR 125 million and was defined by the effects described below.

Allowances for losses on loans and securities remained low but increased by EUR – 22 million to EUR – 85 million. While underlying allowances for losses on loans and securities remained unremarkable, additional model adjustments of EUR –90 million were made taking account of the current crises. Various shocks were modeled here, including a partial or complete halt in the supply of Russian gas, the impact of sustained high inflation and the consequences of China's zero-Covid strategy. It also took into account economic effects, which combined with rising interest rates could significantly weaken the real estate market. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and an ongoing low default rate[1] of 0.4% as at the reporting date 30 June 2022 (previous year: 0.5%).

Net gains from financial instruments measured at fair value through profit or loss, which improved by EUR 83 million to EUR 206 million (previous year: EUR 123 million), were shaped by high customer demand for hedging and investment products. Capital market activities were particularly instrumental in this rise, with high demand for hedging products in view of the currency and interest rate environment and a sharp increase in new business for certificates. The contribution from banking book transactions also increased, which was primarily a result of good development in connection with hedging strategies for loan portfolios.

Other operating income/expenses rose by EUR 14 million and came to EUR 76 million (previous year: EUR 62 million). The main driving force behind this rise was higher sale proceeds from completed projects developed at the LBBW Immobilien sub-Group, which resulted in a EUR 24 million improvement in net gains/losses to EUR 34 million. Gains/losses from investment property declined slightly from EUR 19 million in the previous year to EUR 17 million. Higher lease income of EUR 3 million and lower operating expenses of EUR 4 million did not offset fair value adjustments in full.

Administrative expenses widened by EUR – 29 million on the previous year to EUR – 897 million (previous year: EUR – 868 million). Despite lower staff costs as a whole, which declined from EUR – 521 million to EUR – 506 million, administrative expenses increased overall. Other administrative expenses climbed considerably on the previous year's figure of EUR – 284 million to EUR – 337 million. This was primarily attributable to higher expenses for IT, projects and consulting costs of EUR – 44 million as well as higher marketing expenses of EUR – 4 million. Part of the increase was in connection with the acquisition of the new subsidiary Berlin Hyp. By contrast, write-downs were down EUR 9 million at EUR 54 million (previous year: EUR 63 million), primarily due to lower write-downs on externally generated software.

Expenses for the bank levy and deposit guarantee system again rose significantly by EUR – 52 million to EUR – 188 million. This was affected by the further increase in the target volume for the bank levy due to the 9% rise in covered deposits in the eurozone and the increase in the target volume due to a further rise in the fund volume to EUR 80 billion. Expenses for the deposit guarantee system also rose by EUR – 21 million year on year to EUR – 55 million, chiefly due to DKB Bank AG leaving the deposit guarantee system of the Sparkassen-Finanzgruppe.

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

At EUR 476 million, ***consolidated profit before tax*** was EUR 48 million higher than the previous year's figure of EUR 428 million. Income tax expenses were correspondingly higher, increasing by EUR – 16 million to EUR – 160 million (previous year: EUR – 145 million).

Net consolidated profit after tax picked up by EUR 32 million to EUR 315 million (previous year: EUR 283 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 in the 2021 annual report. Further information can be found in the notes to the condensed consolidated interim financial statements in the segment report in section C.

The LBBW Group segments' contributions to ***consolidated profit before tax*** of EUR 476 million in the first half of 2022 (previous year: EUR 428 million) were as follows:

	01/01/2022 – 30/06/2022	01/01/2021 – 30/06/2021[1]	Change	
	EUR million	EUR million	EUR million	in %
Corporate Customers	281	204	77	37.9
Real Estate/Project Finance	169	136	33	24.1
Capital Markets Business	159	170	– 11	– 6.3
Private Customers/Savings Banks	41	1	39	>100
Corporate Items/Reconciliation/Consolidation	– 174	– 83	– 91	>100
Consolidated profit/loss before tax	*476*	*428*	*48*	*11.2*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

The ***Corporate Customers segment*** boosted its profit before tax in the first half of 2022, improving it to EUR 281 million (previous year: EUR 204 million) by increasing income while also keeping the need for allowances for losses on loans and securities low. This also helped increase return on equity (RoE) noticeably to 10.9% (previous year: 8.1%). Income picked up thanks to higher financing volumes and in cross-selling, chiefly in the growth field of corporate finance and in interest rate and currency management. In addition, allowances for losses on loans and securities remained markedly lower than in the previous year thanks to the consistently good lending portfolio quality. By contrast, the increased bank levy and expenses for the deposit guarantee system as well as higher project costs caused a moderate increase in expenses. In view of this development, the cost/income ratio (CIR) rose marginally against the previous year from 51.5% to 52.5%.

In the ***Real Estate/Project Finance segment,*** a perceptible increase income in the first half of 2022 combined with a still good risk profile pushed up profit before tax measurably to EUR 169 million (previous year: EUR 136 million) and increased return on equity (RoE) moderately to 17.3% (previous year: 15.3%). Income enjoyed a particular upturn in real estate financing thanks to increased volumes and in real estate development business thanks to successful project handovers. Although the higher bank levy and expenses for the deposit guarantee system also negatively impacted expenses in this segment, good income performance is reflected in a further improved cost/income ratio (CIR) of 33.7% (previous year: 38.0%).

In the ***Capital Markets Business segment***, sustained successful customer business, especially with investment and hedging products and certificates, bolstered income further. By contrast, there was a negative impact resulting from a rise in allowances for losses on loans and securities and in expenses. The increase in allowances for losses on loans and securities, after a zero was recognized in the previous year, was driven by underlying allowances for losses on loans and securities recognized as a result of the war between Russia and Ukraine. The ongoing growth case in Asset and Wealth Management, project costs and the higher bank levy and expenses for the deposit guarantee system contributed to the moderate increase in expenses. Good operating business performance improved the cost/income ratio (CIR) marginally to 58.5% (previous year: 59.2%). In response to these developments, the segment also reported a decline in profit before tax to EUR 159 million (previous year: EUR 170 million), reducing return on equity (RoE) to 11.4% (previous year: 15.1%) in turn.

The ***Private Customers/Savings Banks segment*** saw net gains climb considerably to EUR 41 million (previous year: EUR 1 million) driven by broad earnings growth. The deposit business and asset management, part of the growth area Asset and Wealth Management, performed particularly well here. In line with this development, return on equity (RoE) picked up markedly to 7.4% (previous year: 0.2%). Expenses remained largely at the previous year's level despite the higher bank levy and expenses for the deposit guarantee system. Overall, the cost/income ratio (CIR) improved by more than 10 percentage points to 86.8% as a result.

Profit/loss before tax in ***Corporate Items/Reconciliation/Consolidation*** (EUR – 174 million) declined in the first half of 2022 compared to the previous year (EUR – 83 million). This is due primarily to the higher bank levy and increased expenses for the deposit guarantee system, with pro rata offsetting against the operating segments each month. In addition, profit/loss before tax in Corporate Items/Reconciliation/Consolidation benefited from reversals of allowances for losses on loans and securities in the previous year.

Net assets and financial position

Assets	30/06/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Cash and cash equivalents	69,513	36,871	32,642	89
Financial assets measured at amortized cost	176,805	167,323	9,481	6
Loans and advances to banks	55,082	46,468	8,614	19
Loans and advances to customers	120,715	119,851	864	1
Debentures and other fixed-income securities	1,008	1,004	3	0
Financial assets measured at fair value through other comprehensive income	33,619	33,288	331	1
Financial assets designated at fair value	1,378	1,374	5	0
Financial assets mandatorily measured at fair value through profit or loss	40,444	36,976	3,468	9
Shares in investments accounted for using the equity method	265	274	- 9	- 3
Portfolio hedge adjustment attributable to assets	- 8	708	- 716	-
Non-current assets held for sale and disposal groups	16	1	16	>100.0
Intangible assets	157	158	- 1	- 1
Investment property	793	805	- 12	- 1
Property and equipment	709	731	- 22	- 3
Current income tax assets	106	104	2	2
Deferred income tax assets	983	1,029	- 46	- 4
Other assets	4,652	2,703	1,948	72
Total assets	*329,432*	*282,344*	*47,089*	*17*

Equity and liabilities	30/06/2022 EUR million	31/12/2021 EUR million	Change EUR million	Change in %
Financial liabilities measured at amortized cost	281,630	235,174	46,456	20
Deposits from banks	107,213	88,259	18,954	21
Deposits from customers	116,632	97,022	19,611	20
Securitized liabilities	52,804	44,869	7,934	18
Subordinated capital	4,981	5,024	- 43	- 1
Financial liabilities designated at fair value	3,682	4,895	- 1,213	- 25
Financial liabilities mandatorily measured at fair value through profit or loss	27,483	23,689	3,793	16
Portfolio hedge adjustment attributable to liabilities	- 1,873	11	- 1,884	-
Provisions	1,606	2,080	- 474	- 23
Liabilities from disposal groups	0	0	0	
Income tax liabilities	305	370	- 65	- 18
Other liabilities	2,352	1,928	424	22
Equity	14,249	14,197	53	0
Total equity and liabilities	*329,432*	*282,344*	*47,089*	*17*
Guarantee and surety obligations	8,808	8,214	594	7
Irrevocable loan commitments	40,400	36,137	4,263	12
Business volume	*378,641*	*326,695*	*51,946*	*16*

Significant rise in consolidated total assets

As at 30 June 2022, *total assets* were up EUR 47.1 billion as against the end of 2021 at EUR 329.4 billion. The increase in total assets reflects the rise in cash and cash equivalents and financial liabilities measured at amortized cost.

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 51.9 billion to EUR 378.6 billion.

Lending

Cash and cash equivalents amounted to EUR 69.5 billion as at 30 June 2022, a considerable EUR 32.6 billion upturn on the figure for the previous year (EUR 36.9 billion). This was attributable almost exclusively to an increase in central bank balances.

The item *financial assets measured at amortized cost* increased by EUR 9.5 billion to EUR 176.8 billion, attributable essentially to loans and advances to banks.

Loans and advances to banks rose by EUR 8.6 billion, closing at EUR 55.1 billion. In savings banks business, LBBW maintained the success generated in the previous year and boosted its business further, which in part translated into a EUR 4.5 billion upturn in public-sector loans to EUR 38.6 billion. There was also a EUR 2.0 billion increase in securities repurchase transactions, predominantly with major banks and clearing houses, to EUR 8.9 billion and a EUR 0.5 billion rise in current account assets to EUR 0.9 billion.

The portfolio of *loans and advances to customers* picked up by EUR 0.9 billion to EUR 120.7 billion. Ongoing implementation of the customer-oriented and diversified business model expanded corporate finance and real estate financing business, in particular. As a result, other loans rose by EUR 1.1 billion to EUR 25.2 billion, current account assets by EUR 1.0 billion to EUR 3.1 billion and mortgage backed loans by EUR 0.7 billion to EUR 39.5 billion. This was offset by a EUR 2.4 billion decrease in overnight and term deposits to EUR 7.4 billion and a EUR 0.8 billion fall in public-sector loans to EUR 13.4 billion.

Financial assets measured at fair value through other comprehensive income were virtually on par with the previous year at EUR 33.6 billion, a change of EUR 0.3 billion. Management of liquidity portfolios increased bonds and debentures by EUR 0.7 billion to EUR 29.9 billion. By contrast, loans and advances declined by EUR 0.4 billion to EUR 3.0 billion.

Financial assets mandatorily measured at fair value through profit or loss climbed by EUR 3.5 billion to EUR 40.4 billion. Positive fair values from derivatives rose by EUR 1.8 billion to EUR 18.7 billion, with other money market transactions up EUR 1.0 billion at EUR 3.4 billion and debentures and other fixed-income securities up EUR 0.8 billion at EUR 7.2 billion. Positive fair values from derivative hedging instruments moved in the opposite direction due to interest rate trends. This was countered by a EUR 0.9 billion decline in public-sector loans to EUR 0.6 billion.

The *portfolio hedge adjustment attributable to assets* saw a EUR 0.7 billion decrease compared to the previous year's figure of EUR 0.7 billion. The decline in this adjustment item stemmed chiefly from the sharp rise in interest rates in the first half of 2022.

Other assets increased by EUR 1.9 billion from EUR 2.7 billion to EUR 4.7 billion. This was partly the result of an equity transaction, as well as an upturn in client clearing business.

Funding

Under equity and liabilities, the item *financial liabilities measured at amortized cost* was affected by the most significant changes in comparison to the previous year, with growth of EUR 46.5 billion to EUR 281.6 billion.

Deposits from banks increased by EUR 19.0 billion to EUR 107.2 billion. The volume of overnight and term deposits rose by EUR 14.4 billion to EUR 59.9 billion due to far higher deposits with international credit institutions and central banks. Securities repurchase transactions concluded mainly with major banks and clearing houses increased these by EUR 1.6 billion to EUR 1.9 billion. Transmitted loans increased by EUR 0.9 billion to EUR 35.0 billion.

At EUR 116.6 billion, the item *deposits from customers* was also a considerable EUR 19.6 billion higher than the figure for 31 December 2021. The largest change here was in overnight and term deposits, with volume growth of EUR 16.7 billion to EUR 41.2 billion. Both German federal states and private business partners make use of LBBW investment products. Securities repurchase transactions picked up by EUR 1.4 billion to EUR 2.9 billion and current account liabilities by EUR 0.9 billion to EUR 59.8 billion.

The volume of *securitized liabilities* expanded by EUR 7.9 billion in the reporting period to EUR 52.8 billion. The New York branch further stepped up its short-term financing with commercial papers and certificates of deposits, resulting in a EUR 9.2 billion rise in securitized money market transactions to EUR 25.3 billion. Other debentures fell by EUR 1.3 billion, due primarily to maturities. At the start of the year, LBBW reached a new sustainability milestone by updating the LBBW Green Bond Framework, further refining its approach to green bonds. LBBW issued another USD 750 million green bond in February.

Subordinated capital did not change in the reporting period, remaining at the previous year's level at EUR 5.0 billion.

Financial liabilities designated at fair value moved down by EUR 1.2 billion to EUR 3.7 billion. Planned maturities reduced securitized liabilities from EUR 0.6 billion to EUR 1.9 billion. Subordinated bonds declined by EUR 0.3 billion to EUR 0.4 billion.

As in the items under assets, *financial liabilities mandatorily measured at fair value through profit or loss* rose by EUR 3.8 billion to EUR 27.5 billion. Negative fair values from derivatives increased by EUR 5.1 billion to EUR 18.9 billion. This was offset by a EUR 1.5 billion decline in negative fair values from derivative hedging instruments to EUR 0.8 billion.

In line with the corresponding item attributable to assets, the *portfolio hedge adjustment attributable to liabilities* declined by EUR 1.9 billion to EUR – 1.9 billion in the first half of 2022 due to interest rates.

Provisions decreased compared with the previous year by EUR 0.5 billion to EUR 1.6 billion. This downturn was essentially attributable to the measurement of pension obligations due to higher interest rates.

Equity

Rising by EUR 0.1 billion, LBBW's ***equity*** remained similar to the previous year's level of EUR 14.2 billion. The valuation reserve declined by EUR 0.3 billion to EUR – 0.2 billion, primarily a result of market fluctuations in financial assets at fair value through profit or loss due to the crises. Actuarial gains from measuring pension obligations resulted in a net increase in equity of EUR 0.3 billion. Current net income of EUR 0.3 billion was offset by a distribution to shareholders of EUR – 0.2 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. The first half of 2022 continued to be shaped by high excess liquidity on the market in connection with central bank policy, which is also reflected in LBBW's high liquidity holdings at central banks. However, investors are still cautious in terms of investment duration due to interest rate expectations and geopolitical risks. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The Group LCR was met during the entire reporting period at the times of calculation and came to 123.0% as at 30 June 2022. The net stable funding ratio (NSFR) requirements applicable since June 2021 were also met at all times and were exceeded at 111.6% as at 30 June 2022.

Risk report

Risk management systems

The risk management methods and processes presented in the combined management report as at 31 December 2021 are still applied by the LBBW Group as at 30 June 2022. Material changes are described below.

Risk types

Detailed notes on the definition of risks and on the risk management system as a whole can be found in the combined management report for 2021.

Regulatory framework and development of the risk management process

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

The ECB has set medium-term priorities based on the key vulnerabilities it has identified and has assigned these strategic objectives and potential regulatory measures. The aim of the banking supervision authority is that »banks emerge from the pandemic healthy«, »structural weaknesses are addressed via effective digitalization strategies and enhanced governance« and »emerging risks (such as climate-related and environmental risks) are tackled«. This includes thoroughly investigating climate and environmental risks, cyber risks, credit risks, interest rate and credit spread risks and developments in the context of digitalization.

The climate stress test formed a key part of supervisory activities in 2022 and aimed 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 is accompanied by additional supervisory work in the context of sustainability. In addition, banking supervision turned its focus to the short-term and medium-term implications of the Russia/Ukraine conflict on banks.

The future development and design of the regulatory framework will depend to a large extent on the impact the Russia/Ukraine conflict and macroeconomic tensions have on the banking sector.

Risk situation of the LBBW Group

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

The economic capital commitment has declined by a total of around EUR 0.3 billion since the end of 2021. The decline in counterparty default risks is a result essentially of portfolio developments. For market price risks, the downturn is due primarily to lower interest rate risks in connection with pension obligations and derivatives.

As at the end of the first half of 2022, aggregate risk cover (ARC) had increased by about EUR 0.1 billion compared to the end of 2021. This rise results primarily from the measurement of pension obligations and current net consolidated profit/loss.

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained at every reporting date in the first half of 2022. The permanent viability required in line with regulations was guaranteed. To test this, specific scenarios were simulated detailing the further development of various crises in light of current geopolitical issues. The bank retained its risk-bearing capacity even in the severe scenario.

The economic capital limit was maintained at all reporting dates at Group level. The utilization of aggregate risk cover was 46% as at 30 June 2022.

LBBW Group – Risk-bearing capacity

	30/06/2022		31/12/2021	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	12,320	46%	12,210	50%
Economic capital limit[2]	10,000	57%	10,000	60%
Correlated total economic capital	5,657		6,038	
of which inter-risk correlations	– 618		– 656	
of which counterparty default risks	3,419		3,725	
of which market price risks	1,668		1,835	
of which investment risks	29		31	
of which operational risks	705		676	
of which development risks	98		101	
of which real estate risks	135		131	
of which other risks[3]	222		196	

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

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

The portfolio quality for counterparty default risks improved in the first half of 2022, although how this will progress moving forwards is uncertain given current geopolitical issues. Greater market volatility had a negative impact on the value at risk for market price risks. This does not affect economic capital in market price risks, as the model already includes a parameterization for crisis volatilities.

Risk types[1]

Counterparty risk

Risk situation of the LBBW Group[2]

The description of the risk situation is based on the credit risk management methods and instruments described in the combined management report for 2021.

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

In addition to the following tables, Note 20 (»Counterparty risk«) contains additional detailed overviews broken down by rating classes, sectors and regions in accordance with IFRS 7.

Development of exposure

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

Default risk and effect of risk-mitigating measures

EUR million	30/06/2022	31/12/2021
Gross exposure	**471,334**	**388,960**
Netting/collateral	161,201	105,767
Credit derivatives (protection buy)	8,350	5,922
Classic credit collateral	45,110	45,298
Net exposure	*256,674*	*231,973*

Figures may be subject to rounding differences.

Gross exposure amounted to EUR 471 billion as at 30 June 2022, up EUR 82 billion on the end of 2021. Increasing fair values for interest rate derivatives resulted in higher collateral for netting and collateral agreements. Net exposure rose by about EUR 25 billion or 11% to EUR 257 billion, driven mainly by the main Financials sector.

1 Information on correlated total economic capital for the individual risk types can be found in the section on the risk situation of the LBBW Group.
2 Statements on the risk situation are based on the management approach. Differences compared to the accounting valuations are due to the reasons described in the 2021 Risk report.

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

Portfolio quality

Rating cluster (internal rating class)

	EUR million	in %	EUR million	in %
Net exposure	30/06/2022	30/06/2022	31/12/2021	31/12/2021
1(AAAA)	43,748	17.0	35,087	15.1
1(AA) – 1(A–)	121,247	47.2	108,935	47.0
2 – 5	71,193	27.7	67,194	29.0
6 – 8	11,592	4.5	12,480	5.4
9 – 10	3,255	1.3	3,164	1.4
11 – 15	2,225	0.9	2,184	0.9
16 – 18 (default)[1]	1,065	0.4	1,045	0.5
Other[2]	2,348	0.9	1,883	0.8
Total	*256,674*	*100.0*	*231,973*	*100.0*

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

The investment grade share (ratings 1 (AAAA) to 5) increased to 92.0% as at 30 June 2022 (previous year: 91.1%) chiefly as a result of an increase in exposure with good credit ratings (especially at central banks in rating cluster 1 (AAAA)). Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 6.7% (previous year: 7.7%). The top rating class 1 (AAAA) mainly includes the German public sector, as well as central banks. The net exposure on default accounts for 0.4% of the entire portfolio.

The economic environment and how this will develop moving forwards remain uncertain in view of the war in Ukraine, supply chain bottlenecks, rising inflation, interest rate changes and the digital and sustainable transformation. This development is reflected in the higher IFRS 9 stage 2 volume compared to 31 December 2021 (see Note 20 »Counterparty risk«).

Sectors

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

Sectors

EUR million	Net exposure 30/06/2022	CvaR 30/06/2022	Net exposure on default 30/06/2022	Net exposure 31/12/2021	CvaR 31/12/2021	Net exposure on default 31/12/2021
Financials	**123,503**	**1,011**	**78**	**100,971**	**938**	**21**
Corporates	**94,656**	**1,673**	**903**	**89,886**	**1,831**	**946**
Automotive	10,861	331	446	10,598	344	470
Construction	9,139	175	74	8,926	180	82
Chemicals and commodities	8,131	126	15	6,852	131	20
of which chemicals	3,902	63	1	3,354	73	1
of which commodities	4,228	63	14	3,497	58	20
Retail and consumer goods	13,996	218	118	14,164	266	140
of which Consumer goods[1]	9,946	106	18	10,046	129	20
of which durables	4,050	113	100	4,118	137	120
Industry	10,657	162	155	10,306	176	126
Pharmaceuticals and healthcare[1]	5,241	76	8	5,012	77	9
TM and electronics/IT[1]	9,286	132	18	7,912	131	15
Transport and logistics	6,363	150	6	6,436	213	6
Utilities and energy[1]	13,109	235	49	12,265	255	61
of which utilities and disposal companies	8,521	154	44	7,928	165	56
of which renewable energies	4,587	81	5	4,337	91	5
Other	7,873	68	14	7,417	59	17
Real estate	**13,974**	**283**	**67**	**15,004**	**366**	**62**
Commercial real estate (CRE)	8,895	218	65	10,171	265	60
Housing	5,079	65	2	4,833	102	2
Public sector	**17,810**	**79**	**0**	**19,648**	**100**	**0**
Private individuals	**6,732**	**115**	**17**	**6,463**	**134**	**16**
Total	**256,674**	**3,161**	**1,065**	**231,973**	**3,369**	**1,045**

Figures may be subject to rounding differences.
1 Growth sectors. New growth sector added in 2022, consumer goods.

Financials represent the largest of the five main sectors with net exposure of about EUR 124 billion as at 30 June 2022. The increase of approximately EUR 23 billion as against the end of 2021 is due primarily to the increased exposure to central banks and private banks and savings banks.

In the corporates portfolio, it was primarily the growth sectors telecommunication, media (TM) and electronics/IT and utilities and energy, as well as the chemicals and commodities sector, that contributed EUR 5 billion to net exposure, bringing the total to about EUR 95 billion in the first half of 2022. LBBW's growth sectors accounted for 40% of the corporates portfolio, up slightly on 39% in the previous year.

By contrast, the net exposure in real estate decreased by around EUR 1 billion year on year to EUR 14 billion as a result of a decline in various exposures.

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

With a net exposure of around EUR 7 billion, the portfolio of private individuals is slightly higher than in the previous year and has a particularly high level of granularity.

Most customers have exposures with a net exposure of up to EUR 10 million. Other exposures also include a few with a net exposure of over EUR 500 million. As at 30 June 2022, the portfolio also had four large exposures (individual exposures with a net exposure of over EUR 2 billion). These are three credit ratings rated at least 1(A) and one exposure in rating class 2.

Regions

Geographic breakdown

Net exposure in %	Share 30/06/2022	Share 31/12/2021
Germany	60.5	64.5
Western Europe (excluding Germany)	19.4	19.7
North America	13.2	9.8
Asia/Pacific	4.6	4.0
Other[1]	2.2	2.0
Total	*100.0*	*100.0*

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

The share of domestic business in the net exposure as at 30 June 2022 was 60.5%. 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

Risk situation of the LBBW Group

The LBBW Group's market price risk increased in the first half of 2022. The following table shows the composition of the value-at-risk (99%/10 days) by risk type at LBBW Group level:

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30/06/2022	31/12/2021
LBBW Group	**124**	**188**	**82**	**178**	**95**
Interest rate risk	128	182	83	182	87
Credit spread risk	84	107	51	106	53
Equity risks	19	25	6	25	15
Currency risks[1]	5	10	2	7	3

1 Including commodity risks.

The rise in overall risk, as well as in the individual risk types, stems largely from greater volatility in the parameters included in the risk calculation (e.g. credit spreads, interest rates, equities) – in part a result of tensions on capital markets caused by higher inflation and the expectation that the ECB will adjust interest rates to tackle inflation, the start of the crisis in Ukraine and resulting fears of an energy crisis and recession in Europe. Furthermore, Covid-19 cases are expected to rise again in the second half of the year. Market participants' risk sentiment is fragile and daily fluctuations on capital markets are unusually high in some cases. Higher EUR interest rates have also resulted in more volatile market values of capital market products, which are sensitive to interest rate levels.

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

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30/06/2022	31/12/2021
Trading book	**15**	**22**	**8**	**19**	**8**
Interest rate risk	7	14	3	12	4
Credit spread risk	13	21	6	13	6
Equity risks	5	10	2	8	3
Currency risks[1]	5	10	2	7	3

1 Including commodity risks.

In the trading book, too, the increase in risk chiefly reflects greater volatility in the parameters included in the risk calculation.

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

LBBW's risk model is subject to a statistical backward comparison (backtesting) as part of the validation program. The backtesting of clean P/L of the internal risk model for the previous 250 trading days gave rise to several exceptions for the CRR portfolio. These exceptions are largely the result of significant market fluctuations triggered by reports about Covid-19 developments, inflation data, fears that central banks will tighten monetary policy worldwide, worries about economic performance due to the pandemic worsening and emerging concerns about a recession. The number of exceptions in the last 250 trading days increased the regulatory multiplier, resulting in a rise in capital adequacy.

Additional backtesting on the basis of dirty P/L is performed on account of regulatory requirements. On this basis, several exceptions were found in the CRR portfolio up to 30 June 2022 for the past 250 trading days as a result of significant market fluctuations. These were due to an unexpected decision by a central bank, new Covid-19 reports, the emergence of the new Omicron variant and the publication of minutes from a central bank meeting.

Liquidity risks

Risk situation of the LBBW Group

The impact of continued excess liquidity is also reflected in LBBW's extensive liquidity. Despite the pandemic, the customer deposit business 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.

Funding requirements and counterbalancing capacity broke down as follows as at 30 June 2022:

Overview of funding requirements and counterbalancing capacity

	3 months		12 months	
EUR billion	**30/06/2022**	**31/12/2021**	**30/06/2022**	**31/12/2021**
Funding requirement from the business portfolio (deterministic cash flow)[1]	– 9.4	– 9.6	– 0.8	– 15.9
Funding requirement from material call risks (stochastic cash flow)	19.2	16.9	35.4	34.2
Funding potential from free liquidity reserves	11.2	11.7	29.9	12.0
Funding potential on the market	68.9	59.0	81.2	69.6
Surplus	*70.2*	*63.4*	*76.6*	*63.3*

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

The funding requirement from the business portfolio in the 3 and 12-month forecast is negative if liquidity inflows exceed the outflows and thus result in excess liquidity. In the shorter-term, in particular, this picture is marked by net inflows in EUR that are offset by net outflows, primarily in USD and GBP (funding requirements). As one of LBBW's tranches in the longer-term ECB tenders now has a remaining term of less than 12 months, excess liquidity (funding requirement from the business portfolio) was lower than at the end of the year. At the same time, free securities increase in this scenario due to securities becoming unencumbered at the end of the term (funding potential from free liquidity reserves). The funding potential and excess liquidity are adequate to compensate for any short-term liquidity outflows and continue to ensure significant surplus on a three month (approximately EUR 70 billion) and 12-month (approximately EUR 77 billion) horizon. The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the twelve-month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

The results of economic 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 funding potential via the market, plus the free liquidity buffer, always exceeded the potential funding requirements under stress scenarios in the first half of 2022. Sufficient surpluses were also available at all times in the foreign currency stress tests and in the EUR stress test for intraday liquidity in this period.

Results of the economic stress scenarios

EUR billion	Funding requirements (3 months)		Funding potential (3 months)	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Rating downgrade scenario	26.0	22.2	36.2	33.5
Financial market crisis scenario	14.6	12.3	55.3	49.6
Combined scenario of market crisis with downgrade	15.2	12.9	48.4	43.7

The required minimum of 100% for the European liquidity coverage ratio (LCR) was complied with. The Group's LCR was 123.0% as at 30 June 2022 (31 December 2021: 141.1%). The net stable funding ratio (NSFR) requirements applicable since June 2021 were also met at all times. At 111.2%, the requirement was also exceeded as at 30 June (31 December 2021: 108.5%).

Operational risks

Risk situation of the LBBW Group

The comments on the risk situation as at the end of 2021, in particular in connection with the legal risks arising from customer transactions involving complex derivatives and developments in consumer protection law in addition to the partial application of principles developed for consumers to commercial clients, continue to apply. Due to the ongoing development of banking case law, the banking landscape will continue to face legal risks. LBBW takes this into account by monitoring the legal situation on an ongoing basis. On the basis of current knowledge, adequate provision has been made to cover any resulting legal risks.

Further legal risks exist as at 30 June 2022 in fiscal law terms concerning capital gains tax. Here, a developed legal position with a retrospective impact on the basis of current legislation or the latest pronouncements by the tax authorities cannot be ruled out.

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

In light of the Russia/Ukraine conflict and the comprehensive and complex sanctions imposed as a result, there is currently an elevated risk in the financial sanctions/embargoes sub-risk type, which is considered material. LBBW's compliance risk management also continues to focus on the other sub-risk types that are deemed material.

Business continuity management measures taken by LBBW in connection with the coronavirus pandemic initially remained in place at the start of 2022 and were gradually withdrawn as restrictions were eased. Crisis organization was transferred to a follow-up organization headed by occupational safety and the occupational health service. This will continue to monitor developments in the pandemic on the basis of legal requirements and can call on an established set of measures from the first two years of the pandemic if the crisis escalates again.

Other material risks

Regarding the other material risks, namely

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

the statements made in the risk report in the LBBW Group's combined management report for 2021 continue to apply. There were no material changes in the first half of 2022.

Forecast and opportunity report

Anticipated economic performance

Economic performance is likely to be muted this year on account of the numerous risks posed by the war in Ukraine, a potential halt in gas supplies from Russia and disruptions in global supply chains caused by China’s zero-Covid policy. LBBW expects GDP to grow by 1.4% in 2022 as a whole. Similar reasoning applies for the eurozone, where growth of 2.8% is expected for the year as a whole. LBBW anticipates GDP growth of 1.5% in the US and 3.4% in China in 2022.

Central banks in the eurozone and in the US are likely to further tighten their monetary policy throughout the year. At present, we expect the ECB to raise key interest rates (deposit facility rate) to 1.00% by the end of the year. The US Federal Reserve looks set to raise its Fed Funds Target Rate to between 3.25% and 3.50%.

Central bank monetary policy will likely depend primarily on further changes in inflation. In the eurozone, inflation will likely average 8.0% this year. Inflation in Germany, as measured by the national consumer price index, is expected to average 7.5%, with LBBW also anticipating an annual average of 7.5% in the US.

LBBW expects yields on ten-year German government bonds to decline further to 0.6% by the end of the year. The EUR/US exchange rate is likely to be USD 1.00 to the euro at the end of 2022. We expect the DAX to come to 13,500 points. All real estate markets covered here are affected by the recent interest rate hikes and the dip in economic prospects since the start of the year. Higher inflation and construction costs will likely be able only to cushion the effect of this. German commercial real estate can expect prices to decline this year. The rate of price increases on other markets looks set to slow, with prices also likely to fall in the future.

Industry and competitive situation

The current financial year, which got off to a robust start as the negative effects of the pandemic began to wear off and fiscal policy support continued, took an unexpected turn for the worse with the beginning of the war in Ukraine and increasing geopolitical tensions. This caused general conditions for Europe's banking sector to deteriorate, with the EBA speaking of >>exceptional times<<. LBBW also expects growth prospects for this year, which have been revised downwards by many institutions, to hamper the banking sector's business performance.

Accordingly, despite the rise in interest rates in recent months, in part due to high inflation rates in Europe, pressure on banking sector profits is to be expected in line with market participants' expectations. LBBW Research believes this is likely due to the expected slowdown in lending and the likely negative impact of poor economic performance on asset quality. Volatility on capital markets is also high at present and is likely to remain so for some time.

Nonetheless, despite this challenging environment ratings agencies confirmed their outlooks for many European banking systems as >>stable<< in spring of this year. This is because key regulatory indicators for liquidity, gearing and capital requirements are largely well over minimum requirements. Despite the many challenges, LBBW Research therefore considers the fundamentals of European banks sound. Moving beyond this current situation, the increasing significance of climate and environmental aspects in the long term is also important. This assessment is underpinned by the latest climate stress test conducted by the ECB's supervisory authorities, even though this does not show any direct implications for participating banks' equity base. Nevertheless, it makes it clear that sustainability is increasingly gaining ground in the banking sector.

Company forecast

General conditions

At the end of 2021, it was still expected that 2022 would see a more rapid economic recovery from the pandemic. However, the outbreak of war between Russia and Ukraine on 24 February 2022, a potential cut-off of Russian gas supply and ongoing supply chain issues in Germany, as well as high inflation as a result of these factors, are now expected to result in another sharp economic downturn and significantly increase the risk of a recession. In addition, interest rates had been expected to remain low in the forecast period. In contrast to expectations, however, market interest rates soared in the first half of 2022. The European Central Bank then raised interest rates in July 2022 and further increases may follow.

Outlook for LBBW

The statements made by LBBW in the company forecast in the 2021 annual report regarding its projections for the 2022 financial year were based on the planning prepared at the end of 2021, which took account of the general conditions described above on the basis of knowledge at this time. Planning did not yet account for the majority acquisition of Berlin Hyp. The statements made were reviewed in mid-2022.

With the political and economic environment remaining challenging, LBBW generated consolidated profit before tax in accordance with IFRS of EUR 476 million in the first half of 2022, up on the previous year despite the sharp increase in the bank levy and expenses for the deposit guarantee system. This was spurred by strong operating income performance in all customer segments, as well as good credit quality. Nevertheless, the second half of the year is subject to high levels of uncertainty in light of the geopolitical situation and potential recession and this could impact LBBW's income and risk profile. In view of this, additional net additions to the model adjustments were made in the first six months of the year, which increased provisions for adverse developments.

LBBW's current estimates regarding the development of the most important financial performance indicators and other indicators for the LBBW Group for 2022 as a whole are set out below. Berlin Hyp will be accounted for in the results of operations, net assets and financial position of the LBBW Group and the Real Estate/Project Finance segment after the transaction is closed on 1 July 2022.

Based on current estimates – although these are subject to considerable uncertainty – LBBW expects consolidated profit before tax to perceptibly exceed target in 2022 as a whole, even adjusted for the impact on earnings in connection with Berlin Hyp. This assumes that revenue momentum will drop off in the second half of the year.

Taking into account the impact on earnings in connection with Berlin Hyp, LBBW's earnings should continue to improve, putting consolidated profit before tax as a whole well in excess of target. This should also have a measurable positive impact on ***return on equity (RoE)*** and the ***cost/income ratio (CIR)***.

LBBW expects in relation to the *common equity Tier 1 capital ratio (»fully loaded«)* to decline slightly compared to original planning given that risk weighted assets are expected to be moderately higher than target, chiefly because of integrating Berlin Hyp. Despite this, the bank should be able to maintain its comfortable capitalization and so, as expected, the common equity Tier 1 capital ratio should be well in excess of the CRR/CRD IV minimum requirements and the SREP[1] requirement of 8.81% at the end of 2022. Even taking into account further current requirements[2], LBBW's common equity Tier 1 (CET 1) capital ratio should be far above ECB requirements.

In comparison to original planning LBBW expects the operating segments to develop as follows in the rest of 2022:

In the *Corporate Customers segment*, LBBW should perceptibly exceed the targets set for segment earnings in the 2022 financial year. This earnings upturn is expected to result primarily from corporate finance business and higher demand for interest and currency hedging products. In addition, the segment should benefit from noticeably lower allowances for losses on loans and securities than planned. *Return on equity (RoE)* will likely improve perceptibly as a result. The *cost/income ratio (CIR)* will likely also be slightly better than expected at the end of the year thanks to earnings, despite a far higher bank levy and expenses for the deposit guarantee system. Despite the good performance expected, an economic slowdown could also affect this segment.

In the *Real Estate/Project Finance segment*, LBBW anticipates a measurable earnings upturn compared to target at the end of 2022, primarily due to positive operating earnings trends that are expected to again be noticeably higher than planned. Taking into account the earnings effects of Berlin Hyp, planned earnings are also likely to be exceeded markedly. In line with the anticipated changes in earnings, *return on equity (RoE)* is expected to be well in excess of target. Moreover, the *cost/income ratio (CIR)* should be substantially better than planned due to higher earnings.

In the *Capital Markets Business segment*, the good performance across almost all core product fields and customer groups should continue at a slower pace. Nevertheless, stable anticipated operating earnings are unlikely to offset the increase in allowances for losses on loans and securities recognized in the first half of the year due to the war between Russia and Ukraine. As a result, segment earnings and *return on equity (RoE)* could remain noticeably lower than planned at the end of the year. Thanks to systematic cost management and an efficient use of resources, however, expenses should remain on par with planning and so the *cost/income ratio (CIR)* looks set to be in line with planning.

In the *Private Customers/Savings Banks segment*, LBBW will likely generate considerably higher than planned segment earnings in the 2022 financial year, a result primarily of good interest rate developments in the deposit business. In addition, operating growth in »private asset management« as a sub-area of the growth area of Asset and Wealth Management is expected to continue as planned. The segment will likely also benefit from markedly lower than planned risk costs. All in all, given these developments we expect *return on equity (RoE)* to be well in excess of original planning. The *cost/income ratio (CIR)* should also be slightly lower than planned at the end of 2022 in line with this.

1 Supervisory Review and Evaluation Process, requirement for 2022 refers at the moment exclusively to LBBW, not accounting for Berlin Hyp.
2 Details can be found in the report on the results of operations, net assets and financial position.

The opportunities and risks for business performance in 2022 described by LBBW in the company forecast in the 2021 annual report are in general still valid. Based on current developments, the elevated risks in connection with the war between Russia and Ukraine should be specifically highlighted, even though provisions were already made for more than a half of direct credit risks in the region in the first half of the year. Uncertainty has risen significantly, especially due to a potential suspension of Russian gas supplies, and risks can indirectly have a negative impact on LBBW's income and risk profile. The current increase in inflation could have additional unexpected negative consequences for margins and earnings in the forecast period, especially if this adversely affects the economy in the longer term or expenses look set to increase beyond planning. At the same time, additional earnings opportunities will arise if interest rates remain increased and/or demand for hedges of our customers increases due to greater market volatility.

03

Condensed consolidated interim financial statements

Condensed consolidated interim financial statements

Income statement

for the period 1 January to 30 June 2022

EUR million	Notes	01/01 – 30/06/2022	01/01 – 30/06/2021[1]
Net interest income	8	1,039	1,026
Interest income and current income from equity instruments		7,493	6,575
of which interest income from financial assets measured at amortized cost		1,193	1,153
of which interest income from financial assets measured at fair value through other comprehensive income		102	121
Interest expenses and current expenses from equity instruments		– 6,454	– 5,550
of which interest expenses from financial liabilities measured at amortized cost		– 523	– 496
Net fee and commission income	9	322	294
Fee and commission income		397	365
Fee and commission expenses		– 75	– 71
Net gains/losses on remeasurement and disposal	10	125	51
of which allowances for losses on loans and securities		– 85	– 63
Other operating income/expenses	11	76	62
Administrative expenses	12	– 897	– 868
Expenses for bank levy and deposit guarantee system	13	– 188	– 137
Net income/expenses from restructuring	14	– 2	0
Consolidated profit/loss before tax		*476*	*428*
Income taxes	15	– 160	– 145
Net consolidated profit/loss		*315*	*283*
of which attributable to shareholders after tax		315	283

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

Statement of comprehensive income

for the period 1 January to 30 June 2022

EUR million	Notes	01/01 – 30/06/2022	01/01 – 30/06/2021
Net consolidated profit/loss		*315*	*283*
Items that will not be transferred subsequently to the income statement			
Retained earnings	37	218	148
Actuarial gains/losses before tax		367	212
Realized gains/losses from the sale of equity instruments		– 37	0
Income taxes	15, 34	– 112	– 64
Measurement gains/losses from own credit rating	37	39	– 35
Measurement gains/losses from own credit rating before tax		55	– 49
Income taxes	15, 34	– 17	15
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)	37	14	7
Measurement gains/losses before tax		– 8	8
Transfer to realized gains/losses from the sale of equity instruments		37	0
Income taxes	15, 34	– 14	– 2
Items that will be transferred subsequently to the income statement when specific conditions are met			
Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income)	37	– 287	25
Measurement gains/losses before tax		– 352	31
Transferred to income statement		– 8	8
Income taxes	15, 34	73	– 15
Measurement gains/losses of the currency basis element from hedging transaction	37	1	– 0
Measurement gains/losses before tax		2	– 0
Currency translation differences	37	12	5
Changes before tax		12	5
Net consolidated profit/loss in equity		*– 2*	*149*
Net consolidated total comprehensive income		*313*	*433*
of which attributable to shareholders after tax		312	432

Statement of financial position

as at 30 June 2022

Assets

EUR million	Notes	30/06/2022	31/12/2021
Cash and cash equivalents	17	69,513	36,871
Financial assets measured at amortized cost	18	176,805	167,323
Loans and advances to banks		55,082	46,468
Loans and advances to customers		120,715	119,851
Debentures and other fixed-income securities		1,008	1,004
Financial assets measured at fair value through other comprehensive income	19	33,619	33,288
Financial assets designated at fair value	22	1,378	1,374
Financial assets mandatorily measured at fair value through profit or loss	23	40,444	36,976
Shares in investments accounted for using the equity method	7	265	274
Portfolio hedge adjustment attributable to assets		– 8	708
Non-current assets and disposal groups held for sale	30	16	1
Intangible assets	31	157	158
Investment property	32	793	805
Property and equipment	33	709	731
Current income tax assets	34	106	104
Deferred income tax assets	34	983	1,029
Other assets	35	4,652	2,703
Total assets		*329,432*	*282,344*

Equity and liabilities

EUR million	Notes	30/06/2022	31/12/2021
Financial liabilities measured at amortized cost	24	281,630	235,174
Deposits from banks		107,213	88,259
Deposits from customers		116,632	97,022
Securitized liabilities		52,804	44,869
Subordinated capital		4,981	5,024
Financial liabilities designated at fair value	25	3,682	4,895
Financial liabilities mandatorily measured at fair value through profit or loss	26	27,483	23,689
Portfolio hedge adjustment attributable to liabilities		– 1,873	11
Provisions	36	1,606	2,080
Current income tax liabilities	34	284	346
Deferred income tax liabilities	34	21	24
Other liabilities	35	2,352	1,928
Equity	*37*	*14,249*	*14,197*
Share capital		3,484	3,484
Capital reserve		8,240	8,240
Retained earnings		1,585	1,211
Other comprehensive income		– 156	65
Net consolidated profit/loss		315	418
Shareholders' equity		*13,468*	*13,417*
Additional equity components		745	745
Equity attributable to non-controlling interests		36	35
Total equity and liabilities		*329,432*	*282,344*

Statement of changes in equity

for the period 1 January to 30 June 2022

EUR million	Share capital	Capital reserve	Retained earnings[1]	Valuation reserve for equity instruments	Valuation reserve for debt instruments	Measurement gains/losses from investments accounted for using the equity method
Equity as at 1 January 2021	*3,484*	*8,240*	*1,238*	*- 38*	*61*	*- 1*
Allocation to retained earnings	0	0	172	0	0	0
Distribution to shareholders	0	0	- 89	0	0	0
Net consolidated profit/loss in equity	0	0	148	7	25	- 0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	148	7	25	- 0
Servicing of additional equity components	0	0	- 30	0	0	0
Other changes in equity	0	0	- 1	0	0	0
Equity as at 30 June 2021	*3,484*	*8,240*	*1,439*	*- 32*	*87*	*- 2*
Distribution to shareholders	0	0	- 269	0	0	0
Net consolidated profit/loss in equity	0	0	42	- 6	- 8	- 0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	42	- 6	- 8	- 0
Equity as at 31 December 2021	*3,484*	*8,240*	*1,211*	*- 38*	*78*	*- 2*
Equity as at 1 January 2022	*3,484*	*8,240*	*1,211*	*- 38*	*78*	*- 2*
Transfer to retained earnings	0	0	418	0	0	0
Distribution to shareholders	0	0	- 230	0	0	0
Net consolidated profit/loss in equity	0	0	218	14	- 287	0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	218	14	- 287	0
Servicing of additional equity components	0	0	- 30	0	0	0
Other changes in equity	0	0	- 1	0	0	0
Equity as at 30 June 2022	*3,484*	*8,240*	*1,585*	*- 23*	*- 209*	*- 2*

1 Profit and loss carryforwards and restatement of prior year amounts 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	Additional equity components	Equity attributable to non-controlling interests	Total
0	*38*	*15*	*172*	*13,209*	*745*	*33*	*13,987*
0	0	0	– 172	0	0	0	0
0	0	0	0	– 89	0	0	– 89
– 0	– 35	5	0	149	0	0	149
0	0	0	283	283	0	0	283
– 0	– 35	5	283	432	0	0	433
0	0	0	0	– 30	0	0	– 30
0	0	0	0	– 1	0	1	0
0	*3*	*19*	*283*	*13,522*	*745*	*35*	*14,301*
0	0	0	0	– 269	0	0	– 269
– 0	– 2	6	0	30	0	0	30
0	0	0	135	135	0	– 0	135
– 0	– 2	6	135	165	0	– 0	165
– 0	*1*	*25*	*418*	*13,417*	*745*	*35*	*14,197*
– 0	*1*	*25*	*418*	*13,417*	*745*	*35*	*14,197*
0	0	0	– 418	0	0	0	0
0	0	0	0	– 230	0	0	– 230
1	39	12	0	– 2	0	0	– 2
0	0	0	315	315	0	0	315
1	39	12	315	312	0	0	313
0	0	0	0	– 30	0	0	– 30
0	0	0	0	– 1	0	1	0
1	*40*	*38*	*315*	*13,468*	*745*	*36*	*14,249*

Condensed cash flow statement

for the period 1 January to 30 June 2022

EUR million	Notes	01/01 – 30/06/2022	01/01 – 30/06/2021
Cash and cash equivalents at the beginning of the period	*17*	*36,871*	*13,650*
Cash flow from operating activities		33,902	47,906
Cash flow from investing activities		– 50	– 73
Cash flow from financing activities		– 196	– 781
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		– 1,013	– 235
Cash and cash equivalents at the end of the period	*17*	*69,513*	*60,467*

The increase in cash and cash equivalents at the end of the period essentially stems from the rise in balances with central banks.

In addition to the cash change in equity (dividend payment, issuing and servicing additional equity components), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. During the period under review, the volume of subordinated capital held decreased by EUR – 43 million from the previous year. This change resulted primarily from measurement effects of EUR – 84 million and an effect from present value accounting of EUR – 21 million. In addition, changes in exchange rates of EUR 61 million changed the amount of subordinated capital.

The acquisition of Acteum Investment GmbH (»Acteum«) by LBBW Immobilien Investment Management GmbH (»LIIM«) in the first half of 2022 resulted primarily in goodwill of EUR 10 million (see Note 6). There were no cash and cash equivalents. The net cash outflow (purchase price less cash and cash equivalents received) came to EUR – 10 million.

Selected notes to the consolidated interim financial statements

for the first half of the 2022 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 interim financial statements of LBBW as at 30 June 2022 were prepared in accordance with Section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with Section 117 no. 2 WpHG pursuant to the International Financial Reporting Standards (IFRS) as adopted in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and effective for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

2. Accounting principles

The reporting period for the consolidated interim financial statements covers the period from 1 January to 30 June 2022. The consolidated interim financial statements as at 30 June 2022 do not contain all the information and disclosures required of the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2021. Unless explicitly stated, the interim financial statements apply the same accounting policies as the 2021 consolidated financial statements.

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

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

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

The reporting year is the calendar year.

3. Changes and estimates

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

IFRS applied for the first time

The following IFRS were applied for the first time in the 2022 financial year.

- Reference to the Conceptual Framework – Amendments to IFRS 3
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Annual Improvements to IFRS 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41
  The amendments have no material effect on the LBBW consolidated interim financial statements.

IFRS to be applied in the future

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

Title of IFRS	First-time adoption expected in	Endorsement (yes/no)	IFRS subject matter
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies	2023 financial year	Yes	The amendments to IAS 1 and IFRS Practice Statement 2 provide more detail on the disclosure requirements for accounting policies.
Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates	2023 financial year	Yes	The amendments to IAS 8 are intended to provide a better distinction between changes in estimates and changes in methods.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	2023 financial year	No	These amendments provide clarification where there is doubt surrounding applying IAS 12 to exemptions on the recognition of deferred taxes.
Classification of Liabilities as Current or Non-Current – Amendments to IAS 1	2023 financial year	No	This amendment updates the Standard IAS 1 by clarifying in which cases an existing right to defer settlement of liabilities results in this being classified as »non-current« (more than 12 months).
IFRS 17 »Insurance Contracts« and Amendments to IFRS 17	2023 financial year	Yes	This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4.
Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information	2023 financial year	Yes	This amendment covers problems that arise when presenting comparative information on initial application of IFRS 17 and IFRS 9.

Adjustments

The following changes in estimates were made prospectively in accordance with IAS 8.39 in the first half of 2022:

- The funding value adjustment (FVA) accounts for the costs of funding unsecured derivatives as a mark-up/mark-down when calculating fair value. The model-based approach was further developed on the basis of NSFR costs in line with the market standard as follows. The FVA now represents the exit price for funding costs at a potential purchase date of an unsecured derivatives portfolio. This change results in a net gains from financial instruments measured at fair value through profit or loss of EUR 17.8 million. At the same time, deferred tax expenses increase by EUR – 5.4 million.

The impact of the changes made to estimates on future reporting periods in the reporting period 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.

Due to technical improvements, some disclosures in the notes were determined in more detail in the first half of the financial year, primarily in Note 8. The relevant prior year figures were restated accordingly to improve clarity and transparency. This affects only disclosures in the notes and has no impact on figures in the statement of financial position or earnings in the income statement.

4. Events after the reporting period

Following signing the contract on 26 January 2022 and subsequent approval steps, LBBW acquired 100 % of interests and voting rights in Berlin Hyp AG, Berlin (hereinafter referred to as: Berlin Hyp) as at 1 July 2022. The transfer of shares on 1 July 2022 marked the fulfillment of all contractual and supervisory preliminary conditions (closing) and so 1 July 2022 is the acquisition date.

Berlin Hyp is a commercial real estate financier and was a wholly owned subsidiary of Landesbank Berlin Holding AG, Berlin, until the acquisition date. The main reason for the acquisition was Berlin Hyp's highly-profitable, low-risk and sustainability-focused business model. The takeover allowed the division to significantly bolster commercial real estate financing in the Real Estate/Project Finance segment. As at 30 June 2022, Berlin Hyp had a financing volume of around EUR 27 billion. The corresponding financing volume in commercial real estate financing at LBBW was around EUR 28 billion.

As the business combination closed after the reporting date 30 June 2022, Berlin Hyp was not yet included in the LBBW Group's basis of consolidation as at the reporting date. Accordingly, Berlin Hyp's earnings for H1 2022 were also not included in LBBW's income statement as at 30 June 2022. Income and the contribution to net consolidated profit/loss under the assumption that the acquisition took place on 1 January 2022 have not yet been calculated due to the proximity of the transaction to the reporting date 30 June 2022.

Purchase price allocation, including calculating the total consideration transferred and the difference compared to the newly calculated net assets of Berlin Hyp, was not finalized at the time of preparing the half-yearly financial report as the short time between the transaction and the reporting date meant that not all information on facts and/or circumstances required for the calculation was available at the acquisition date.

The LBBW Group incurred costs of EUR 6.8 million in the 2022 financial year to 30 June 2022 in connection with the business combination, essentially fees for external services. Costs associated with the business combination in the 2021 prior period came to EUR 2.8 million (EUR 0 million for the period from 1 January to 30 June 2021). These costs are recognized in administrative expenses.

B. Group of companies

5. Basis of consolidation

In addition to LBBW (Bank) as the parent company, 92 subsidiaries (31 December 2021: 92 subsidiaries) including four structured entities were included in the consolidated interim financial statements.

The following subsidiary was consolidated for the first time in 2022:

- Acteum Investment GmbH

The fully consolidated subsidiary Lyoner Quartier GmbH & Co. KG was merged with LBBW Immobilien Management GmbH after being entered in the Commercial Register on 4 February 2022 on account of the merger of the non-consolidated subsidiary KB Projekt GmbH (general partner).

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

A total of 41 subsidiaries (31 December 2021: 45 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These are predominantly property and shelf companies.

6. Business combinations during the current reporting period

On 26 April 2022, LBBW Immobilien Investment Management GmbH (»LIIM«) resolved to acquire 100 % of Acteum Investment GmbH (»Acteum«) as part of further expanding the »Real estate funds« area of LIIM. The acquisition of Acteum on 31 May 2022 thus made LIIM the sole shareholder of Acteum and so it obtained control. Acteum focuses on providing services for asset management companies, primarily in fund, investment, portfolio and asset management.

Acteum's contributions to earnings as at 30 June 2022 were far below EUR 1 million. Assuming an initial consolidation date for Acteum as at 1 January 2022, income would have been EUR 1 million higher than reported, whereas net consolidated profit/loss would not have changed. When calculating these amounts, management assumed that the changes in fair value made at the acquisition date would also have been accurate if it had been acquired on 1 January 2022.

The consideration transferred comprises EUR 10 million in cash and contingent consideration valued at less than EUR 0.5 million as at 30 June 2022.

The LBBW Group incurred costs of far lower than EUR 1 million in the 2022 financial year to 30 June 2022, chiefly for consultancy and legal costs. These costs are recognized in Other operating income/expenses.

The purchase price allocation for the assets acquired and liabilities assumed (as described below) had not yet been finalized at the time of preparing the half-yearly financial report. Fair values as at the acquisition date were as follows: Loans and advances to banks of EUR 1 million, Other assets of EUR 1 million and Other liabilities of EUR 1 million. Loans and advances to banks comprise gross contractual amounts receivable of EUR 1 million, EUR 0 million of which was expected to be uncollectible as at the acquisition date (net: EUR 1 million). If new information comes to light within one year of the acquisition date about facts and circumstances that existed at the acquisition date and that would have resulted in adjustments to the amount stated above, accounting for the business combination is revised and/or taken into account when preparing the consolidated financial statements.

The transaction resulted in goodwill of EUR 10 million, which was capitalized and assigned to the Real Estate/Project Finance segment in full. Goodwill as at the reporting date 30 June 2022 also came to EUR 10 million.

The goodwill generated by the acquisition stems primarily from further expanding/making small additions to portfolios, additional sources of income in property management and synergy effects in LIIM's fund/asset management.

7. Shares in investments accounted for using the equity method

EUR million	30/06/2022	31/12/2021
Associates	265	273
Total	*265*	*274*

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

C. Segment reporting

LBBW's segment reporting for the first half of 2022 has been prepared in accordance with the provisions of IFRS 8. Following the »management approach«, segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions about the allocation of resources and the assessment of the performance of the segments on this basis.

Segment definition

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

There have been no changes to LBBW's segmentation in comparison to 2021. The description of the individual segments can be found in the 2021 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. A segment's return on equity (RoE) is calculated as the ratio of (annualized) consolidated profit/loss before tax to the average restricted equity in the reporting period.[1]

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

Segment results

01/01 – 30/06/2022 EUR million	Corporate Customers	Real Estate/ Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	484	247	191	141	- 23	1,039
Net fee and commission income	116	9	55	142	0	322
Net gains/losses on remeasurement and disposal	- 2	- 40	194	4	- 31	125
of which allowances for losses on loans and securities	- 12	- 46	- 39	3	9	- 85
Other operating income/expenses	7	62	- 2	- 2	10	76
Total operating income/expenses	*605*	*278*	*438*	*286*	*- 44*	*1,563*
Administrative expenses	- 295	- 95	- 236	- 243	- 28	- 897
Expenses for bank levy and deposit guarantee system	- 29	- 14	- 43	- 2	- 100	- 188
Net income/expenses from restructuring	0	0	0	0	- 2	- 2
Consolidated profit/loss before tax	*281*	*169*	*159*	*41*	*- 174*	*476*
Income taxes						- 160
Net consolidated profit/loss						*315*
Assets (EUR billion)	66.9	33.9	183.5	41.9	3.3	329.4
Risk weighted assets[1] (EUR billion)	40.9	15.0	22.0	8.5	4.9	91.4
Tied-up equity[1] (EUR billion)	5.2	2.0	2.8	1.1	2.9	14.0
Return on equity (RoE) (in %)	10.9	17.3	11.4	7.4		6.8
Cost/income ratio (CIR) (in %)	52.5	33.7	58.5	86.8		66.0

1 In accordance with CRR II/CRD V.

01/01/ – 30/06/2021 EUR million	Corporate Customers[2]	Real Estate/ Project Finance[2]	Capital Markets Business[2]	Private Customers/ Savings Banks[2]	Corporate Items/ Reconciliation/ Consolidation[2]	LBBW Group[2]
Net interest income	484	201	236	133	- 28	1,026
Net fee and commission income	91	7	65	126	5	294
Net gains/losses on remeasurement and disposal	- 77	- 16	112	1	32	51
of which allowances for losses on loans and securities	- 85	- 17	0	0	38	- 63
Other operating income/expenses	13	38	4	- 13	19	62
Total operating income/expenses	*511*	*230*	*417*	*247*	*28*	*1,433*
Administrative expenses	- 287	- 84	- 214	- 246	- 36	- 868
Expenses for bank levy and deposit guarantee system	- 20	- 10	- 32	0	- 75	- 137
Consolidated profit/loss before tax	*204*	*136*	*170*	*1*	*- 83*	*428*
Income taxes						- 145
Net consolidated profit/loss						*283*
Assets (EUR billion)	60.1	31.2	167.9	39.6	5.4	304.1
Risk weighted assets[1] (EUR billion)	37.3	13.7	18.5	8.1	4.9	82.5
Tied-up equity[1] (EUR billion)	5.0	1.8	2.3	1.1	3.6	13.7
Return on equity (RoE) (in %)	8.1	15.3	15.1	0.2		6.3
Cost/income ratio (CIR) (in %)	51.5	38.0	59.2	99.6		67.2

1 In accordance with CRR II/CRD V.
2 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items 01/01 – 30/06/2022	Corporate Items 01/01 – 30/06/2021[2]	Reconciliation/Consolidation 01/01 – 30/06/2022	Reconciliation/Consolidation 01/01 – 30/06/2021[2]	Corporate Items/ Reconciliation/Consolidation 01/01 – 30/06/2022	Corporate Items/ Reconciliation/Consolidation 01/01 – 30/06/2021[2]
Net interest income	– 5	– 2	– 19	– 26	– 23	– 28
Net fee and commission income	5	1	– 5	4	0	5
Net gains/losses on remeasurement and disposal	– 31	39	0	– 7	– 31	32
of which allowances for losses on loans and securities	9	38	0	0	9	38
Other operating income/expenses	10	19	0	0	10	19
Total operating income/expenses	*– 20*	*58*	*– 24*	*– 30*	*– 44*	*28*
Administrative expenses	– 28	– 36	0	0	– 28	– 36
Expenses for bank levy and deposit guarantee system	– 100	– 75	0	0	– 100	– 75
Net income/expenses from restructuring	– 2	0	0	0	– 2	0
Consolidated profit/loss before tax	*– 150*	*– 54*	*– 24*	*– 30*	*– 174*	*– 83*
Assets (EUR billion)	6.8	4.4	– 3.5	1.0	3.3	5.4
Risk weighted assets[1] (EUR billion)	5.3	5.3	– 0.4	– 0.4	4.9	4.9
Tied-up equity[1] (EUR billion)	3.0	3.6	– 0.1	– 0.1	2.9	3.6

1 In accordance with CRR II/CRD V.
2 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

Reconciliation of segment results to the consolidated income statement

In the first half of 2022, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax came to EUR – 24 million (previous year: EUR – 30 million) and is essentially due to the following factors:

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

D. Income statement

8. Net interest income

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021[1]
Interest income and current income from equity instruments	*7,493*	*6,575*
Interest income	7,463	6,526
Trading derivatives	4,409	3,735
Lending and money market transactions	1,210	1,055
Hedging derivatives	925	927
Fixed-income securities and debentures	109	84
Early termination fees[2]	17	45
Leasing business	103	121
Other	360	244
Positive interest expenses from financial liabilities	330	315
Current income from equity instruments	30	49
Equities and other non-fixed-income securities	28	47
Equity investments and affiliates	2	2
Interest expenses and current expenses from equity instruments	*– 6,454*	*– 5,550*
Interest expenses	– 6,454	– 5,550
Trading derivatives	– 4,272	– 3,543
Hedging derivatives	– 948	– 947
Deposits	– 336	– 300
Securitized liabilities	– 212	– 195
Leasing business	– 11	– 24
Lease liabilities	– 1	– 1
Subordinated capital	– 90	– 101
Other	– 383	– 260
Negative interest income from financial assets	– 202	– 178
Total	*1,039*	*1,026*

1 Restatement of prior year amounts (see Note 3).
2 The offsetting effect from refinancing costs is included in interest expenses.

Participating in the third series of targeted longer-term refinancing operations (TLTRO III) with the ECB did not result in any additional funding in the reporting period. LBBW accounts for the base rate reduction and the new additional interest reductions as government grants in accordance with IAS 20. Income generated as a result of the reductions is reported in positive interest expenses from financial liabilities (gross) and recognized when there is reasonable assurance that the Group will meet the conditions for the reduction. The conditions for recognizing additional interest rate reductions of EUR 68 million (previous year: EUR 110 million) for the period from 1 January 2022 to 23 June 2022 were met as at 30 June 2022. Alongside the base rate reduction of EUR 67 million (previous year: EUR 61 million), net interest income for H1 2022 includes a total of EUR 135 million (previous year: EUR 171 million) in connection with participating in the tender program. This was offset by negative interest income from deposits held by LBBW with central banks, banks and customers. Accounts payable from TLTRO III as at the end of the reporting period still came to EUR 27.49 billion (previous year: EUR 27.78 billion). Only IFRS 9 applies after the end of the interest period from 24 June 2021 to 23 June 2022 for TLTRO III transactions, as no government grants were recognized for these periods when the tranches were added.

9. Net fee and commission income

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Fee and commission income	*397*	*365*
Securities and custody business	183	178
Payments business	65	57
Brokerage business	24	22
Loans and guarantees[1]	71	61
Fee and commission income from factoring business	9	8
Fee and commission income from asset management	38	35
Other	7	4
Fee and commission expenses	*– 75*	*– 71*
Securities and custody business	– 48	– 46
Payments business	– 12	– 11
Loans and guarantees[1]	– 5	– 5
Brokerage business	– 2	– 2
Leasing business	– 1	– 1
Other	– 6	– 6
Total	*322*	*294*

1 Includes lending, trustee, guarantee and credit business.

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

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

10. Net gains/losses on remeasurement and disposal

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Net income/expenses from investments accounted for using the equity method	– 3	1
Net gains/losses from financial assets measured at amortized cost	– 85	– 64
Net gains/losses from financial instruments measured at fair value through other comprehensive income	8	– 8
Net gains/losses from financial instruments measured at fair value through profit or loss	206	123
Total	*125*	*51*

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

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Net gains/losses on measurement	*– 3*	*1*
Net gains/losses from investments in associates	– 2	1
Current expenses	– 3	– 0
Current income	11	11
Impairment	– 11	– 10
Net gains/losses from investments in joint ventures	– 1	– 0
Impairment	– 1	0
Total	*– 3*	*1*

Net gains/losses from financial assets measured at amortized cost

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 84*	*– 63*
Reversal of/disposals from allowances for losses on loans and securities	207	228
Net gains/losses from provisions for lending business	45	67
Recoveries on loans and securities previously written off	7	7
Direct loan write-offs	– 1	– 3
Gains/losses from financial assets that were already impaired when purchased or originated	0	– 24
Additions to allowances for losses on loans and securities	– 340	– 337
Other expenses for the lending business	– 2	– 2
Realized gains/losses	*– 1*	*– 1*
Securities net gains/losses on disposal	– 1	– 1
Total	*– 85*	*– 64*

While underlying allowances for losses on loans and securities remained unremarkable, additional model adjustments of EUR – 90 million were made taking account of the current crises. Various shocks were modeled here, including a partial or complete halt in the supply of Russian gas, the impact of sustained high inflation and the consequences of China’s zero-Covid strategy. It also took into account economic effects, which combined with rising interest rates could significantly weaken the real estate market. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and an ongoing low default rate[1] of 0.4% as at the reporting date 30 June 2022 (previous year: 0.5%).

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

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

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 0*	*0*
Reversal of/disposals from allowances for losses on loans and securities	1	1
Additions to allowances for losses on loans and securities	– 1	– 1
Realized gains/losses	*8*	*– 8*
Net gains/losses on disposal	8	– 8
Total	*8*	*– 8*

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

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Net gains/losses from hedging transactions	*– 41*	*– 4*
Portfolio fair value hedge	– 42	– 4
of which hedged items	– 533	– 170
of which hedging instruments	491	166
Micro fair value hedge	1	– 1
of which hedged items	– 62	– 13
of which hedging instruments	62	12
Group fair value hedge	0	0
of which hedged items	– 8	0
of which hedging instruments	9	0
Net trading gains/losses	*247*	*67*
Lending business	9	– 5
Equity transactions	– 636	– 158
Foreign exchange transactions	72	52
Economic hedging derivatives	197	– 31
Interest rate transactions	602	202
Gains/losses from foreign exchange/commodity products	2	7
Net gains/losses from financial instruments designated at fair value	*215*	*88*
Unrealized gains/losses	215	88
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	*– 215*	*– 28*
Net gains/losses from credits and loans	– 174	– 40
Net gains/losses from equity investments	2	2
Net gains/losses from investments in affiliates	– 2	0
Net gains/losses from shares and other equity instruments	– 42	10
Total	*206*	*123*

In net gains/losses from hedging transactions, micro and portfolio fair value hedges are used only to avoid income statement volatility from interest rate risks. Group fair value hedges are intended to avoid income statement volatility from basis risks for foreign currency transactions.

Capital market activities were particularly instrumental in the improvement in net trading gains/losses, with high demand for hedging products in view of the currency and interest rate environment and a sharp increase in new business for certificates. Offsetting changes in value in relation to hedge items, both within Net trading gains/losses and compared to net gains/losses from financial instruments designated at fair value and financial instruments not classified as held for trading, show substantial changes in value here, which are to a large extent neutralized by offsetting measurement effects of the related economic hedging transactions.

11. Other operating income/expenses

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Other operating income	*267*	*170*
Disposal of inventories	146	56
Reversal of other provisions	7	13
Revenue from property services	9	7
Income from cost refunds by third parties	15	13
Operating leases	11	10
Fixed assets and intangible assets	3	0
Lease income from investment property	26	23
Net income from the fair value measurement of investment property	0	7
Miscellaneous operating income	52	41
Other operating expenses	*– 191*	*– 108*
Disposal of inventories	– 112	– 47
Addition to other provisions	– 12	– 13
Operating leases	– 4	– 3
Operating expenses for leased properties	– 5	– 9
Net losses from the fair value measurement of investment property	– 3	– 2
Foreign currency translation on investment property	– 1	0
Miscellaneous operating expenses	– 53	– 34
Total	*76*	*62*

The sub-item income and expenses from the disposal of inventories includes revenues in girder fabrication, revenues from real estate business, revenues from the sale of new properties, revenues from construction services, revenues from development measures and revenues from the sale of undeveloped land in accordance with IFRS 15. Improved earnings were essentially the result of higher sale proceeds from projects completed in the reporting period.

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

12. Administrative expenses

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Staff costs	*– 506*	*– 521*
Wages and salaries	– 366	– 360
Expenses for pensions and benefits	– 44	– 55
Social security contributions	– 63	– 61
Other staff costs	– 34	– 44
Other administrative expenses	*– 337*	*– 284*
IT costs	– 197	– 168
Legal and consulting expenses	– 37	– 22
Expenses from leases	– 1	– 1
Cost of premises	– 24	– 24
Association and other contributions	– 22	– 21
Advertising, public relations and representation costs	– 11	– 7
Audit costs	– 5	– 4
Miscellaneous administrative expenses	– 39	– 36
Depreciation, amortization and write-downs[1]	*– 54*	*– 63*
Amortization and write-downs of intangible assets	– 23	– 30
Depreciation and write-downs of property and equipment	– 11	– 11
Depreciation and write-downs on right-of-use assets	– 20	– 21
Total	*– 897*	*– 868*

1 Including depreciation/amortization and impairment.

The increase in expenses is partially due to higher IT costs in connection with regulatory requirements.

13. Expenses for bank levy and deposit guarantee system

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Expenses for bank levy	– 134	– 104
Expenses for deposit guarantee system	– 55	– 33
Total	*– 188*	*– 137*

The increase in this item was affected by the further increase in the target volume for the bank levy due to the 9% rise in covered deposits in the eurozone and the increase in the target volume due to a further rise in the fund volume to EUR 80 billion. Expenses for the deposit guarantee system also rose by EUR – 21 million year on year to EUR – 55 million, chiefly due to DKB Bank AG leaving the deposit guarantee system of the Sparkassen-Finanzgruppe.

14. Net income/expenses from restructuring

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Reversal of provisions for restructuring measures	1	0
Additions to restructuring provisions	– 3	0
Total	*– 2*	*0*

15. Income taxes

EUR million	01/01 – 30/06/2022	01/01 – 30/06/2021
Income taxes from previous years	– 0	– 18
Income taxes from the reporting period	– 187	– 100
Deferred income taxes	28	– 27
Total	*– 160*	*– 145*

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

E. Financial instruments

Accounting policies

16. Determining fair value

General information

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

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

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

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

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

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

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

Financial instruments	Measurement models	Material inputs
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean revers
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index 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
Financial assets measured at fair value	
Derivatives	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options, interest rate swaps
Equity instruments	Investment units, equities, equity investments, shares in affiliates
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial assets measured at amortized cost	
Cash and cash equivalents	Cash, balances with central banks
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial liabilities measured at fair value	
Derivatives	Currency options, 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
Financial liabilities measured at amortized cost	
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions

Securities

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

Derivatives

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

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

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

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

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

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

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

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

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

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

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

Equity instruments

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

Receivables

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

Determining rating-induced changes in fair value

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

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

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

Financial assets

17. Cash and cash equivalents

EUR million	30/06/2022	31/12/2021
Balances with central banks	69,328	36,682
Cash	185	189
Total, gross	*69,513*	*36,871*
Total, net	*69,513*	*36,871*

Balances with central banks included balances with Deutsche Bundesbank of EUR 47.241 million (previous year: EUR 24.079 million).

18. Financial assets measured at amortized cost

Loans and advances to banks

EUR million	30/06/2022	31/12/2021
Public-sector loans	38,618	34,106
Current account claims	1,209	418
Securities repurchase transactions	8,870	6,828
Other loans	1,040	1,056
Overnight and term money	3,682	3,480
Other receivables	1,731	614
Total, gross	*55,151*	*46,501*
Allowances for losses on loans and securities	– 69	– 32
Total, net	*55,082*	*46,468*

In savings banks business, LBBW maintained the success generated in the previous year and boosted its business further, which in part translated into an upturn in public sector loans. This included gross transmitted loans of EUR 27.262 million (previous year: EUR 26.278 million).

Loans and advances to customers

EUR million	30/06/2022	31/12/2021
Other loans	26,265	25,136
Mortgage loans	39,465	38,801
Public-sector loans	13,361	14,124
Receivables from finance leases	5,386	5,571
Transmitted loans	3,837	3,580
Securities repurchase transactions	9,481	9,042
Current account claims	3,102	2,113
Overnight and term money	7,412	9,861
Schuldschein loans	8,242	8,055
Other receivables	5,522	4,855
Total, gross	*122,075*	*121,139*
Allowances for losses on loans and securities	– 1,360	– 1,288
Total, net	*120,715*	*119,851*

Ongoing implementation of the customer-oriented and diversified business model expanded corporate finance and real estate financing business, in particular, and was reflected in the increase in Other loans, current account assets and mortgage loans.

As well as the transmitted loans shown in the table, the sub-items mortgage loans also includes gross transmitted loans of EUR 3.054 million (previous year: EUR 3.142 million). In addition, public-sector loans also include gross transmitted loans of EUR 918 million (previous year: EUR 1.013 million).

Debentures and other fixed-income securities

EUR million	30/06/2022	31/12/2021
Government bonds and government debentures	273	318
Other bonds and debentures	743	694
Total, gross	*1,016*	*1,012*
Allowances for losses on loans and securities	– 8	– 8
Total, net	*1,008*	*1,004*

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

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

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2022	*89*	*716*	*524*	*– 1*	*1,328*
Changes	– 43	110	18	– 1	83
Transfer to Stage 1	10	– 10	– 0	0	– 0
Transfer to Stage 2	– 43	44	– 1	0	– 0
Transfer to Stage 3	– 1	– 2	2	0	0
Additions	9	146	106	0	261
Reversals	– 19	– 68	– 54	– 1	– 143
Utilization	– 0	0	– 36	0	– 36
Additions	12	6	60	0	79
Disposals	– 3	– 8	– 54	0	– 64
Other changes	0	2	9	0	12
Balance as at 30 June 2022	*55*	*826*	*558*	*– 2*	*1,438*

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2021	*44*	*520*	*541*	*- 0*	*1,104*
Changes	33	207	50	- 1	289
Transfer to Stage 1	17	- 16	- 1	0	- 0
Transfer to Stage 2	- 11	14	- 2	0	- 0
Transfer to Stage 3	- 1	- 17	19	0	- 0
Additions	53	290	176	0	519
Reversals	- 25	- 63	- 95	- 6	- 188
Utilization	0	- 0	- 47	5	- 42
Additions	18	13	13	0	43
Disposals	- 6	- 25	- 93	- 0	- 125
Other changes	1	2	14	0	17
Balance as at 31 December 2021	*89*	*716*	*524*	*- 1*	*1,328*

It is a great challenge to calculate the allowances for losses on loans and securities given the 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 for the 2022 half-yearly report 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 the sector. Allowances for losses on loans and securities to quantify the effects of structural change towards e-mobility were reduced marginally towards the end of 2021. This decline was essentially a result of a reduction in the portfolio volume. Overall, another increase in the model adjustments had a EUR 90 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 10 and 20.

The gross carrying value of financial assets measured at amortized cost as at the reporting date 30 June 2022 was EUR 178.242 million (previous year: EUR 168.652 million) and broke down as follows: EUR 115.981 million Stage 1 (previous year: EUR 138.773 million), EUR 61.067 million Stage 2 (previous year: EUR 28.767 million), 1.166 Mio. EUR Stage 3 (previous year: EUR 1.081 million) and EUR 29 million in credit impairment at recognition (previous year: EUR 30 million).

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

30/06/2022 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	1,460	311	2	1,773

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

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.

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

EUR million	30/06/2022	31/12/2021
Equity instruments	*56*	*61*
Equity investments	53	58
Shares in affiliates	3	3
Debentures and other fixed-income securities	*30,563*	*29,801*
Money market instruments	709	652
Bonds and debentures	29,854	29,149
Receivables	*3,000*	*3,426*
Total	*33,619*	*33,288*

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
Balance as at 1 January 2022	*3*	*3*
Changes	– 0	– 0
Reversals	– 1	– 1
Additions	1	1
Balance as at 30 June 2022	*3*	*3*

EUR million	Stage 1 12-month expected credit loss	Total
Balance as at 1 January 2021	*3*	*3*
Changes	– 1	– 1
Reversals	– 1	– 1
Additions	1	1
Balance as at 31 December 2021	*3*	*3*

The gross carrying value of financial assets mandatorily measured at fair value through other comprehensive income as at the reporting date 30 June 2022 was EUR 33.563 million (previous year: EUR 33.227 million) and broke down as follows: EUR 33.557 million Stage 1 (previous year: EUR 33.220 million) and EUR 6 million Stage 2 (previous year: EUR 7 million).

Note 21 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

20. 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 (equal to total exposure) and the effect of risk-mitigating measures.

30/06/2022 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	36,166	0	0	0	36,166
Equity instruments	1,521	0	0	0	1,521
Debentures and other fixed-income securities	31,945	0	0	0	31,945
Receivables	2,700	0	0	0	2,700
Financial assets designated at fair value	1,404	0	478	0	926
Debentures and other fixed-income securities	52	0	0	0	52
Receivables	1,352	0	478	0	874
Financial assets mandatorily measured at fair value through profit or loss	140,210	114,453	7,871	297	17,588
Trading assets	131,852	106,882	7,871	295	16,803
Derivatives	98,858	87,044	5,492	114	6,207
Equity instruments	593	529	0	0	64
Debentures and other fixed-income securities	7,861	3,211	504	0	4,147
Receivables	24,539	16,098	1,875	181	6,385
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	909	154	0	2	753
Equity instruments	546	151	0	0	394
Receivables	363	3	0	2	359
Positive fair values from derivative hedging instruments	7,449	7,417	0	0	32
Financial assets measured at amortized cost					
Cash and cash equivalents	23,409	0	0	0	23,409
Financial assets measured at amortized cost	198,010	46,748	0	41,349	109,913
Loans and advances to banks	77,286	34,147	0	698	42,442
Loans and advances to customers	119,738	12,601	0	40,651	66,486
Debentures and other fixed-income securities	985	0	0	0	985
Total	*399,198*	*161,201*	*8,350*	*41,646*	*188,002*
Loan commitments and other agreements	72,136	0	0	3,464	68,672
Total exposure	*471,334*	*161,201*	*8,350*	*45,110*	*256,674*

31/12/2021 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	33,364	0	0	0	33,364
Equity instruments	1,491	0	0	0	1,491
Debentures and other fixed-income securities	29,105	0	0	0	29,105
Receivables	2,767	0	0	0	2,767
Financial assets designated at fair value	1,240	0	310	0	930
Debentures and other fixed-income securities	56	0	0	0	56
Receivables	1,184	0	310	0	874
Financial assets mandatorily measured at fair value through profit or loss	84,972	62,623	5,613	663	16,074
Trading assets	76,809	55,477	5,613	663	15,057
Derivatives	52,951	41,373	4,110	498	6,971
Equity instruments	566	535	0	0	31
Debentures and other fixed-income securities	6,538	2,629	471	0	3,439
Receivables	16,753	10,940	1,032	165	4,616
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,137	195	0	0	942
Equity instruments	592	195	0	0	397
Receivables	545	0	0	0	545
Positive fair values from derivative hedging instruments	7,027	6,952	0	0	75
Financial assets measured at amortized cost					
Cash and cash equivalents	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
Total	*319,799*	*105,767*	*5,922*	*41,870*	*166,241*
Loan commitments and other agreements	69,161	0	0	3,429	65,732
Total exposure	*388,960*	*105,767*	*5,922*	*45,298*	*231,973*

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 471 billion as at 30 June 2022 is EUR 215 billion or 45.5% in total (previous year: 40.4%). The higher share of risk mitigation is mainly on account of collateral performance of interest rate derivatives. 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 471 billion of gross exposures and EUR 257 billion of net exposures as at 30 June 2022, transactions of EUR 318 billion of gross exposures and EUR 232 billion of net exposures 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 EUR 1.3 billion and net exposure of EUR 1.1 billion as at 30 June 2022.

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

30/06/2022

EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,111	267	844
Loans and advances to banks	70	0	70
Loans and advances to customers	1,040	267	774
Total	*1,111*	*267*	*844*
Loan commitments and other agreements	233	25	207
Total exposure	*1,343*	*292*	*1,051*

31/12/2021

EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,020	300	720
Loans and advances to banks	18	0	18
Loans and advances to customers	1,002	300	702
Total	*1,020*	*300*	*720*
Loan commitments and other agreements	331	20	311
Total exposure	*1,351*	*319*	*1,031*

Default risk and concentrations

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

Gross exposure by rating cluster (internal rating class)

30/06/2022 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)	39,206	2,167	0	0	41,373
1 (AAA)–1 (A-)	133,815	23,585	0	1	157,401
2–5	39,661	48,639	0	10	88,310
6–8	6,058	11,059	0	0	17,117
9–10	1,114	3,097	0	0	4,211
11–15	1,732	3,724	0	0	5,456
16–18 (default)[1]	0	0	1,299	44	1,343
Other[2]	2,336	899	0	0	3,235
Gross exposure	*223,922*	*93,170*	*1,299*	*55*	*318,446*

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

31/12/2021 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)[1]	0	0	1,306	44	1,351
Other[2]	3,118	164	0	0	3,282
Gross exposure	*240,579*	*48,474*	*1,306*	*56*	*290,415*

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

Gross exposure by sector

30/06/2022 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Financials	*140,887*	*9,517*	*91*	*0*	*150,496*
Corporates	*44,986*	*56,990*	*1,065*	*44*	*103,085*
Automotive	2,418	8,019	455	41	10,934
Construction	2,737	6,948	87	0	9,773
Chemicals and commodities	3,423	4,999	15	0	8,436
of which chemicals	1,131	3,060	1	0	4,191
of which commodities	2,292	1,939	14	0	4,245
Retail and consumer goods	8,016	8,827	187	0	17,030
of which consumer goods[1]	6,578	5,005	47	0	11,630
of which durables	1,438	3,823	140	0	5,401
Industry	2,262	9,237	179	0	11,677
Pharmaceuticals and healthcare[1]	3,774	1,841	13	3	5,631
TM and electronics/IT[1]	6,451	2,997	21	0	9,470
Transport and logistics	3,253	4,539	27	0	7,818
Utilities and energy[1]	5,515	7,510	63	0	13,087
of which utilities and disposal companies	1,451	6,585	57	0	8,093
of which renewable energies	4,065	924	5	0	4,994
Other	7,138	2,073	17	0	9,228
Real estate	*15,276*	*21,733*	*118*	*1*	*37,128*
Commercial real estate (CRE)	7,082	19,120	113	0	26,315
Housing	8,194	2,613	5	1	10,813
Public sector	*14,057*	*1,739*	*0*	*0*	*15,796*
Private individuals	*8,716*	*3,191*	*25*	*10*	*11,942*
Gross exposure	*223,922*	*93,170*	*1,299*	*55*	*318,446*

1 Growth sectors. New growth sector added in 2022, consumer goods.

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
Financials	*115,245*	*10,788*	*29*	*0*	*126,061*
Corporates	*73,107*	*25,557*	*1,140*	*44*	*99,849*
Automotive	6,160	4,315	492	41	11,009
Construction	8,106	1,563	103	0	9,773
Chemicals and commodities	4,958	2,241	20	0	7,219
of which chemicals	2,881	872	1	0	3,753
of which commodities	2,077	1,369	20	0	3,466
Retail and consumer goods	12,279	5,570	221	0	18,070
of which consumer goods[1]	9,405	3,197	51	0	12,654
of which durables	2,874	2,373	169	0	5,416
Industry	8,176	3,020	162	0	11,358
Pharmaceuticals and healthcare[1]	4,748	637	15	3	5,403
TM and electronics/IT[1]	6,617	1,602	19	0	8,238
Transport and logistics	4,759	3,121	25	0	7,905
Utilities and energy[1]	9,906	2,139	62	0	12,107
of which utilities and disposal companies	6,070	1,355	57	0	7,482
of which renewable energies	3,836	784	5	0	4,625
Other	7,398	1,349	20	0	8,767
Real estate	*27,781*	*8,414*	*110*	*1*	*36,307*
Commercial real estate (CRE)	18,910	6,698	106	0	25,714
Housing	8,870	1,717	4	1	10,593
Public sector	*14,528*	*1,861*	*0*	*0*	*16,390*
Private individuals	*9,919*	*1,853*	*27*	*10*	*11,809*
Gross exposure	*240,579*	*48,474*	*1,306*	*56*	*290,415*

1 Growth sectors. New growth sector added in 2022, consumer goods.

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.

The exposure share of Stage 2 transactions in the corporates and real estate portfolio is far higher than the Stage 2 share of other segments and has risen substantially since the end of 2021. This is because the credit ratings of the two customer groups are particularly badly affected by the extraordinary economic downside risks resulting from factors including the risk of Russia cutting off gas supplies, the shortage of raw materials and intermediates, turmoil in global supply chains, sustained high inflation, interest rate hikes and geopolitical tension.

Gross exposure by region

30/06/2022 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	106,753	71,324	1,000	18	179,095
Western Europe (excluding Germany)	63,842	13,997	45	28	77,913
North America	38,661	3,227	91	3	41,981
Asia/Pacific	9,053	2,510	15	0	11,578
Other[1]	5,614	2,111	148	7	7,879
Gross exposure	*223,922*	*93,170*	*1,299*	*55*	*318,446*

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

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[1]	2,833	4,179	102	7	7,121
Gross exposure	*240,579*	*48,474*	*1,306*	*56*	*290,415*

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

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

Forbearance

As at 30 June 2022, LBBW held assets with a net carrying amount of EUR 1.638 million (31 December 2021: EUR 1.536 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 315 million (31 December 2021: EUR 299 million) sub-portfolio of the assets for which forbearance measures have been adopted comprise credit-impaired assets.

LBBW has received guarantees of EUR 279 million (31 December 2021: EUR 316 million) for assets with forbearance measures.

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

21. 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 56 million as at the reporting date 30 June 2022 (previous year: EUR 61 million; see Note 19).

Dividends of EUR 1 million (previous year: EUR 1 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the reporting period. As in the previous year, these relate entirely to equity instruments held at the reporting date 30 June 2022.

22. Financial assets designated at fair value

EUR million	30/06/2022	31/12/2021
Debentures and other fixed-income securities	*54*	*57*
Bonds and debentures	54	57
Receivables	*1,325*	*1,317*
Total	*1,378*	*1,374*

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

EUR million	30/06/2022	31/12/2021
Trading assets	39,107	34,526
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	779	1,033
Positive fair values from derivative hedging instruments	558	1,416
Total	*40,444*	*36,976*

Trading assets

EUR million	30/06/2022	31/12/2021
Positive fair values from derivative financial instruments	*18,745*	*16,949*
Equity instruments	*542*	*540*
Equities	431	366
Investment fund units	109	171
Other securities	3	4
Debentures and other fixed-income securities	*7,242*	*6,395*
Money market instruments	164	368
Bonds and debentures	7,078	6,026
Receivables	*12,579*	*10,642*
Schuldschein loans	4,133	3,654
Other money market transactions	3,356	2,365
Receivables from securities repurchase agreements	3,951	3,730
Other receivables	1,138	893
Total	*39,107*	*34,526*

The rise in positive fair values from derivative financial instruments is chiefly attributable to an increase in USD foreign exchange transactions.

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

EUR million	30/06/2022	31/12/2021
Equity instruments	*422*	*484*
Equities	6	5
Investment fund units	190	277
Equity investments	194	170
Shares in affiliates	33	32
Debentures and other fixed-income securities	*2*	*2*
Silent partner contributions	2	2
Receivables	*355*	*547*
Loans and advances to customers	355	547
Total	*779*	*1,033*

The decline in receivables primarily reflects current interest rate developments.

Positive fair values from derivative hedging instruments

EUR million	30/06/2022	31/12/2021
Positive fair values from portfolio fair value hedges	372	1,115
Positive fair values from micro fair value hedges	186	301
Total	*558*	*1,416*

Positive fair values from derivative hedging instruments declined on account of interest rate trends.

Financial liabilities

24. Financial liabilities measured at amortized cost

Deposits from banks

EUR million	30/06/2022	31/12/2021
Securities repurchase transactions	1,898	255
Transmitted loans	35,004	34,067
Schuldschein loans	2,495	2,621
Overnight and term money	59,914	45,495
Public-sector registered covered bonds issued	406	399
Current account liabilities	2,689	2,592
Mortgage-backed registered covered bonds issued	53	58
Other liabilities	4,753	2,773
Total	*107,213*	*88,259*

The volume of overnight and term deposits rose due to far higher deposits with international credit institutions and central banks. Securities repurchase transactions concluded mainly with major banks and clearing houses also increased these.

Participating in targeted longer-term refinancing operations (TLTRO III) with the ECB resulted in funding with a nominal volume of EUR 8 billion in March 2021. Accounts payable from TLTRO III as at the end of the reporting period still came to EUR 27.49 billion (previous year: EUR 27.78 billion).

Deposits from customers

EUR million	30/06/2022	31/12/2021
Current account liabilities	59,847	58,932
Overnight and term money	41,160	24,448
Schuldschein loans	3,318	2,673
Securities repurchase transactions	2,893	1,476
Public-sector registered covered bonds issued	1,632	1,712
Savings deposits	4,693	4,868
Mortgage-backed registered covered bonds issued	207	188
Other liabilities	2,883	2,724
Total	*116,632*	*97,022*

Overnight and term deposits saw the largest change within this item. Both German federal states and private business partners make use of LBBW investment products.

Other liabilities included transmitted loans of EUR 56 million (previous year: EUR 43 million).

Securitized liabilities

EUR million	30/06/2022	31/12/2021
Issued debentures	*27,464*	*28,721*
Mortgage-backed covered bonds	7,407	7,184
Public-sector covered bonds	3,906	4,048
Other debentures	16,152	17,489
Other securitized liabilities	*25,339*	*16,148*
Total	*52,804*	*44,869*

The New York branch further stepped up its short-term financing with commercial papers and certificates of deposits, resulting in a rise in securitized money market transactions that were recognized under Securitized liabilities. Other debentures fell, due primarily to maturities. At the start of the year, LBBW reached a new sustainability milestone by updating the LBBW Green Bond Framework, further refining its approach to green bonds. LBBW issued another USD 750 million green bond in February.

Further information on issuing activities can be found in Note 27.

Subordinated capital

EUR million	30/06/2022	31/12/2021
Typical silent partners' contributions	880	911
Subordinated liabilities	4,079	4,092
Capital generated from profit participation rights	22	21
Total	*4,981*	*5,024*

25. Financial liabilities designated at fair value

EUR million	30/06/2022	31/12/2021
Securitized liabilities	*2,251*	*3,141*
Other securitized liabilities	1,887	2,478
Junior bonds	363	663
Deposits	*1,431*	*1,754*
Schuldschein loans	584	753
Subordinated deposits	39	46
Money market transactions	117	124
Other	691	831
Total	*3,682*	*4,895*

Planned maturities reduced securitized liabilities.

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

EUR million	30/06/2022	31/12/2021
Trading liabilities	26,678	21,343
Negative fair values from derivative hedging instruments	804	2,346
Total	*27,483*	*23,689*

Trading liabilities

EUR million	30/06/2022	31/12/2021
Negative fair values from derivatives	*18,947*	*13,895*
Other trading liabilities	*7,731*	*7,448*
Delivery obligations from short sales of securities	1,257	752
Securitized liabilities	5,859	6,134
Schuldschein loans	263	248
Liabilities from securities repurchase agreements	209	167
Money market transactions	138	147
Other	6	1
Total	*26,678*	*21,343*

Like the assets item, performance was significantly influenced by rising interest rates.

Negative fair values from derivative hedging instruments

EUR million	30/06/2022	31/12/2021
Negative fair values from portfolio fair value hedges	519	1,763
Negative fair values from micro fair value hedges	283	572
Negative fair values from group fair value hedges	2	12
Total	*804*	*2,346*

Interest rate trends caused negative fair values from derivative hedging instruments to decline in line with the asset item.

27. Issuing activities

EUR million	30/06/2022	31/12/2021
Securitized liabilities	52,804	44,869
Securitized liabilities designated at fair value	1,887	2,478
Securitized liabilities mandatorily measured at fair value through profit or loss	5,859	6,134
Total	*60,550*	*53,481*

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 1.574.481 million (previous year: EUR 1.656.028 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 1.470 million (previous year: EUR 1.645 million) and the volume of repayments to a nominal of EUR 1.107.222 million (previous year: EUR 1.219.710 million).

Other disclosures about financial instruments

28. 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

	30/06/2022		31/12/2021	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost				
Cash and cash equivalents	69,513	69,510	36,871	36,871
Financial assets measured at amortized cost	176,805	173,511	167,323	168,380
Loans and advances to banks	55,082	53,237	46,468	46,373
Loans and advances to customers	120,715	119,283	119,851	120,995
Debentures and other fixed-income securities	1,008	991	1,004	1,012

Equity and liabilities

	30/06/2022		31/12/2021	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Financial liabilities measured at amortized cost	281,630	275,652	235,174	235,920
Deposits from banks	107,213	104,369	88,259	88,635
Deposits from customers	116,632	116,735	97,022	97,613
Securitized liabilities	52,804	50,166	44,869	44,017
Subordinated capital	4,981	4,381	5,024	5,655

29. 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)	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial assets measured at fair value						
Financial assets measured at fair value through other comprehensive income	21,360	19,406	12,256	13,879	3	3
Equity instruments	53	58	0	0	3	3
Debentures and other fixed-income securities	21,307	19,348	9,256	10,453	0	0
Receivables	0	0	3,000	3,426	0	0
Financial assets designated at fair value	15	15	1,364	1,359	0	0
Debentures and other fixed-income securities	15	15	39	42	0	0
Receivables	0	0	1,325	1,317	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,601	1,161	38,132	35,155	711	660
Trading assets	1,592	1,153	37,062	32,970	453	404
Derivatives	0	0	18,712	16,921	32	28
Equity instruments	344	329	199	211	0	0
Debentures and other fixed-income securities	1,246	823	5,996	5,571	0	0
Receivables	2	0	12,155	10,266	421	376
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	9	8	512	770	258	256
Equity instruments	9	8	190	277	224	199
Debentures and other fixed-income securities	0	0	0	0	2	2
Receivables	0	0	322	492	32	55
Positive fair values from derivative hedging instruments	0	0	558	1,416	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)	
	30/06/2022	31/12/2021	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial liabilities measured at fair value						
Financial liabilities designated at fair value	0	0	3,575	4,803	107	92
Securitized liabilities	0	0	2,168	3,049	82	92
Deposits	0	0	1,406	1,754	24	0
Financial liabilities mandatorily measured at fair value through profit or loss	1,108	185	26,249	23,391	126	113
Trading liabilities	1,108	185	25,445	21,044	126	113
Derivatives	0	0	18,821	13,781	126	113
Delivery obligations from short sales of securities	1,105	185	152	567	0	0
Securitized liabilities	0	0	5,859	6,134	0	0
Deposits	3	0	613	563	0	0
Negative fair values from derivative hedging instruments	0	0	804	2,346	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 30/06/2022	Reclassification from Level I to Level II 31/12/2021	Reclassification from Level II to Level I 30/06/2022	Reclassification from Level II to Level I 31/12/2021
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income	532	3,112	2,935	513
Debentures and other fixed-income securities	532	3,112	2,935	513
Financial assets mandatorily measured at fair value through profit or loss	223	260	178	206
Trading assets	223	260	178	206
Equity instruments	47	12	5	49
Debentures and other fixed-income securities	175	248	173	157

Equity and liabilities

EUR million	Reclassification from Level I to Level II 30/06/2022	Reclassification from Level I to Level II 31/12/2021	Reclassification from Level II to Level I 30/06/2022	Reclassification from Level II to Level I 31/12/2021
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss	3	0	365	17
Trading liabilities	3	0	365	17
Delivery obligations from short sales of securities	3	0	365	17

In the first half of 2022, LBBW reclassified instruments from Level I to II of the fair value hierarchy as there were no longer quoted prices from active markets for the corresponding financial instruments. Instruments were also reclassified in the other direction as quoted prices from active markets became available again.

Development of Level III

The development of the portfolios of financial instruments measured at fair value, which were calculated using valuation models which include material non-observable parameters (Level III), is shown in the tables below. The unrealized 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				
EUR million			Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables		
Carrying amount as at 1 January 2022	*3*	*0*	*28*	*376*	*199*	*2*	*55*	*0*	*662*
Gains and losses recognized in net consolidated profit/loss	0	0	- 12	- 60	2	0	- 1	0	- 71
Net interest income and current net income from equity instruments	0	0	- 1	2	0	0	- 1	0	1
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 11	- 63	2	0	- 0	0	- 72
Additions through acquisitions	0	0	0	150	28	0	0	0	179
Disposals through sales	0	0	0	0	- 6	0	0	0	- 6
Repayments/offsetting	0	0	0	- 45	0	0	- 21	0	- 66
Reclassification to Level III	0	0	16	0	0	0	0	0	16
Transfers in accordance with IFRS 5	0	0	0	0	0	0	0	16	16
Carrying amount as at 30 June 2022	*3*	*0*	*32*	*421*	*224*	*2*	*32*	*16*	*730*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	- 12	- 62	1	0	- 0	0	- 74
Net interest income and current net income from equity instruments	0	0	- 1	0	0	0	0	0	- 0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 11	- 63	1	0	- 0	0	- 74

EUR million	Financial assets measured at fair value through other comprehensive income – Equity instruments	Financial assets designated at fair value – Receivables	Financial assets mandatorily measured at fair value through profit or loss – Trading assets – Derivatives	Trading assets – Receivables	Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments – Equity instruments	Debentures and other fixed-income securities	Receivables	Non-current assets and disposal groups held for sale	Total
Carrying amount as at 1 January 2021	*3*	*152*	*80*	*799*	*161*	*5*	*35*	*2*	*1,237*
Gains and losses recognized in net consolidated profit/loss	0	0	- 10	5	19	0	- 1	0	12
Net interest income and current net income from equity instruments	0	0	0	3	0	0	1	0	4
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 11	2	19	0	- 2	0	8
Additions through acquisitions	0	0	0	113	32	0	0	0	145
Disposals through sales	0	0	0	- 10	- 12	- 3	0	- 2	- 27
Repayments/offsetting	0	0	- 10	- 410	0	0	- 0	0	- 421
Changes in the scope of consolidation	0	0	0	0	- 1	0	0	0	- 1
Reclassification to Level III	0	0	0	0	0	0	21	0	21
Reclassification from Level III	0	- 152	- 31	- 121	0	0	0	0	- 304
Carrying amount as at 31 December 2021	*3*	*0*	*28*	*376*	*199*	*2*	*55*	*0*	*662*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	- 6	1	19	0	- 2	0	12
Net interest income and current net income from equity instruments	0	0	1	- 1	0	0	0	0	0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	- 7	2	19	0	- 2	0	12

Equity and liabilities

EUR million	Financial liabilities designated at fair value		Financial liabilities mandatorily measured at fair value through profit or loss	Total
	Securitized liabilities	Deposits	Trading liabilities	
			Derivatives	
Carrying amount as at 1 January 2022	*92*	*0*	*113*	*205*
Gains and losses recognized in net consolidated profit/loss	- 10	- 1	0	- 11
Net interest income and current net income from equity instruments	- 1	0	2	0
Net gains/losses from financial instruments measured at fair value through profit or loss	- 8	- 1	- 1	- 11
Reclassification to Level III	0	26	14	39
Reclassification from Level III	0	0	- 2	- 2
Carrying amount as at 30 June 2022	*82*	*24*	*126*	*232*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	- 10	- 1	0	- 11
Net interest income and current net income from equity instruments	- 1	0	2	0
Net gains/losses from financial instruments measured at fair value through profit or loss	- 8	- 1	- 1	- 11

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	
Carrying amount as at 1 January 2021	*259*	*131*	*145*	*535*
Gains and losses recognized in net consolidated profit/loss	- 9	0	10	1
Net interest income and current net income from equity instruments	- 1	0	1	0
Net gains/losses from financial instruments measured at fair value through profit or loss	- 8	0	9	1
Disposals through sales	- 39	0	0	- 39
Repayments/offsetting	- 20	- 15	- 29	- 63
Reclassification from Level III	- 99	- 117	- 13	- 229
Carrying amount as at 31 December 2021	*92*	*- 0*	*113*	*205*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	- 6	0	4	- 2
Net gains/losses from financial instruments measured at fair value through profit or loss	- 6	0	5	- 1

As parameters observable on the market in the first half of the 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	**30/06/2022**	**31/12/2021**	**30/06/2022**	**31/12/2021**
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	13.6	15.2	– 12.6	– 14.2
Trading assets	6.2	6.7	– 5.9	– 6.7
Derivatives	0.6	0.0	– 0.3	0.0
Receivables	5.6	6.7	– 5.6	– 6.7
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	7.4	8.5	– 6.7	– 7.5
Equity instruments	6.1	6.9	– 5.4	– 5.9
Receivables	1.3	1.6	– 1.3	– 1.6
Total	*13.6*	*15.2*	*– 12.6*	*– 14.2*

Equity and liabilities

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30/06/2022	31/12/2021	30/06/2022	31/12/2021
Financial liabilities measured at fair value				
Financial liabilities designated at fair value	0.2	0.0	- 0.1	0.0
Securitized liabilities	0.2	0.0	- 0.1	0.0
Financial liabilities mandatorily measured at fair value through profit or loss	0.8	0.7	- 1.2	- 0.6
Trading liabilities	0.8	0.7	- 1.2	- 0.6
Derivatives	0.8	0.7	- 1.2	- 0.6
Total	*1.0*	*0.7*	*- 1.4*	*- 0.6*

Significant unobservable Level III parameters

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

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

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

Assets

30/06/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	– 81% – +100%	relative – 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	60 – 355	relative – 10 – 30%/+ 10 – 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	2%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/– 5%
Receivables	Net present value method	Credit spread (bp)	147 – 283	relative – 30%/+ 30%

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	54% – 100%	relative – 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	51 – 258	relative – 10 – 30%/+ 10 – 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	– 0.35%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/– 5%
Receivables	Net present value method	Credit spread (bp)	209 – 217	relative – 30%/+ 30%

Equity and liabilities

30/06/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – +100%	relative – 20%/+ 10%
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81% – +100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	36 – 89	relative – 30%/+ 30%

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 54% – 100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	27 – 78	relative – 30%/+ 30%

Day One Profit or Loss

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

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

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

The table below shows the changes in day one profits for the first half of the 2022 financial year in comparison to the end of 2021, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	2022	2021
Balance as at 1 January	*1*	*2*
Income recognized in the income statement in the reporting period (reversals)	– 0	– 1
Balance as at 30 June/31 December	*0*	*1*

F. Other

30. Non-current assets and disposal groups held for sale

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

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

- Three properties reported as property and equipment were sold in the first half of 2022. 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 all three properties. This affects the »Corporate Items« segment.
- In addition, sales negotiations for an investment property were conducted. This affects the »Corporate Items« segment.

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

EUR million	30/06/2022	31/12/2021
Assets		
Investment property	16	0
Property and equipment	0	1
Total	*16*	*1*

31. Intangible assets

EUR million	30/06/2022	31/12/2021
Purchased software	46	49
Goodwill	10	0
Advance payments and cost for development and preparation	23	21
Internally generated intangible assets	27	35
Other purchased intangible assets	52	54
Total	*157*	*158*

LBBW Immobilien Investment Management GmbH (»LIIM«) acquired 100 % of Acteum Investment GmbH (»Acteum«) in the reporting period. The transaction resulted in goodwill of EUR 10 million (see Note 6).

32. 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
Carrying amount as at 1 January 2022	*778*	*27*	*805*
Reclassification to non-current assets or disposal groups held for sale	– 16	0	– 16
Currency translation differences	6	1	7
Changes in fair value from assets (through profit or loss)	– 2	– 1	– 3
Carrying amount 30 June 2022	*766*	*27*	*793*

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2021	*768*	*28*	*796*
Additions	0	1	1
Disposals	– 3	0	– 3
Currency translation differences	7	1	8
Changes in fair value from assets (through profit or loss)	6	– 3	3
Carrying amount as at 31 December 2021	*778*	*27*	*805*

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

EUR million	2022	2021
Carrying amount as at 1 January	*805*	*796*
Gains and losses recognized in net consolidated profit/loss	– 4	5
Other earnings items	– 4	5
Additions through acquisitions	0	1
Disposals through sales	0	– 3
Other changes	8	7
Transfers in accordance with IFRS 5	– 16	0
Carrying amount as at 30 June/31 December	*793*	*805*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 4	5
Other earnings items	– 4	5

»Investment property« is measured on the basis of externally unobservable parameters (Level III). The tables below show the significant unobservable parameters of the investment property. Corresponding statements on financial instruments (see Note 29) also apply.

30/06/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50%	n/a
		Discount rate	1.56% – 11.50%	
		Risk of loss of rent	2.00% – 5.00%	
		Basic maintenance costs	EUR 6.00 – EUR 15.50/m²	
		Administrative costs (% of target rent)	0.10% – 2.60%	

31/12/2021 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50%	n/a
		Discount rate	2.41% – 8.40%	
		Risk of loss of rent	2.00% – 5.00%	
		Basic maintenance costs	EUR 4.00 – EUR 19.00/m²	
		Administrative costs (% of target rent)	0.10% – 3.40%	

33. Property and equipment

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

EUR million	30/06/2022	31/12/2021
Land and buildings	250	256
Leased assets under operating leases	152	152
Operating and office equipment	79	79
Technical equipment and machinery	9	9
Rights-of-use from leases	213	232
Advance payments and assets under construction	5	3
Total	*709*	*731*

34. Income taxes

Income tax assets

EUR million	30/06/2022	31/12/2021
Current income tax assets	106	104
Domestic	78	80
Abroad	28	23
Deferred income tax assets	983	1,029
Total	*1,089*	*1,132*

Income tax liabilities

EUR million	30/06/2022	31/12/2021
Current income tax liabilities	284	346
Deferred income tax liabilities	21	24
Total	*305*	*370*

As well as expenses for the current year, current income tax liabilities primarily include provisions for tax risks.

35. Other assets and other liabilities

Other assets

EUR million	30/06/2022	31/12/2021
Inventories	493	500
Receivables from tax authorities	48	41
Other miscellaneous assets	4,111	2,161
Total	*4,652*	*2,703*

This was partly the result of an equity transaction, as well as an upturn in client clearing business.

Other liabilities

EUR million	30/06/2022	31/12/2021
Liabilities from		
Other taxes	158	57
Employment	11	11
Trade payables	51	87
Non-controlling interests	12	16
Leasing	259	279
Advances received	75	56
Other miscellaneous liabilities	1,785	1,422
Total	*2,352*	*1,928*

36. Provisions

EUR million	30/06/2022	31/12/2021
Provisions for pensions	819	1,268
Provisions for litigation and recourse risk	199	197
Provisions for lending business	203	247
Other personnel-related provisions	116	150
Other provisions	268	219
Total	*1,606*	*2,080*

The downturn in provisions was essentially attributable to the measurement of pension obligations due to higher discount rates.

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

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Impairment after recognition	Total
Balance as at 1 January 2022	*15*	*92*	*141*	*247*
Changes	– 3	– 0	– 54	– 57
Transfer to Stage 1	3	– 2	– 0	0
Transfer to Stage 2	– 4	4	– 0	0
Additions	4	14	18	36
Reversals	– 5	– 16	– 72	– 93
Additions	4	2	18	24
Disposals	– 1	– 1	– 10	– 12
Other changes	0	0	1	1
Balance as at 30 June 2022	*15*	*93*	*95*	*203*

37. Equity

EUR million	30/06/2022	31/12/2021
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,585	1,211
Other comprehensive income	– 156	65
Net consolidated profit/loss	315	418
Shareholders' equity	*13,468*	*13,417*
Additional equity components	745	745
Equity attributable to non-controlling interests	36	35
Total	*14,249*	*14,197*

Retained earnings included cumulative actuarial gains/losses after tax of EUR – 860 million (previous year: EUR – 1.114 million). Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«.

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR 40 million (previous year: EUR 1 million) in connection with the measurement of LBBW's own credit rating was included in »Other comprehensive income«. LBBW's own credit spread (OCS) also increased considerably compared to the end of 2021 as a result of widening spreads on capital markets for financials.

Equity includes taxes recognized in other comprehensive income of EUR 387 million (previous year: EUR 457 million).

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

38. Equity and total amount at risk

The following table shows the structure of the LBBW Group's own funds and the total amount of risk under current supervisory law (»phase-in«) as at the reporting date 30 June 2022:

EUR million	30/06/2022	31/12/2021
Own funds	*17,966*	*18,090*
Tier 1 capital	13,387	13,456
of which common equity Tier 1 capital (CET 1)	12,644	12,473
of which additional Tier 1 capital (AT 1)	744	983
Supplementary capital (Tier 2)	4,579	4,634
Total amount at risk	91,154	84,416
Total capital ratio (in %)	19.7	21.4
Tier 1 capital ratio (in %)	14.7	15.9
Common equity Tier 1 (CET 1) capital ratio (in %)	13.9	14.8

The common equity Tier I (CET 1) of the LBBW Group increased marginally as against the end of the previous year. This is essentially due to including the Group's net profit for 2021 and actuarial gains. Revaluation reserves for securities moved in the opposite direction. Additional tier 1 capital (AT1) declined due to the expiry of transitional provisions. As a result, silent partners' contributions are now counted as part of supplementary capital, not as AT1. The reclassified silent partners' contributions were almost entirely offset by a repaid issue and so supplementary capital (T2) remained virtually unchanged. The total amount of risk increased slightly compared to the end of the previous year. This is essentially because new transactions significantly exceeded expiring transactions and existing business relationships were expanded. In addition, market volatility increases the capital backing required for market price risks.

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«.

39. Off-balance-sheet transactions

Contingent liabilities

EUR million	30/06/2022	31/12/2021
Sureties and guarantee agreements	8,808	8,214
Other contingent liabilities	242	195
Total	*9,050*	*8,409*

Contingent liabilities chiefly comprise sureties and guarantee agreements:

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

This does not include financial guarantees.

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

Contingent claims

EUR million	30/06/2022	31/12/2021
Legal disputes	7	7
Total	*7*	*7*

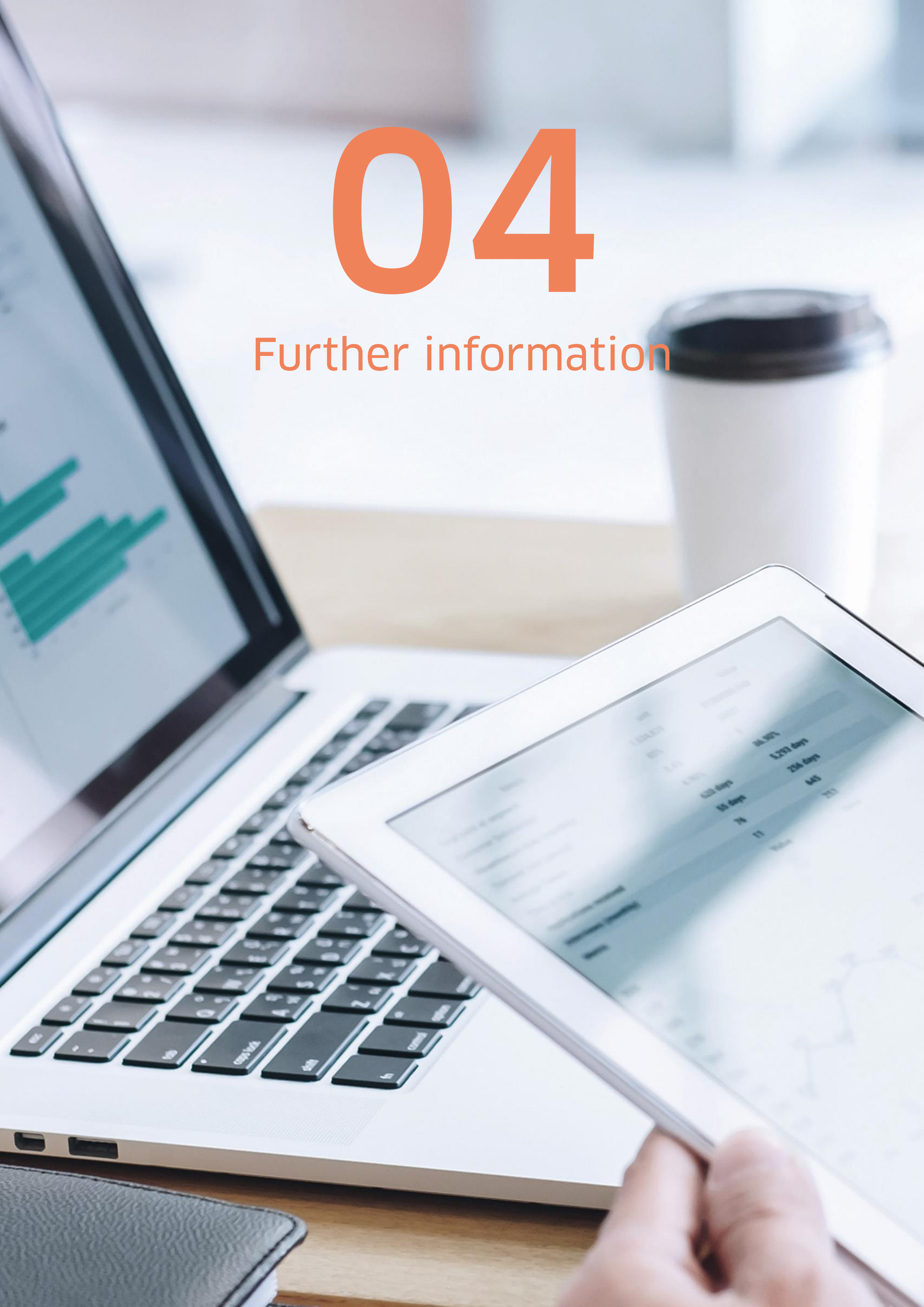
40. Related party disclosures

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

30/06/2022 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	551	4	0	80	1	758
Financial assets measured at fair value through other comprehensive income	622	0	30	170	0	0
Financial assets designated at fair value	21	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	507	0	5	167	0	337
Total assets	*1,701*	*4*	*35*	*418*	*1*	*1,096*
Financial liabilities measured at amortized cost	2,065	7	40	189	10	13,359
Financial liabilities mandatorily measured at fair value through profit or loss	52	0	0	32	0	101
Provisions	0	0	0	0	3	0
Total equity and liabilities	*2,117*	*7*	*40*	*220*	*13*	*13,459*
Off-balance-sheet transactions	328	1	11	71	3	1,494

31/12/2021 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	495	4	1	94	1	823
Financial assets measured at fair value through other comprehensive income	699	0	16	171	0	0
Financial assets designated at fair value	22	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,567	0	3	115	0	352
Total assets	*2,783*	*4*	*20*	*380*	*1*	*1,175*
Financial liabilities measured at amortized cost	616	12	55	84	8	12,962
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	29	0	153
Provisions	0	0	0	0	3	0
Total equity and liabilities	*616*	*12*	*55*	*113*	*11*	*13,115*
Off-balance-sheet transactions	327	1	10	72	3	1,219

Related party transactions resulted in material effects in net interest income of EUR 158 million (previous year: EUR 147 million).



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Further information

Responsibility statement

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

Stuttgart, Karlsruhe, Mannheim and Mainz, 9 August 2022

The Board of Managing Directors

RAINER NESKE

Chairman

ANASTASIOS AGATHAGELIDIS

ANDREAS GÖTZ

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

Review report

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

We have reviewed the condensed consolidated half-year financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, which comprise the statement of financial position as at 30 June 2022, the statement of profit and loss and the statement of comprehensive income, the condensed statement of cash flows, the statement of changes in equity, and selected explanatory notes to the financial statements, as well as the interim group management report of the Company for the period from 1 January to 30 June 2022, which form part of the half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). The Company's executive directors are responsible for the preparation of the condensed consolidated half-year financial statements that comply with the International Financial Reporting Standards (IFRS) for interim financial reporting as adopted by the EU, and the interim group management report that complies with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to express a conclusion on the condensed consolidated half-year financial statements and on the interim group management report based on our review.

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

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

Stuttgart/Germany, 11 August 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

signed Klaus Löffler

Wirtschaftsprüfer
(German Public Auditor)

signed Herbert Apweiler

Wirtschaftsprüfer
(German Public Auditor)

Note regarding forward-looking statements

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

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

LBBW

Breaking new ground

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