Schwäbisch Hall

2021

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

Bausparkasse Schwäbisch Hall AG

Financial Report

At a glance

Bausparkasse Schwäbisch Hall AG	**2021**	**2020**
New business		
Bausparen (presented, in € billion)	24.00	24.20
Housing financing (total, in € billion)	18.3	17.1
Contracted business		
Bauspar sum (honoured, in € billion)	312.15	315.55
Contracts (in millions)	7.70	8.00
Loans and loan commitments (total, in € billion)	64.24	59.68
Number of customers (in millions)	6.80	7.00
Schwäbisch Hall Group Non-domestic, including joint ventures		
New business		
Bausparen (presented, in € billion)	7.91	8.15
Housing financing (total, in € billion)	1.46	1.36
Contracted business		
Bauspar sum (honoured, in € billion)	42.10	40.10
Contracts (in millions)	1.88	2.01
Loans and loan commitments (total, in € billion)	2.75	2.52
Number of customers (in millions)	1.52	1.66
Schwäbisch Hall Group IFRS key financial indicators in € million		
Profit/loss before taxes	130	81
Net profit	90	59
Balance sheet total	85,371	81,673
Equity	5,718	6,065
Schwäbisch Hall Group regulatory ratios in %		
Common Equity Tier 1 capital ratio	30.6	31.6
Total capital ratio	30.6	31.6
Leverage ratio	6.9	–
Moody’s ratings		
Bank rating	AA2	AA1
Hypothekenpfandbriefe (German mortgage covered bonds)	AAA	AAA
Human Resources		
Employees (full-time equivalents in the Group)	2,868	2,927
Trainees and apprentices	196	196

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Note
The figures in this report have been rounded in accordance with standard commercial practice. Therefore, the totals presented in the tables and diagrams may differ slightly from the calculated totals of the individual values shown.

Jürgen Gießler

Mike Kammann

Reinhard Klein
Chief Executive Officer

Peter Magel

The Management Board

Dear readers

Sustainability has always played a role in Schwäbisch Hall's business strategy and its importance is increasing. Customer awareness for greater sustainability and climate protection is becoming more noticeable. According to the Federal Environment Agency, environmental and climate protection is one of the most important issues of our time for around 65% of Germans. In addition, international framework agreements and regulatory regimes in the field of construction and housing are introducing new requirements for energy standards, construction methods and financing.

That's because building and housing play a key role in reversing climate change. The energy-efficient refurbishment of the ageing building stock is a key lever in achieving this. Around 30 of the 43 million residential units in Germany are affected by this, and experts assume that investments of up to €1.2 trillion will be needed by 2045. As Germany's largest Bausparkasse and one of the leading providers of real estate finance in Germany, we can make a contribution to actively promoting this necessary transformation in close cooperation with the cooperative banks and support it with appropriate financing offers.

At the same time, sustainability for us also means thinking and acting with a long-term perspective. Our 2021 results confirm our successful journey to becoming a housing financing provider with Bausparen as our core business segment: For example, together with the cooperative banks, we have recorded stronger growth than the market in the area of housing financing. With new business of more than €18.3 billion, we are one of the top three providers of housing financing in Germany. About half of this was recorded in the balance sheets of the cooperative banks and half in our own balance sheet. BAUFINEX, our marketplace for independent intermediaries, also performed very well, already establishing itself among the top three providers in the B2B platform market for private housing financing in its financial year. Because we are firmly embedded in the German Cooperative Banking Group, we were able to maintain our market share of around 30% in the Bauspar business, with a volume of €24 billion, and continue securing our leading position in the market. We are very satisfied overall with our total sales of more than €43 billion. Despite difficult conditions such as Covid-19 and a persistently low interest rate environment, we succeeded in increasing our net profit year on year, recording profit

> **"Sustainability for us means thinking and acting with a long-term perspective."**

before taxes of €130 million in 2021. Our strict cost management and the stabilisation of net interest income were the primary factors contributing to this result. Loss allowances were also lower than projected.

We also achieved this result because we took a forward-looking, proactive approach. This demands motivated, expert office and sales force staff, as well as strong partners in the German Cooperative Banking Group. We would like to thank them all and express our special appreciation for their commitment in a demanding market and the changing, increasingly hybrid world in which we live and work.

Together, we are looking forward – at the issues that will make us fit for the future. In 2022, we will continue to consistently drive forward the digital transformation of our internal and external processes. By switching our core banking system to SAP/Hana technology, we are laying the foundation for the further digital transformation and automation of our offerings and services. We are doing this so that we can continue reaching out to our customers in future wherever they are and, together with our partners in the German Cooperative Banking Group, to be at their side as a proven adviser. To this end, we are also investing in developing new business models, for example, through our investment in 2021 in the fintech company Impleco, with which we are building the "Construction and Living Ecosystem" together with banks from the German Cooperative Banking Group. It enables cooperative banks to also demonstrate their competence in the digital environment, position themselves as partners for all matters relating to the topic of "Building and Living" and develop business potential over and above traditional financing. More than 20 cooperative banks have already integrated this offering into their websites.

Schwäbisch Hall is well positioned in challenging times. Thanks to our stable business strategy and our committed workforce, we are facing the future with confidence and the boldness to make change happen.

Sincerely,

Reinhard Klein
(Chief Executive Officer)

Jürgen Gießler

Mike Kammann

Peter Magel

Combined management report

Combined management report

Fundamental information about the Group

The management report of Bausparkasse Schwäbisch Hall AG (section 289 of the *Handelsgesetzbuch* (HGB) – German Commercial Code) and the Group management report (section 315 of the HGB) are combined in accordance with German Accounting Standard (GAS) 20. Accordingly, in addition to the disclosures on the Bausparkasse Schwäbisch Hall Group, it contains disclosures relating solely to the parent company Bausparkasse Schwäbisch Hall AG, with explanations on the basis of German GAAP. Bausparkasse Schwäbisch Hall AG's German GAAP financial statements are published together with the combined management report in the German Federal Gazette (Bundesanzeiger).

Group structure

Bausparkasse Schwäbisch Hall AG is majority-owned by DZ BANK AG Deutsche Zentral-Genossenschaftsbank (DZ BANK), Frankfurt am Main. Additional interests are held by other cooperative institutions. A profit and loss transfer agreement has been entered into with DZ BANK.

The Bausparkasse Schwäbisch Hall Group consists largely of the parent company Bausparkasse Schwäbisch Hall AG. The disclosures in the present combined management report related both to the Bausparkasse Schwäbisch Hall Group as a whole and to Bausparkasse Schwäbisch Hall AG as a single entity, unless expressly indicated otherwise.

The Company's registered office is in Schwäbisch Hall, and Bausparkasse Schwäbisch Hall also has offices in Schwäbisch Hall (South regional office), Frankfurt am Main (West and Specialised banks regional offices) and Hamburg (North-East regional office). Outside Germany, Schwäbisch Hall is represented in China, Slovakia and Hungary.

Business model and strategic focus

BAUSPARKASSE SCHWÄBISCH HALL IN THE GERMAN COOPERATIVE BANKING GROUP

The strategic focus of the Schwäbisch Hall Group (SHG) follows the DZ BANK Group's guiding principle of operating as a "network-oriented central banking institution and integrated financial services group". As a subsidiary partner of the cooperative banks, SHG's business activities are focused on the topic of "Building and Living". The objective of this focus as the socially responsible real estate financing provider for the German Cooperative Banking Group (GFG) is to consolidate the GFG's position in the long term as one of Germany's leading integrated financial services providers. The companies of the DZ BANK Group work together with the cooperative banks and Atruvia AG, Karlsruhe and Münster (Atruvia), the cooperative digital transformation partner, under the umbrella of the National Association of German Cooperative Banks, Berlin, (BVR), to shape the future. GFG offers a broad range of services, from retirement provision through real estate and housing financing, down to insurance and funds. With its approximately 800 cooperative banks, their more than 8,500 bank branches and 30 million customers, it is one of the leading integrated financial services partners in Germany.

Bausparkasse Schwäbisch Hall AG is a member of the institutional protection scheme established by the BVR.

ECOLOGY AND SUSTAINABILITY

With its Green Deal, the European Commission is addressing a large number of challenges on an unprecedented scale. This relates to both nutrition and mobility as well as topics such as energy, buildings and finance – and thus also directly impacts the core business of Bausparkasse Schwäbisch Hall. "Fit for 55" is the name of the legislative package presented by the European Commission in July 2021. The measures it contains are intended to help reduce net greenhouse gas emissions in the European Union (EU) by at least 55% by 2030, and for the EU to become climate-neutral by 2050. The energy consumption of buildings will be reduced by 36% by 2030. At the same time, the goal is to increase the share of renewable energies used for heating and cooling by 1.1% per year. This means that by 2030, 49% of energy use in buildings will be attributable to renewable energies. By promoting ecological and energy-efficient building and living, Bausparkasse Schwäbisch Hall has a lever for reducing carbon dioxide emissions.

REFINANCING

With its *Pfandbrief* issuances, Bausparkasse Schwäbisch Hall has created a second attractive source of refinancing in addition to *Bauspar* deposits. This is a significant component of the growth strategy in the core business segment of Housing Financing. After the successful debut issuance in the autumn of 2020, Bausparkasse Schwäbisch Hall placed two further issues on the capital market in 2021, each with a benchmark volume of €500 million. These benchmark issues were a further step towards reinforcing this strategically important refinancing channel. Our *Pfandbriefe* attracted significant interest among investors. The German and foreign investors include central banks, insurance companies, banks as well as pension and investment funds. Rating agency Moody's awarded Bausparkasse Schwäbisch Hall's *Pfandbriefe* its top rating of AAA ("Triple A"). In 2021, British specialised portal "The Covered Bond Report" named Bausparkasse Schwäbisch Hall the "Best Debutant" among the new *Pfandbrief* banks in 2020.

NEW *FUCHS 05 BAUSPAR* TARIFF

Bausparkasse Schwäbisch Hall has always adapted its tariffs to market trends. What has changed how is the speed that it has to react to market and interest rate changes. With the reduction in the effective interest rate charged, Bausparkasse Schwäbisch Hall focuses even more clearly on the core function of *Bausparen*, i.e. low-interest financing, with the *Fuchs 05 Bausparen* tariff it launched on 1 July 2021. The arrangement fee is 1.6% of the *Bauspar* sum. *The Fuchs 05* tariff also includes an eco variant with a very short savings period and a reduced interest rate for implementing energy-saving measures. This sees Bausparkasse Schwäbisch Hall supporting sustainability and climate protection, which are becoming increasingly important for the financial services industry. A bonus for young people rounds off the new tariff offering.

The Schwäbisch Hall Group

The implementation of the Schwäbisch Hall Group's strategic focus described in the following relates primarily to the activities of Bausparkasse Schwäbisch Hall AG.

BAUSPARKASSE SCHWÄBISCH HALL

With its strategic target vision "HORIZONT 2025", Schwäbisch Hall has defined the framework for a process of transformation: from being a "*Bausparkasse* with a housing financing business segment" to becoming a leading real estate financing provider with *Bausparen* and Housing Financing as its two core business segments.

In its Housing Financing core business segment, Schwäbisch Hall is positioned as a partner of the cooperative banks. It concentrates on traditional *Bauspar* loans, its own *Bauspar*-backed immediate financing products, including *Riester*-subsidised financing (*Wohn-Riester* home ownership pensions), building loans and brokering real estate loans for the cooperative banks. Key strategic initiatives for leveraging additional market opportunities include expanding *Pfandbrief* refinancing, improving the point of sale reliability (immediate financing commitment) as well as the systematic end-to-end digital transformation of the lending process.

In its *Bausparen* core business segment, Schwäbisch Hall's product range is being enhanced to improve product profitability.

The customer service employees at Schwäbisch Hall and the more than 3,100 sales force experts ensure that around 6.8 million customers receive advice and customer service.

Bausparkasse Schwäbisch Hall AG additionally manages the domestic and foreign activities of its subsidiaries and investment companies.

DOMESTIC SUBSIDIARIES AND EQUITY INVESTMENTS

Its domestic subsidiaries and equity investments provide services for SHG and the German Cooperative Banking Group.

Its largest subsidiary is Schwäbisch Hall Kreditservice GmbH (SHK), which handles new and existing business on behalf of Bausparkasse Schwäbisch Hall AG and operates the subsidised lending business for DZ BANK. With a portfolio of about 11 million contracts and approximately 1,400 employees, together with its subsidiary VR Kreditservice GmbH, Hamburg, SHK is a market leader in the field of standardised processing of *Bauspar* products.

The responsibilities of Schwäbisch Hall Facility Management GmbH (SHF) include building management and operation of the Group's head office in Schwäbisch Hall. It also serves other external customers in the Schwäbisch Hall region as well as GFG customers. Schwäbisch Hall Training GmbH (SHT) offers training and personnel development activities for the Schwäbisch Hall Group and other GFG institutions. New acquisition Impleco GmbH is a joint venture whose venturers are PSD Banken Rhein Ruhr, Berlin-Brandenburg and Westfalen-Lippe, in addition to Schwäbisch Hall. Impleco's goal is to develop a fintech that aims to serve as the nucleus for a cooperative ecosystem offering for construction and housing.

Bausparkasse Schwäbisch Hall uses BAUFINEX GmbH (BAUFINEX) and Schwäbisch Hall Wohnen GmbH (SHW), which was launched in 2021, to supplement the traditional sales channels of banks and the sales force with two additional sales channels: BAUFINEX for independent financing intermediaries and SHW for digitally empowered customers. By intelligently integrating the four sales channels, Bausparkasse Schwäbisch Hall is responding to the changing needs of its customers. Together with its strategic partner Hypoport SE, BAUFINEX GmbH operates an intermediary platform for private housing financing. This gives the cooperative banks another sales channel so that they can increase the volume of private housing financing business. This is always done in close coordination with the cooperative bank and the local sales force.

SHW advises customers digitally if they wish or if no advisor is available on site.

NON-DOMESTIC *BAUSPARKASSEN*

The foreign joint venture *Bausparkassen* in China and Slovakia as well as the subsidiary in Hungary are *Bausparkassen* that pursue *Bauspar* and housing financing business in their domestic markets in line with the German model.

SEGMENTS OF THE SCHWÄBISCH HALL GROUP

The Schwäbisch Hall Group consists of the following three segments: *Bausparen* Domestic, *Bausparen* Non-domestic and *Bauspar* and Loan Processing. These segments form the basis for the Group's segment reporting under IFRS 8. Their development is presented separately in this management report.

THE FOLLOWING COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS:

Segments of the Schwäbisch Hall Group

Bausparen Domestic

Bausparkasse Schwäbisch Hall, Schwäbisch Hall (parent company)

with the core business segments:

- Bausparen
- Baufinanzierung

and the business segment:

- Cross Selling

Specialised fund:

UIN Union Investment Institutional, Frankfurt/Main, (UIN Fund No. 817)

Bausparen Non-domestic

Fundamenta-Lakáskassza Lakástakarékpénztár Zrt. (FLK), Budapest, Hungary (as subgroup)

Joint Venture Bausparkassen

- Prvá stavebná sporiteľňa, a. s., Bratislava, Slovakia (PSS)
- Sino-German Bausparkasse Co. Ltd., Tianjin, China (SGB)

Bauspar and Loan Processing

Schwäbisch Hall Kreditservice GmbH (SHK), Schwäbisch Hall

The *Bausparen* **Domestic segment** comprises the *Bausparen* and Housing Financing core business segments as well as the *Cross-Selling* business segment.

The *Bausparen core business* segment consists of the traditional *Bauspar* business in Germany.

The *Housing Financing core business* segment comprises Schwäbisch Hall's building loan business (immediate financing and *Bauspar* loans) as well as brokering real estate loans for cooperative banks. As the DZ BANK Group's centre of excellence for retail property finance, Bausparkasse Schwäbisch Hall helps the local cooperative banks to safeguard and expand their market position in the field of housing financing.

In the *Cross-Selling* business segment, Schwäbisch Hall provides its sales force with a product range that is tailored to its target groups. The core offering in this business segment includes the real estate-related insurance products of R+V Versicherung – which likewise belongs to GFG – as well as pension products offered by the cooperative banks. It is rounded off by further products such as Union Investment's fund solutions for government-subsidised retirement provision.

The *Bausparen* Domestic segment also includes the specialised fund UIN Fund No. 817, established for Schwäbisch Hall's own investments.

FLK (*Bausparkasse*) is a subsidiary included in the ***Bausparen* Non-domestic segment**. The joint venture *Bausparkassen* PSS and SGB are included in the consolidated financial statements using the equity method. All of these companies operate collective *Bausparen* in their home markets in line with the German model.

In the ***Bauspar* and Loan Processing segment**, SHK handles new and existing business on behalf of Schwäbisch Hall. SHK processes the subsidised lending business for DZ BANK. To achieve cost advantages together with regulatory reasons, the SHK's IT units were integrated as at 1 July 2021 with Bausparkasse Schwäbisch Hall, where IT management was already located.

FACTORS INFLUENCING THE CORE BUSINESS SEGMENTS

Bausparen is the core of Bausparkasse Schwäbisch Hall's product range. It is based on an earmarked advance saving scheme that is strictly regulated and subject to strict statutory safety standards. At the heart of this model is the closed loop of payments made by *Bauspar* customers into savings accounts and the repayments made by borrowers that provide the funds used to offer housing financing. There is no direct link between this closed system and the situation on the capital markets. Changes in capital market interest rates indirectly affect Schwäbisch Hall's business position and financial performance: firstly, because the return on potential financing alternatives influences the development of new *Bauspar* loan business, and secondly because the returns achievable on the capital markets for freely invested disposable funds is a major factor driving changes in net interest income.

The relevant regulatory environment is another key factor. This comprises not only the statutory framework for *Bausparen* and housing financing specifically, but also systems that promote asset formation – for example as part of private retirement provision (*Wohn-Riester*), housing construction and the refurbishment and upkeep of residential buildings.

CONTROL SYSTEM

The Schwäbisch Hall Group's control system is designed to ensure sustained growth in the value of the Group, reflecting risk aspects and regulatory requirements. The key performance indicators for earnings, volume, productivity and the sales-related key performance indicators for presented new *Bauspar* business and housing financing for SHG are presented in the following:

Earnings measures under International Financial Reporting Standards (IFRS):

The earnings measures (in particular loss allowances, profit before taxes and net profit) are presented in the chapter "Financial performance of the Group and the segments" as well as in the risk report in this Group management report.

IFRS volume measures:

Equity and total assets are the key performance indicators for volume measures. They are given in the "Group financial position and net assets" of this Group management report.

Productivity:

The cost/income ratio is one of the most important productivity KPIs. This KPI for SHG is described in the "Financial performance of the Group and the segments" chapter in this Group management report.

Presented new *Bauspar* business:

Presented new *Bauspar* business contains the *Bauspar* sum of the new *Bauspar* business entered into in the reporting period. This also includes the contractual increase of the *Bauspar* sum from *Bauspar* contracts from previous years. There is no requirement for any payments to the *Bauspar* contracts to have been made.

Housing financing:

The housing financing business consists of the loan amounts of the payment holiday loans entered into in the reporting period, interest-only loans and the *Fuchs* building loans that are carried in the books of the *Bausparkasse*. This indicator also contains the financing schemes brokered for GFG institutions.

A projection for SHG's key performance indicators is provided in the Report on expected developments.

Report on economic position

Changes in the operating environment

MACROECONOMIC ENVIRONMENT

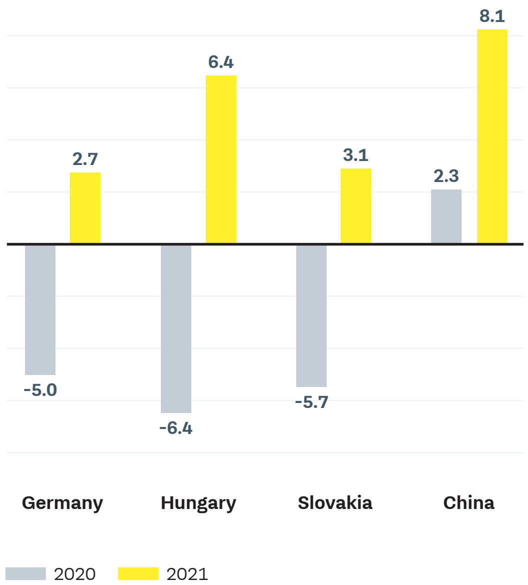
The Covid-19 pandemic continued to shape global economic development in 2021. A sustained recovery began when the vaccination campaign was stepped up in the first quarter of 2021. In the second quarter, the measures to tackle the coronavirus were gradually eased, providing relief for the economy. Growth was driven by stimulus and infrastructure measures, especially in the USA. Because of globalisation, this increase in growth also had a positive impact on other economic regions. Growth slowed in the third quarter. There are many reasons for this phenomenon: in addition to problems in global supply chains, which impacted the automotive industry, for example, in the form of the chip shortage, the spread of the delta variant of the coronavirus is also leading to an economic downturn. In the fourth quarter, inflation rates continued to rise due to ongoing supply chain issues, high raw material and transport prices. Nevertheless, output rose strongly by 5.9% following the previous year's historic slump. This more than made up for the 3.1% drop in 2020.

The economy in the European Union and the eurozone countries recovered faster than expected from the Covid-19 pandemic. Private consumption was the main growth driver. Already in the third quarter, the EU economy had already returned to its pre-pandemic economic output, thereby making the shift from recovery to growth. In November, the European Commission then raised its growth forecast for the eurozone for 2021 from 4.8% to 5.0%.

The German economy recovered in 2021 from the Covid-19-driven slump of the previous year. However, growth in Germany remained well below expectations, at 2.7%. In its spring 2021 growth forecast, the federal government had still assumed an increase of 3.5% for the year. The weaker growth in Germany is due to the fact that the economic slump of minus 5% in 2020 was nowhere near as severe as in other major EU economies, so the percentage growth is now correspondingly lower. In addition, the manufacturing industry plays a greater role in Germany. Supply chain problems and materials shortages therefore had a stronger and a more adverse effect on growth than in other countries. In light of the strong increase in Covid-19 cases in the fourth quarter, private consumption also weakened significantly, after still being the growth engine in the summer.

Gross domestic product changed as follows in the markets of relevance for SHG (SH markets):

GDP GROWTH IN SH MARKETS IN %



Hungary was one of the fastest-growing countries in the European Union (EU) in 2021. After the Hungarian economy was already able to reach pre-crisis levels at the end of 2019 in the second quarter, posting growth of 17.8%, growth slowed to 6.1% in the third quarter. The fourth wave of Covid-19 further slowed economic growth in the fourth quarter.

The economic recovery was buoyed in particular by gross fixed capital formation and strong consumption growth. The weaker pace of growth in the second half of the year was due largely to problems in manufacturing industry to secure the supply of necessary components and raw materials. The automotive industry was especially impacted by this. It is one of the mainstays of the Hungarian economy and accounts for around 25% of industrial output in Hungary. The construction industry also suffered from logjams in the supply of building materials and a sharp rise in prices. The Hungarian Ministry of Finance calculated GDP growth of 6.4% for 2021.

In Slovakia as well, the economy was already on the road to recovery at the beginning of 2021, despite the severe course of the pandemic in the winter. GDP rose by 4.9% in the first six months of the year, although this still saw it 2.3% below the pre-Covid-19 level. This was initially driven by foreign demand and, following the end of the lockdown, by growing domestic demand as well. According to the Slovak Statistical Office, it rose by 9.2% in the second quarter. The upswing in the manufacturing industry (26.8%) was particularly pronounced in the first half of the year, especially in the automotive industry. The automotive sector is the most important pillar of the Slovak economy and is responsible for 40% of industrial exports. Unemployment reached its highest level for the year in April, at 8.0%, and declined steadily to 6.3% by November. The third wave of the pandemic as well as ongoing supply chain problems in the industry, which mainly impacted the automotive sector, slowed GDP growth in the third quarter. At 1.3%, Slovakia had one of the weakest GDP growth rates of the EU countries in this quarter. A renewed Covid-19-driven lockdown at the end of November, as well as ongoing supply chain problems and price increases, put the brakes on household consumption in the fourth quarter. As a result, the National Bank of Slovakia forecast 3.1% GDP growth for 2021 in December.

In 2021, China continued the zero-Covid-19 policy it had already pursued in 2020. Isolated local cases that occurred led to rigorous lockdown measures. Cross-border travel was severely restricted. Economic growth clearly gathered momentum again. Both exports and imports expanded, with growth rates of more than 20%. Core inflation remained low, at 1.2%. The political focus of economic development was on qualitative economic growth. Various regulatory measures were therefore introduced relating to the tech giants and other sectors. The overheating real estate sector was significantly reined in with regard to the rampant debt levels. Accordingly, developers were specified three liquidity ratios (three red lines). Exceeding these red lines leads to debt being limited by the regulator. The Chinese decarbonisation strategy, on the other hand, was conceived for the long term. While the Chinese economy still expanded by 9.8% in the first three quarters, growth reached only 4% in the fourth quarter. In addition to curbing the real estate market, the factors behind this were sporadic coronavirus cases and uncertainty in the global economic environment. The Chinese economy grew by 8.1% in full-year 2021.

FINANCIAL MARKETS AND INTEREST RATES

Despite the economic recovery, increased inflation figures and government debt, the yield on 10-year German Bunds stayed negative in 2021. The reason behind this was the European Central Bank (ECB), which pushed down yields on the bond markets with its bond buying programme. Inflation in the eurozone reached 4.9% in November, compared with the official ECB inflation target of exactly 2%. With the decision to let its Pandemic Emergency Purchase Programme (PEPP) expire at the end of March 2022, the ECB is drawing the conclusions from the economic recovery and rising inflation. It intends to maintain the current level of the PEPP constant until the end of 2024 by replacing maturing instruments. The older Asset Purchase Programme (APP), which is more closely tied to a fixed capital commitment by the eurozone countries, will be bumped up from the current €20 billion to €40 billion per month starting in April 2022. From October, the purchases will then be reduced again to €20 billion and then maintained for as long as the ECB believes necessary to stimulate the economy. The ECB has not indicated that it will stop the APP programme, and it has stated that an interest rate hike in the coming year is very unlikely. It held the deposit rate at the existing level of -0.5%, and the key interest rate was left at 0%. This is the level it has been at since March 2016.

Supplying banks with cheap long term refinancing is another instrument in the ECB's monetary policy toolbox. Since 2020, banks have been able to call down three-year Targeted Longer-Term Refinancing Operations (TLTROs) from the central bank (in this case: TLTRO III). The interest rate for these liquidity injections was the deposit rate (-0.5%). This is designed to contribute to preserving favourable financing conditions during the period of the pandemic, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability.

In Hungary, the Hungarian central bank (MNB) was the first central bank in the EU to raise interest rates by 0.3% to 0.9% in June 2021. in response to the high inflation in Hungary. The MNB resolved further interest rate hikes in the following months until the inflation outlook stabilised at a level close to the central bank's target of 2% to 4%. On 14 December 2021, the MNB raised its key interest rate by a further 30 basis points to 2.4%. According to preliminary estimates, inflation reached 7.4% at the end of November 2021, a level not seen in 14 years.

Whereas inflation in the 19 countries of the eurozone was -0.3% at the end of 2020, the lowest level since the introduction of the euro, it rose to 5.0% over the course of the year, reaching the highest level since Eurostat began keeping records in 1997. In 2021, the yields on the bond market, which are a benchmark for the market rate of interest for real estate loans, remained at a very low level in historical terms. Ten-year German Bunds were yielding -0.31% at the end of 2021, compared with -0.57% at the end of 2020. A persistently low interest rate has a particularly strong impact on *Bausparkassen* and an extraordinarily negative effect on their net interest income, a key earnings component.

HOUSING CONSTRUCTION ACTIVITY

Even in the second "year of Covid-19", private housing construction remained one of the mainstays of the German economy. After the number of owner-occupied flats completed in 2020 again topped the 300,000 mark for the first time since 2001, at 306,000, the experts at EUROCONSTRUCT, the European market research network for the construction sector, are expecting a slight decrease to 300,000 units in 2021. The reason for this is the absence of special factors that played a significant role in the good figure for the previous year. These included a particularly mild spring with little snow and the temporary reduction in VAT in the second half of 2020. This reduction meant that the incentive for completion by 31 December 2021 was very high. During the coronavirus crisis, many people became more aware of the importance of owning their own home – whether it be an owner-occupied flat, a town house or single-family house. The lockdowns led to a sharp increase in working from home; as a result, housing markets outside the metropolitan areas also came into focus in 2021, as employees no longer had to commute to work every day, saving time and money. Growing inflation and the persistently low interest rates created an environment that savers used to invest in residential property. In the last ten years, the number of approved homes has always been significantly higher than the number of completed homes. Most recently, a good 368,000 new homes were approved in 2020 – more than 60,000 more homes that could be finished. This means that a construction backlog of almost 780,000 homes has built up in recent years. There are many reasons for this phenomenon. The high capacity utilisation in the construction industry, combined with a shortage of skilled and unskilled workers, are key factors. Further factors in 2021 were also growing bottlenecks in the procurement of raw materials and building materials: According to the ifo Institute, half of building construction companies were impacted by delivery delays in June 2021. The interaction of these factors is delaying construction projects and making them more expensive. This is making it increasingly difficult to implement affordable housing in new buildings or to carry out needed renovation and modernisation measures in the housing at reasonable costs.

The Hungarian housing market kicked off 2021 with a clear recovery. The new housing construction subsidy made a significant contribution to stimulating housing demand starting at the beginning of the year. The Hungarian government cut the rate of VAT on new housing starts from 27% to 5% until the end of 2022. It also launched a subsidy programme for housing renovations for families was launched. Under this programme, the government covers 50% of the housing modernisation costs of families with at least one child, up to a maximum of HUF 3 million (approximately €8.1 thousand). The annual growth rate of residential property prices accelerated to a national average of 13.3% in the second quarter of 2021. Whereas annual price growth reached 9.1% in Budapest, prices in the smaller cities shot up by 18.2%. Since 2015, Hungary has experienced the second strongest growth in property values among the 37 OECD members. The reasons were generous subsidies for families buying new housing, low interest rates, a shortage of construction companies and rising costs for building materials. Towards the end of the year, the pace of growth in the construction industry weakened significantly. A main reason for this were problems in the procurement of building materials, combined with a sharp rise in prices. Following the significant increase in housing completions in 2020 to 28,000 housing units, the experts at EUROCONSTRUCT, the European market research network for the construction sector, are assuming a decline to 25,000 housing units in 2021. This is due to the collapse in building permits in 2020 as a result of the coronavirus pandemic.

In Slovakia, following the slump during the coronavirus crisis in 2020, the construction industry still showed no signs of recovery in the second quarter of 2021. The sector is also facing other problems, including a labour shortage. The number of completed homes in June was 4,872, representing a 28.5% decrease compared with the 6,810 units completed in December 2020. According to estimates by the EUROCONSTRUCT network, 22,200 housing units were completed in Slovakia in 2021, slightly more compared with the previous year (21,500).

In China, the tighter monetary policy, combined with tougher lending conditions, led to a significant weakening of the real estate sector. New construction starts in China, measured by gross floor area, continued to decline in the first eleven months of the year. Housing starts were down 9.1% year on year in the period from January to November. House sales by volume recorded slower growth in the first eleven months of 2021, rising by 9.3% compared with a 12.7% increase in the ten months up to October. New owner-occupied home prices in China also fell for the third consecutive month in November, recording the sharpest decline in more than six years. The downward trend in the housing market saw the Chinese government changing the direction of its policy in December and again loosening restrictions somewhat on housing loans. Housing is the most important form of investment and retirement provision for the vast majority of Chinese people.

Loan repayment holidays in the wake of the coronavirus pandemic

To mitigate the effects of the coronavirus pandemic, a range of different legislative deferrals of certain due loan instalments were resolved in Germany and Hungary in 2020 to address cases where customers were in financial difficulties because of the crisis.

As an alternative, Bausparkasse Schwäbisch Hall offered its customers with Covid-19-related financial difficulties a private payment moratorium as part of an industry-wide solution, limited until 30 September 2020. Instead of a legislative three-month deferral, customers were able to take advantage of a payment holiday of up to six months. Around 15,900 of Bausparkasse Schwäbisch Hall's customers made use of this private payment holiday in 2020. Deferred principal repayments amounted to €0.4 million in financial year 2021 (previous year: €15.8 million), for a lending volume of €9 million as at 31 December 2021 (previous year: €200 million).

The payment moratoria ordered by the Hungarian government in 2020, which saw the deferral of credit and loan contracts as well as savings contracts, were further extended for 2021 and ended in the first instance on 31 October 2021. The moratorium was extended until 30 June 2022 for families and socially vulnerable people. As at 31 December 2021, 2,536 (previous year: 27,939) FLK customers were still taking advantage of this legislative payment moratorium. The amortised cost of the loans in question as at 31 December 2021 was HUF 20.4 billion (€55.2 million) (2020: HUF 150.4 billion (€0.4 billion). The deferred interest and principal repayments (including savings instalments) amounted to HUF 3.2 billion (€8.7 million) as at 31 December 2021 (2020: HUF 12.0 billion (€32.8 million).

To mitigate the indirect impact of Covid-19 moratoria on the own funds calculation of credit institutions, the EBA issued Guidelines (EBA/GL/2020/02) on 2 April 2020. The core guidance is that moratoria (legislative and private) that meet certain criteria will not be considered as forbearance within the meaning of Article 47b of the CRR, and the debtors concerned will not be classified per se as defaulted within the meaning of point (d) of Article 178(3) of the CRR (paragraph 13 of EBA/GL/2020/02). The guidelines, which expired at the end of September 2020, were reactivated on 2 December 2020 and their application period extended until 31 March 2021.

Course of business of the group and the segments

GROUP

In an economic environment hit hard by the Covid-19 pandemic, SHG continued to maintain its leading position in the *Bauspar* market and substantially expanded its new business in real property finance for retail customers. With a volume of €18.3 billion (+7.4%), including the business brokered for the GFG institutions, Bausparkasse Schwäbisch Hall wrote a new record in housing financing. The sales volume in the new *Bauspar* business of €24.0 billion (-0.8%) is in line with expectations. In light of start-up effects in the second half of the year for the newly introduced *Fuchs 05* tariff at Schwäbisch Hall and a challenging environment, with the fourth wave of the coronavirus in the fourth quarter, this is still a satisfactory result. The *Bausparkassen* combined in the *Bausparen* Non-domestic segment were able to substantially expand their housing financing business, with a €1.46 billion volume of housing financing representing 24% growth. By contrast, the new *Bauspar* business of €7.9 fell slightly short of the previous year's level (€8.1 billion). In the view of the Management Board, the sales performance achieved by SHG was satisfactory overall.

BAUSPAREN DOMESTIC SEGMENT

The course of business in the *Bausparen* Domestic segment is classified into the *Bausparen* and Housing Financing core business segments as well as the Cross-Selling business segment.

Bausparen core business segment

Schwäbisch Hall reinforced its position as the number one Bausparkasse in Germany. Its market share for new business honoured reached 30.5% and was thus slightly over the 30% mark (2020: 30.1%). As at the end of 2021, Bausparkasse Schwäbisch Hall had 6.8 million customers (2020: 7.0 million), with a stock of 7.7 million contracts honoured (2020: 8.0 million).

At €24.0 billion, new *Bauspar* business in Germany declined by 0.8% year on year (2020: 24.2 billion). With 441,477 contracts concluded, this corresponds to 3.1% under the 2020 comparative figure (455,795). The average *Bauspar* sum for new contracts was €54,377 (2020: €53,087), and hence slightly higher than the prior-year amount.

The age structure of *Bauspar* customers who concluded new contracts in the reporting period is as follows:

	in %
under 20 years old	10.1
20 to under 25 years old	8.0
25 to under 30 years old	8.2
30 to under 40 years old	17.8
40 to under 50 years old	15.1
50 to under 60 years old	17.6
60 years old or more	23.2

In financial year 2021, over 22,000 *Wohn-Riester* (home ownership pension) subsidised old-age provision contracts were concluded with Schwäbisch Hall. Schwäbisch Hall has just on 643,000 *Wohn-Riester* (home ownership pension) contracts in its portfolio.

The volume of *Bauspar* deposits increased by €1.4 billion or 2.2% in 2021 to €66.5 billion. This was a result of the high level of savings funds received.

The *Bauspar* sum of the stock of contracts declined by 1.1%, from €315.6 million in 2020 to €312.2 billion in 2021. The average *Bauspar* sum for the stock of contracts increased from €39,469 in 2020 to €40,752 in 2021, corresponding to 3.3% growth. Additions to the allocation fund increased by €454 million to €12.1 billion.

437,742 *Bauspar* contracts (2020: 476,568) were allocated in 2021. At €11.8 billion, the allocated *Bauspar* volume was down 2.3% on the previous year's level of €12.1 billion. The volume of loans provided, net of allocation cancellations and loan waivers was €8.3 billion (2020: €8.6 billion).

Housing Financing core business segment

Schwäbisch Hall again generated a record new business volume in 2021 in its Housing Financing business segment. Brokerage of its own suspended repayment financing (interest-only loans) accounted for €4.6 billion (2020: €5.0 billion) of the total volume of €18.3 billion (2020: €17.1 billion), with brokerage of *Fuchs* building loans accounting for €4.7 billion (2020: €4.2 billion). In addition, financing schemes with a volume of €9.0 billion (2020: €7.9 billion) were brokered for GFG institutions. This does not include the business relating to advance payment loans by the cooperative banks that are backed by a *Bauspar* contract, which amounted to €6.2 billion (2020: €6.5 billion). Schwäbisch Hall *Bauspar* loans and bridging loans accounted for a further €1.9 billion (2020: €2.1 billion). The total portfolio of building loans was €58.4 billion, approximately 8.5% higher than in 2020 (€53.8 billion). €2.4 billion of this amount related to *Bauspar* loans (-2.1%), €46.1 billion to advance payment and bridging loans (+2.6%) and €9.9 billion (+60.1%) to other building loans.

Cross-Selling business segment

With a total volume of €0.9 billion in 2021 (2020: €1.0 billion), Cross-Selling product sales recorded a decrease of 7.6% in 2021. The total volume does not include the volume of term life insurance policies brokered in connection with building loans, which declined by 4.1% to approximately €0.9 billion.

As part of its sales partnership, Schwäbisch Hall's sales force brokered almost 95,000 financing and investment products for its cooperative partner institutions (-6.4% compared with 2020).

BAUSPAREN NON-DOMESTIC SEGMENT

Overview

The Group's *Bausparkassen* outside Germany again cemented their leading market positions in a difficult environment still marked by the coronavirus pandemic. Overall, the foreign *Bausparkassen* included in Schwäbisch Hall's consolidated financial statements concluded 268,558 new contracts in 2021, compared with 257,602 in 2020. The volume of new business declined slightly year on year to €7.9 billion (2020: €8.1 billion). The average *Bauspar* sum for the new contracts was €29,500 and hence considerably below the previous year (€31,600). The companies' stock of contracts in foreign companies declined to 1.88 million contracts (2020: 2.01 million contracts); the *Bauspar* sum rose by 0.8% to €42.1 billion (2020: €40.1 billion).

Unless otherwise indicated, the percentage deviations have been calculated on the basis of the applicable national currency. Foreign currency amounts are translated at year-end rates.

Hungary

The effects of the coronavirus pandemic continued to impact the brokerage business in Hungary in 2021. Due to the pull-forward effect of a tariff change at the end of financial year 2020, FLK fell short of the previous year's new business of €1.03 billion with a *Bauspar* sum of around €0.93 billion (44,500 contracts). At €20,900 (2020: €21,600), the average *Bauspar* sum remained more or less stable. At €392 million, savings funds received (payments received for *Bauspar* contracts) were down appreciably on the previous year's figure of €445 million (-10.7%). B*auspar* deposits rose by 1.2% to €1.7 billion (2020: €1.7 billion). The volume of *Bauspar* loans granted was almost stable, at €147 million (previous year: €150 million). Overall, FLK's portfolio of housing financing loans amounted to €1.4 billion and was thus, expressed in the national currency, 6.6% higher than the previous year's volume of €1.3 billion.

Slovakia

PSS's new business in Slovakia was also hit hard by the restricted sales opportunities due to the Covid-19 pandemic. Additionally, restrictions in the government house-building premium caused customer uncertainty. Nevertheless, PSS maintained its strong position in the Slovak housing financing market, with 43,857 *Bauspar* contracts concluded (2020: 50,519) and an overall *Bauspar* sum of €1.2 billion (2020: €1.2 billion). The average *Bauspar* sum rose from €24,700 to €27,700 in 2021. Savings funds received amounted to €489 million, compared with €500 million in the previous year (-2.2%) in the previous year. The volume of *Bauspar* deposits declined slightly to €2.6 billion (-2.1%). *Bauspar* loans reached a total volume of €146 million, a 6.4% decline on the previous year's figure of €156 million. At the end of last year, PSS continued to hold total housing finance loans of €2.3 billion.

China

All year long, the media reported comparatively low numbers of new infections in connection with the Covid-19 pandemic in China Nevertheless, the government pursued a strict zero coronavirus policy, which in some cases led to considerable restrictions on public life and to adverse effects on the economy. SGB was also affected by this, especially in the last quarter. The government anti-Covid-19 measures in Chongqing and Dalian severely hindered sales. New business, which until then had been heading towards a new record, suffered a significant decline. With new business of €5.8 billion, SGB almost reached the previous year's record level (€5.9 billion) in 2021. In terms of the number of *Bauspar* contracts concluded, it reached a new record of approximately 180,000 (2020: 160,000). This is attributable in particular to the successful launch of new *Bauspar* products. Bauspar deposits rose from €2.4 billion in 2020 to €3.5 billion. Savings funds received rose to €7.6 billion (2020: €6.2 billion). At €504 million, *Bauspar* loans were up on the previous year (€401 million). The *Bauspar* specific volume of housing financing exceeded €2.0 billion, compared with €1.3 billion in the previous year, for an increase of 33.6%, expressed in the national currency.

BAUSPAR AND LOAN PROCESSING SEGMENT

In its credit processing activities for Bausparkasse Schwäbisch Hall, SHK processed a record new volume of €9.3 billion in financial year 2021 (2020: €9.2 billion) for *SofortBauGeld*, which was also significantly higher than the projected €8.5 billion. Further capacity strains resulted from processing loans required as cover pool assets for *Pfandbrief* issues. Extensive project work was carried out as part of the modernisation of the core banking system. The no more than slight decline in the *Bausparkasse*'s new *Bauspar* business did not ease these strains in any significant manner.

The divisions responsible for the further development of Schwäbisch Hall's IT systems and their operation were transferred from SHK to *Bausparkasse* on 1 July 2021. This saw 494 employees moving to the *Bausparkasse*. As well as tougher regulatory requirements, this was also driven by cost advantages.

In its subsidised lending business, SHK processed around 99,000 new loan applications on behalf of DZ BANK, beating its projection by more than 20%. The main driver was private housing construction, in addition to the commercial special programmes of the development banks.

Financial performance of the group and the segments

GROUP

Bausparkasse Schwäbisch Hall's net profit improved significantly in 2021. However, the year on year comparison reflects a non-recurring factor in the previous year. In 2020, the first year of the coronavirus pandemic, there was a need for a special allocation to the *Bauspar*-specific provisions for legacy tariffs at Bausparkasse Schwäbisch Hall in the amount of €115 million because of the lower interest rates. In light of the persistently low interest rate environment and the huge implications of the coronavirus pandemic, with effects not only on business activities but also on the financial markets, the Management Board believes that the result achieved can be viewed as satisfactory.

FINANCIAL PERFORMANCE OF THE SCHWÄBISCH HALL GROUP

in € million	2021	2020	Change absolute	Change in %
Net interest income	581	531	50	9.4
Interest income	1,401	1,497	-96	-6.4
Interest expenses	-829	-971	142	14.6
Income from investments in joint ventures using the equity method	9	5	4	80.0
Loss allowances	-14	-29	15	51.7
Net fee and commission income	12	-9	21	> 100
Fee and commission income	120	103	17	16.5
Fee and commission expenses	-108	-112	4	3.6
Gains and losses on investments	22	56	-34	-60.7
Other gains or losses on valuation of financial instruments	0	5	-5	-100.0
Gains or losses on derecognition of financial assets measured at amortised cost	2	15	-13	-86.7
Administrative expenses	-515	-526	11	2.1
of which personnel expenses	-232	-256	24	9.4
of which other administrative expenses	-214	-211	-3	-1.4
of which depreciation/amortisation	-69	-59	-10	-16.9
Other net operating income	42	38	4	10.5
Profit/loss before taxes	**130**	**81**	**49**	**60.5**
Income taxes	-40	-22	-18	-81.8
Net profit	**90**	**59**	**31**	**52.5**

Interest income declined substantially year on year. Interest income relating to *Bauspar* loans decreased by €2 million. As the total portfolio declined slightly, the primary factor here was also the lower interest rates for the more recent tariffs.

Despite lower average interest rates, income from advance payment and bridge financing loans and other building loans rose (€21 million) in the wake of the growth in business in recent years. Investment interest declined significantly (€-97 million) due to the low capital market interest rates. The negative effect of the amortisation of fee and commission expenses and transaction costs included in effective interest on *Bauspar* deposits and building loans increased significantly (€-35 million).

Interest expenses were attributable mainly to *Bauspar* deposits. Despite the increase in volumes, the introduction of lower-interest *Bauspar* tariffs and portfolio measures ensured a year on year reduction in current interest expense. The further decrease in interest expenses resulted from additions to *Bauspar*-specific provisions. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to pay interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Whereas a regular allocation of €204 million was made in the reporting period, the prior-year amount (€318 million) includes a special allocation of €115 million.

The income from investments in joint ventures using the equity method contains the earnings contribution by PSS amounting to €6 million (2020: €3 million) and the earnings contribution by SGB amounting to €3 million (2020: €2 million).

Of the net measurement gains from lending business of €-14 million, €-10 million is attributable to Bausparkasse Schwäbisch Hall and €-4 million to FLK. The expense at Bausparkasse Schwäbisch is attributable to the recalibration of the rating systems. Although there was an increase in Stages I and II loss allowances under IFRS 9, declining lending volumes led to a decrease in Stage III. At FLK, the expense is the result of the adjustment macroeconomic parameters and the expiration of the legislative credit moratorium.

Net fee and commission income rose by €21 million year on year to €12 million and is thus positive again. Bausparkasse Schwäbisch Hall includes arrangement fees and acquisition commissions in its effective interest rate calculation where they are directly associated with the acquisition of *Bauspar* deposits. This reduced fee and commission expense by €22 million in 2021 (2020: €79 million). The decrease results from the inclusion of the new *Fuchs 05* tariff in the effective interest paid on *Bauspar* deposits. The increased arrangement fees (1.6%) from the new *Fuchs 05* tariff compared with the legacy tariffs will be amortised in net interest income over the term of the Bauspar contract as a component of effective interest on Bauspar deposits. Fee and commission expenses were further reduced by the deferral of transaction costs in the housing financing business by €179 million (2020: €173 million). On the other hand, net interest income was negatively affected by the amortisation of deferred commissions and transaction costs. The improvement in net fee and commission income is attributable mainly to other fees including commissions from participation in TLTRO III transactions at the level of the DZ BANK Group.

Gains and losses on investments result mainly from sales of listed bearer bonds and are attributable to UIN Union Investment Institutional Fund No. 817 (€19 million, 2020: €52 million) and Bausparkasse Schwäbisch Hall (€8 million, 2020: €4 million).

Measurement of the joint ventures resulted in an earnings contribution of €-5 million (SGB €4 million; PSS €-9 million).

Gains or losses on the derecognition of financial assets measured at amortised cost include sales of bearer bonds measured at amortised cost by FLK (€2 million).

There was a slight year on year decrease in administrative expenses.

Personnel expenses declined significantly. Expenses for wages and salaries were down substantially year on year. The prior-year amount contains the €29 million cost of the “Structural Optimisation of Costs and their Management” program (German abbreviation: SOKS). SOKS is a multi-year SHG project that aims to ensure greater cost transparency and to keep costs at a sustainably lower level. In addition to the strategic projects, the cost management programme, which also includes personnel measures, is another building block for making SHG future-proof. Expenses for pensions and other post-employment benefit expenses decreased by €4 million.

Other administrative expenses were on a level with the previous year, due in part to the first successes achieved in the implementation of SOKS programme.

The increase in depreciation and amortisation is the result of measures in connection with implementing the new core banking software in the “Next” project.

The increase in other net operating income is attributable to BSH (€10 million). By contrast, SHK’s other gains or losses declined (€-6 million).

The cost/income ratio, which is the ratio of administrative expenses to total operating income, was 78.1% for the Schwäbisch Hall Group in the reporting period, compared with 82.7% in 2020. Economic RORAC was 4.6% (2020: 3.0%).

After deducting non-controlling interests of €8 million (2020: €6 million), net profit of €82 million (2020: €53 million) before profit transfer is attributable to Bausparkasse Schwäbisch Hall.

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* DOMESTIC SEGMENT

The following presentation of financial performance in the various segments only provides explanations of specific key performance indicators if other aspects played a key role for changes in addition to the factors presented at Group level.

The increase in segment profit is attributable largely to net interest income. The increase in other administrative expenses and loss allowances, as well as the decline in net interest income from investments, were offset by the discontinued special allocations to *Bauspar*-specific provisions.

Personnel expenses rose by €19 million to €124 million, largely as a result of the integration of SHK's IT divisions with Bausparkasse Schwäbisch Hall.

The other factors have already been explained in the disclosures on net profit.

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* NON-DOMESTIC SEGMENT

The *Bausparen* Non-domestic segment comprises the joint venture *Bausparkassen* PSS and SGB as well as the FLK subsidiary. The earnings contribution from the joint venture *Bausparkassen* attributable to Schwäbisch Hall is reported in the income from investments in joint ventures using the equity method. The aggregate profit before taxes (€60 million) of the *Bausparkassen* included in the *Bausparen* Non-domestic segment was up significantly year on year (2020: €38 million). The increase in segment profit before taxes to €30 million (2020: €20 million) is due largely to the economic recovery following the Covid-19-driven slump in 2020 (FLK, PSS), whereas SGB was able to largely continue its growth trajectory, apart from adverse effects due to government decisions to close off regions at the end of 2021.

FLK was able to continue its good results from the pre-coronavirus years in 2021. The MNB responded to the increased inflation with repeated interest rate hikes, which improved net interest income. In Hungary, the government introduced an opt-out moratorium suspending loan repayment instalments in response to the Covid-19 pandemic; this was extended in the course of the year until 30 June 2022. However, this

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* DOMESTIC SEGMENT

in € million	2021	2020	Change absolute	Change in %
Net interest income	516	474	42	8.9
Interest income and current income	1,319	1,422	-103	-7.2
Interest expenses	-810	-952	142	14.9
Current income from investments in subsidiaries and joint ventures, and dividend income	7	4	3	75.0
Loss allowances	-10	-23	13	56.5
Net fee and commission income	7	-14	21	> 100
Fee and commission income	110	94	16	17.0
Fee and commission expenses	-103	-108	5	4.6
Gains and losses on investments	39	56	-17	-30.4
Other gains or losses on valuation of financial instruments	0	5	-5	-100.0
Gains or losses on derecognition of financial assets measured at amortised cost	0	13	-13	-100.0
Administrative expenses	-479	-472	-7	-1.5
of which personnel expenses	-124	-105	-19	-18.1
of which other administrative expenses	-295	-316	21	6.6
of which depreciation/amortisation	-60	-51	-9	-17.6
Other net operating income	30	20	10	50.0
Segment profit before taxes	**103**	**59**	**44**	**74.6**

extension was only possible on application by families or socially vulnerable population groups (opt-in). The loan portfolio covered by the moratorium developed positively, reaching only 4% of the total loan portfolio at the end of the financial year. The resulting significant decline in the portfolio of loans in forbearance reduced risk provisioning. Securities were sold to reduce interest rate risk in the banking book, resulting in a book profit of €2 million. The devaluation of the Hungarian currency had a slightly negative effect. At €21 million, FLK's profit was around €1 million higher than projected. Other comprehensive income includes currency translation gains and losses.

In Slovakia, PSS benefited from the general economic recovery following the slump caused by the Covid-19 pandemic in 2020. PSS was able to increase its net interest income despite the persistently low interest rates in the eurozone. The decline in interest income was more than offset by portfolio measures. The stable new lending business led to net fee and commission income on a level with the previous year. A significant increase in the portfolio of loans in forbearance because of Covid-19 resulted in a strong increase in loss allowances in 2020. The declining portfolio of loans in forbearance reduced loss allowances in the reporting period. The discontinuation of the banking levy effective 1 January 2021 reduced administrative expenses by approximately €5.5 million. PSS therefore improved its profit before taxes to €22 million, around €2 million above the projection. Other comprehensive income mainly includes gains and losses from changes in pension obligations recognised in other comprehensive income.

In China, SGB was able to significantly exceed its projected profit and reported year on year profit growth, despite regional disruptions due to the strict government zero-Covid-19 policy. The main reasons for this were improved net fee and commission income and lower risk allowances. Profit before taxes was €17 million. Other comprehensive income includes currency translation gains and losses.

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* NON-DOMESTIC SEGMENT

2021 in € million	FLK	PSS	SGB	Total	Reconciliation equity-method JVs	Nondomestic segment
Net interest income	60	64	69	193	-133	60
Interest income	80	92	136	308	-228	80
Interest expenses	-20	-28	-67	-115	95	-20
Income from investments in joint ventures using the equity method	–	–	–	–	9	9
Loss allowances	-4	-11	–	-15	11	-4
Net fee and commission income	5	11	-8	8	-3	5
Fee and commission income	10	12	8	30	-20	10
Fee and commission expenses	-5	-1	-16	-22	17	-5
Gains or losses on derecognition of financial assets measured at amortised cost	2	-3	–	-1	3	2
Administrative expenses	-39	-40	-43	-122	83	-39
of which depreciation/amortisation	-8	-6	-2	-16	8	-8
Other net operating income	-3	1	-1	-3	-	-3
Profit before taxes/segment profit before taxes	**21**	**22**	**17**	**60**	**-30**	**30**
Income taxes	-6	-5	-4	-15	9	-6
Profit or loss after tax from continuing operations	15	17	13	45	-21	24
Other comprehensive income or loss	-2	1	42	41	-43	-2
Total comprehensive income	**13**	**18**	**55**	**86**	**-64**	**22**
Shareholding	51.25%	32.50%	24.90%			
Share of profit or loss for the year	8	6	3			
Dividend received	–	–	7			

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* NON-DOMESTIC SEGMENT

2020 in € million	FLK	PSS	SGB	Total	Reconciliation equity-method JVs	Nondomestic segment
Net interest income	55	62	63	180	-125	55
Interest income	75	95	107	277	-202	75
Interest expenses	-20	-33	-44	-97	77	-20
Income from investments in joint ventures using the equity method	–	–	–	–	5	5
Loss allowances	-6	-18	-8	-32	26	-6
Net fee and commission income	4	12	-9	7	-3	4
Fee and commission income	8	13	5	26	-18	8
Fee and commission expenses	-4	-1	-14	-19	15	-4
Gains and losses on investments	–	–	–	–	–	–
Gains or losses on derecognition of financial assets measured at amor-tised cost	2	-4	-	-2	4	2
Administrative expenses	-37	-36	-34	-107	70	-37
of which depreciation/amortisation	-8	-6	-2	-16	8	-8
Other net operating income	-3	-4	-1	-8	5	-3
Profit before taxes/segment profit before taxes	**15**	**12**	**11**	**38**	**-18**	**20**
Income taxes	-3	-4	-3	-10	7	-3
Profit or loss after tax from continuing operations	12	8	8	28	-11	17
Other comprehensive income or loss	-14	–	-10	-24	10	-14
Total comprehensive income	**-2**	**8**	**-2**	**4**	**-1**	**3**
Shareholding	51.25%	32.50%	24.90%			
Share of profit or loss for the year	6	3	2			
Dividend received	4	–	–			

FINANCIAL PERFORMANCE OF THE *BAUSPAR* AND LOAN PROCESSING SEGMENT

SHK's segment profit rose significantly in the reporting period.

Net interest income is generated by investing cash funds.

Personnel expenses decreased noticeably year on year. The main reasons were the transfer of the employees of the IT divisions to Bausparkasse Schwäbisch Hall as at 1 July 2021 as well as prior-period effects, the costs for the SOKS project included in 2020 (€23 million). By contrast, the CTA recorded a negative development, resulting in an expense of €2 million (2020: income of €14 million).

The decline in other net operating income is due to the transfer of the employees of the IT divisions to Bausparkasse Schwäbisch Hall and the resulting reduction in revenue received from BSH.

All effects together resulted in a sharp increase in segment profit before taxes.

FINANCIAL PERFORMANCE OF THE *BAUSPAR* AND LOAN PROCESSING SEGMENT

			Change	
in € million	**2021**	**2020**	**absolute**	**in %**
Net interest income	2	2	–	–
Interest income	2	2	–	–
Interest expenses	–	–	–	–
Loss allowances	–	–	–	–
Net fee and commission income	–	–	–	–
Fee and commission income	–	–	–	–
Fee and commission expenses	–	–	–	–
Gains and losses on investments	–	–	–	–
Other gains or losses on valuation of financial instruments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	–	–		–
Administrative expenses	-97	-141	44	31.2
of which personnel expenses	-93	-137	44	32.1
of which other administrative expenses	-4	-4	–	–
of which depreciation/amortisation	–	–	–	–
Other net operating income	116	145	-29	-20.0
Segment profit before taxes	**21**	**6**	**15**	**> 100**

Group financial position and net assets

CHANGES IN THE SCHWÄBISCH HALL GROUP'S BALANCE SHEET

The Schwäbisch Hall Group's total assets rose by €3.7 billion (4.5%) as at 31 December 2021 to €85.4 billion. On the asset side, the growth in total assets is mainly attributable to increased loans and advances to customers, while on the equity and liabilities side it reflects higher deposits from banks and customers. Both of these trends are attributable to the increased volume of business.

Loans and advances to banks mainly comprise investments of cash funds from the *Bauspar* business in the form of registered bonds and borrower's note loans.

The Group's volume of non-collective housing financing in loans and advances to customers increased by 8.9% to €57.9 billion (2020: €53.1 billion).

Bausparkasse Schwäbisch Hall's loan-deposit ratio I, i.e. the ratio of *Bauspar* loans to *Bauspar* deposits, was 3.5% at the end of 2021 (2020: 3.7%). Its loan-deposit ratio II – i.e. the ratio of *Bauspar* loans plus suspended repayment and bridging loans to *Bauspar* deposits – decreased from 73.2% to 72.9% at the end of 2021.

As in the previous years, investments almost exclusively comprise bonds and other fixed income securities.

Due to statutory requirements, FLK's cash funds of €279.5 million (2020: €386.0 million) are mainly invested in Hungarian government bonds.

The derivative financial instruments entered into with DZ BANK (interest rate swaps) with a notional amount of €750 million (2020: €730 million) serve exclusively to manage Bausparkasse Schwäbisch Hall's general interest rate risk. Portfolio fair value hedge accounting (PFVHA) under IAS 39 (EU carve-out) was implemented to account for these hedges. In PFVHA, *Bauspar* deposits (measured at amortised cost) are hedged against interest rate risk by means of dynamic asset-liability management. The fair value of the interest rate swaps was €-2.8 million as at 31 December 2021 (2020: €30.9 million).

NET ASSETS

in € million	31.12.2021	31.12.2020	Change absolute	Change in %
Assets				
Loans and advances to banks	8,043	8,934	-891	-10.0
Loans and advances to customers	62,979	58,862	4,117	7.0
Positive fair values of hedging instruments	2	31	-29	-93.5
Investments	13,006	12,930	76	0.6
Other assets	1,341	916	425	46.4
Total assets	**85,371**	**81,673**	**3,698**	**4.5**
Equity and liabilities				
Deposits from banks	9,452	7,776	1,676	21.6
Deposits from customers	66,733	65,074	1,659	2.5
Fair value changes of hedged items in portfolio hedges of interest rate risk	-10	23	-33	>-100
Issued bonds	1,506	513	993	>100
Negative fair values of hedging instruments	5	–	5	100.0
Provisions	1,683	1,766	-83	-4.7
Other liabilities	284	456	-172	-37.7
Equity	5,718	6,065	-347	-5.7
Total assets	**85,371**	**81,673**	**3,698**	**4.5**

Deposits from banks exclusively relate to German credit institutions, including €7.7 billion (2020: €6.0 billion) relating to DZ BANK. They include *Bauspar* deposits of €1.6 billion (2020: €1.6 billion).

Deposits from customers primarily comprise *Bauspar* deposits of €66.2 billion (2020: €64.7 billion).

The further increase in *Bauspar* deposits to a record level of €67.8 billion (2020: €66.2 million) resulted mainly from the high volume of new business in the recent years as well as muted demand for home savings loans.

The decrease in the Schwäbisch Hall Group's equity was due to the decrease in the reserve for debt instruments measured at fair value through other comprehensive income. The improved earnings was only able to partly offset this effect. Equity also includes the technical security reserve of €226 million (2020: €226 million).

Regulatory ratios under the CRR

The Group's regulatory capital calculated under the Capital Requirements Regulation (CRR) totalled €5,053.5 million as at 31 December 2021 (2020: €4,966.5 million). Schwäbisch Hall does not have any Additional Tier 1 capital. It has Tier 2 capital of €6.5 million (2020: €0). Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,319.2 million as at 31 December 2021 (2020: €1,256.5 million). This growth is mainly attributable to the increase in the lending business.

The Group's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio declined from 31.6% as at 31 December 2020 to 30.6% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

The CRR introduced the concept of a leverage ratio for credit institutions. The leverage ratio is the ratio of a bank's Tier 1 capital to its overall risk position. In contrast to risk-based equity requirements underpinned by model assumptions, individual items are not assigned an individual risk weighting for the purposes of the leverage ratio, but rather are taken into account on an essentially unweighted basis.

The leverage ratio was determined for the first time for the Schwäbisch Hall Group when CRR II was applied as at 30 June 2021. The statutory minimum regulatory ratio of 3% was complied with.

CRR REGULATORY RATIOS

in € million	31.12.2021[1]	31.12.2020
Capital		
Common Equity Tier 1 capital	5,046.9	4,996.5
Additional Tier 1 capital	0	0
Tier 1 capital	5,046.9	4,996.5
Tier 2 capital	6.5	0
Total capital	**5,053.5**	**4,996.5**
Capital requirements		
Credit risk (including equity investments)	1,225.7	1,153.5
Market risk	0	0
Operational risk	93.5	103.0
Total	1,319.2	1,256.5
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	30.6%	31.6%
Tier 1 capital ratio (minimum value: 6.0%)	30.6%	31.6%
Total capital ratio (minimum value: 8.0%)	30.6%	31.6%
Leverage ratio (minimum value 3.0%)	**6.9%**	**–**

[1] Provisional figures

Target/actual comparison of the previous year's forecast

Overall, changes in the key business and earnings indicators were in line with the expectations described in the Report on expected developments in the 2020 Annual Report, despite the coronavirus pandemic.

The goals and expectations for financial year 2021 described in the Report on expected developments in the Group's 2020 Annual Report are compared with the actual trends and any discrepancies are accounted for.

Expected developments (FR* 2020)	Actual performance	Comparison
Business development		
***Bausparen* Domestic segment:** slight increase in new Bauspar business	New *Bauspar* business €24 billion (2020: €24.2 billion)	Forecast not reached. New *Bauspar* business on a level with the previous year
***Bausparen* Domestic segment:** slight decrease in housing financing business	New housing financing business €18.3 billion (2020: €17.1 billion)	Forecast exceeded
***Bausparen* Non-domestic segment:** new business figures in the Housing Financing and Bausparen core business segments will be slightly above the prior-year level overall	New *Bauspar* business €7.9 billion (2020: €8.1 billion), new housing financing business €1.5 billion (2020: €1.1 billion).	In line with forecast
***Bauspar* and Loan Processing segment:** significant decrease in revenues	Significant decrease in revenue to €116 million. (2020: €145 million)	In line with forecast
Financial performance		
Group: significant decline in net interest income (adjusted for non-recurring effect in 2020 of recognition of mathematical *Bauspar* provisions (€15 million)) and sideways movement in administrative expenses will lead to a slight decrease in profit before taxes, earnings possibly additionally impacted by ECB interest rate adjustment	Significant decline in net interest income and sideways movement in administrative expenses. Slight improvement in profit before taxes.	In line with forecast
Group: significant increase in loss allowances compared with 2020.	Stable loss allowances despite ongoing coronavirus pandemic.	Loss allowances significantly lower than forecast
***Bausparen* Domestic:** Taking into account the non-recurring effect contained in 2020, Schwäbisch Hall is expecting interest expenses in 2021 to be on a level with the previous year.	Net interest income including the non-recurring factor and profit before taxes down significantly year on year.	Forecast not reached
***Bausparen* Domestic:** A sales performance on a level with the previous year is expected to lead to stable net fee and commission income	Slight improvement in net fee and commission, with new *Bauspar* business down slightly year on year and a significant improvement in new housing financing business and a significant increase in income from fees.	Forecast exceeded, with higher new housing financing business due to higher income from other fees
***Bausparen* Non-domestic:** Profit before taxes is expected to be up significantly over the 2020 level	Profit before taxes up considerably year on year.	In line with forecast
***Bauspar* and Loan Processing:** slightly negative profit before taxes	Significant positive profit before taxes	Forecast exceeded

* Financial report

Non-financial statement

Bausparkasse Schwäbisch Hall is included in the consolidated non-financial report of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and is therefore not required to issue its own non-financial statement. The consolidated non-financial report is a component of DZ BANK's sustainability report and can be downloaded (in German) from the following website: www.dzbank.de/berichte

Report on expected developments for 2022

Changes in macroeconomic conditions

The global economy again fell under the spell of the coronavirus pandemic at the end of 2021. Renewed growth in the number of coronavirus infections curbed economic activity. Supply logjams hampered the recovery of industrial output. Inflationary pressures proved to be stronger and more persistent than expected at mid-2021. The strong economic recovery decelerated and growth prospects clouded. The way the global economy copes with these strains will shape the course of the global economy in 2022. The Organisation for Economic Co-operation and Development (OECD) expects that consumer price inflation in the OECD area will ease gradually starting at the beginning of 2022. A condition is that supply bottlenecks ease, production capacity increases, more people return to the labour market and demand stabilises. The high inflation rates could prompt central banks to significantly tighten monetary policy. According to economic research institutes, the Federal Reserve is therefore likely to start raising its key lending rate this summer. It is expected to reach 0.75% by the end of 2022. In the eurozone, key interest rates are expected to remain at zero percent. For the global economy, the OECD is predicting 4.5% GDP growth in the coming year.

For Germany, the leading economic research institutes are forecasting growth of 4.8% for 2022 in their joint diagnosis. The fourth wave of Covid-19 and supply problems are likely to slow the recovery into the spring. Once these effects die down, however, the recovery process is set to gain additional momentum in the summer half-year, combined with catch-up effects. This will probably be due not least to pent-up consumer and investment demand. Private households are expected to continue returning their consumption behaviour to normal and to reduce their savings rate. The willingness of business owners to invest is likely to increase on the back of the positive expectations for future development. In light of these developments, employment will continue to increase and the number of unemployed will decline noticeably. However, there is unlikely to be any return to pre-pandemic levels in 2022. This is due to the number of self-employed persons, especially small-scale self-employed persons, which dropped significantly since the beginning of the coronavirus pandemic. There are differing opinions among the economic research institutes about the issue of inflation. Unlike most institutes, ifo Institute (ifo) is expecting inflation to continue to rise by 0.2% to 3.3% in 2022. Ifo is only expecting inflation to drop back to 1.8% in 2023. If inflation continues to rise or persist longer than expected, there would be a risk of cost-price-wage spirals. This could result in monetary policy restrictions that would slow down the recovery. Assumptions about the course of the pandemic and the subsequent recovery represent a considerable risk to the forecast of economic development in Germany. There are downside risks to the forecast exist if the assumptions about the duration and impact of the coronavirus measures to combat the fourth wave of Covid-19 turn out to be overly optimistic. There is a risk that a renewed increase in infections, especially because of the Omicron variant or new virus mutations, and the resulting pressures could overwhelm the healthcare system. This fifth wave or prolonged fourth wave could trigger a further stop-start situation in the economy. Production processes could again be disrupted by sick or absent employees. Lockdown measures in Germany and abroad could once again restrict consumption and investments, and supply and demand shocks could again accumulate into macroeconomic slumps, with considerable consequences for economic growth and Bausparkasse Schwäbisch Hall's business performance in 2022.

For Hungary, the leading Budapest economic research institute GKI Economic Research Co. is expecting GDP growth of 4.7% in 2022. This means that GKI's projection for 2022 is more pessimistic than the 5.4% forecast by the EU and the 5.0% forecast by the OECD. The GKI estimates that the recovery will mainly be driven by domestic demand. Private consumption will benefit from higher real incomes as a result of the strains in the labour market. The 20% increase in minimum wages in January 2022, which affects around one-fifth of all employees, will probably have strong spillover effects on other wages. In addition, families with dependent children will receive an income tax rebate up to the level of the average wage at the beginning of 2022. However, the impact on total wage costs, and indirectly on price inflation, will be moderated by the reduction in employers' social security contributions.

For the labour market, the GKI expects employment to increase by an average of 0.5% in 2022, with unemployment at around 4.0%. This is expected to see gross incomes rising by around 14%, while real wages are only set to increase by 7%. The forint/euro exchange rate has been systematically weakening for years: whereas one euro cost an average of HUF 275.4 in 2010, it was already around HUF 358 in 2021, and further weakening is forecast for 2022. The average annual euro exchange rate is expected to be around HUF 360 in 2022.

In 2020 and 2021, the loan repayment moratorium stabilised the liquidity position of Hungarian consumers and businesses. Following several extensions, the moratorium is now set to expire on 30 June 2022.

The Hungarian government ordered the freezing of variable mortgage rates as at 1 January 2022. The measure aims to protect borrowers from rising inflation and is in force until 30 June 2022. This affects approximately 475,000 mortgage loans for housing and undefined purposes with a total volume of HUF 2,000 billion (approximately €5.4 billion). For new loans taken out starting in January, the end-October reference interest rate also applies. The government expects the banks to incur losses of HUF 30.0 billion. With its fixed-rate product range, FLK is not affected by this.

There is still a high level of uncertainty because of the Covid-19 pandemic. In November 2021, only 60% of the population had been fully vaccinated. New lockdown measures could cause a significant slump in domestic demand in 2022.

A significant increase in GDP is forecast for the Slovak economy in 2022. Whereas the European Commission is forecasting a 5.3% increase in GDP for Slovakia in its autumn forecast, the European Central Bank even assumes a 5.8% increase in its December projection. Growth is expected to be driven by a strong increase in investments in conjunction with the EU economic and structural funds. The national development plan, which is the basis for applications for the funds, received the green light from the European Commission in June 2021. Private consumption is projected to increase in 2022 as the pandemic situation eases in the first half of the year and propensity for private households to save returns to normal. Higher energy prices will push up inflation, although wage growth will also increase, especially in the private sector. Unemployment is expected to decrease by 0.4% to 6.4% in 2022. The low rate of fully vaccinated people in Slovakia continues to be a problem. This only reached 47.4% on 27 December 2021, according to the European Centre for Disease Prevention and Control (ECDC).

The Chinese economy was held back by several factors at the end of 2021, which are only expected to be overcome gradually in 2022. While the energy crisis was already abating at the turn of the year due to the mobilisation of additional fuel resources, measures to contain local Covid-19 outbreaks are expected to continue for some time and will repeatedly result in noticeable economic dampening effects. Experts are therefore expecting Chinese GDP to grow between 4.3% and 5.1% in 2022.

Changes in private housing construction and building refurbishment

GERMANY

Low interest rates, a housing shortage, a lack of investment alternatives and an expanding economy are expected to reinforce the real estate boom in Germany in 2022. This is also reflected in the fact that order books at the end of September 2021 were almost €13 billion, and thus almost 20% higher year on year. Demand is also expected to continue to pick up, with well on 282,000 homes approved by the end of September 2021, 5.1% more than in prior-year period. Price increases for building materials such as wood, cement and steel as well as the continued shortage of skilled workers in the construction industry are expected further drive the rising prices. On the back of the pandemic and the trend towards working from home, rural properties are increasingly in demand. Demand for new owner-occupied flats and houses will remain high in Germany in the coming years, as the German Economic Institute (IW) recently noted in a report. According to this report, construction activity must be further increased in almost all large cities to meet the demand there. The Central Association of German Construction Companies (ZDB) and the Federation of the German Construction Industry (HDB) consider the target in the Social Democrat/Free Democrat/Greens coalition agreement of building 400,000 new homes a year during the legislative period to be ambitious, as this corresponds to a dramatic increase in annual construction completions of approximately 30%. The associations expecting approximately 320,000 owner-occupied flats to be completed in 2022. According to the ZDB and HDB, there are real reasons why the federal governments ambitious plan could fail. Firstly: construction is suffering more than any other industry from the shortage of skilled workers, and it takes years to train skilled workers. Secondly: a mass of red tape, with the Energy Saving Regulation alone being revised four times between 2000 and 2017 before it was dropped completely. Thirdly: higher capital adequacy requirements for loans and a more restrictive approach taken by the KfW.

On 15 December 2021, the European Commission presented its new Energy Performance of Buildings Directive. All buildings in the EU are required to be climate neutral by 2050. By 2030, no building is supposed to be rated in the worst efficiency class G. This would affect three million buildings in Germany. With its “Sustainable Europe Investment Plan” as part of the European Green Deal, at the beginning of 2020 the Commission defined where the money for the huge capital requirement, with a total of around one trillion euros for a climate-neutral Europe, is expected to come from. Just on half of the total will come from the EU budget. Incentives will be created to mobilise the necessary public and private investments. The Commission sees the greatest need for investment in the area of buildings. An additional €120 billion per year would have to be invested in greater energy efficiency alone. A uniform energy efficiency classification system and a “renovation passport” for buildings should make it easier for owners to access loans. Under the German Climate Protection Act, Germany intends being climate-neutral by 2045, earlier than the EU. The buildings sector is one of the most important levers for achieving the climate targets. This sector generated 16% of total carbon emissions in 2021. The coalition agreement published on 24 November 2021 includes more stringent requirements in the German Buildings Energy Act. There are also plans to upgrade and redeploy the existing subsidy programmes.

FOREIGN MARKETS

Private housing construction has been a driving force behind the economic upturn in Hungary in recent years. The Hungarian government countered the negative impact of the coronavirus crisis on housing construction through a package of measures. This includes a further reduction of the rate of tax on purchasing homes from 27% to 5%, limited until the end of 2022. In addition, since 2021, young families with children can claim the entire subsidy of HUF 10 million (approximately €27,500) under the CSOK housing construction programme for the construction of new multi-generation houses or attic conversions of single-family houses. In addition, the credit moratorium was extended for certain customer groups until 30 June 2022. Additionally, the MNB launched the Green Home Program (FGS) on 5 October 2021. The programme aims to support buying energy-efficient homes. Under the programme, MNB grants lenders a refinancing rate of 0%. The interest rates for the loans were capped at 2.5% and the term at 25 years. A condition is that the new houses do not exceed a primary energy consumption of 90 kWh/sqm per year. The programme was launched with available funds of HUF 200 billion. It is difficult to predict whether these measures will be enough to offset the negative effects of the coronavirus crisis. Sharp price rises, especially for building materials and construction services, could slow growth. Consulting network EUROCONSTRUCT is forecasting a significant decline in completions to 22,000 homes in 2022. In particular in light of the Covid-19 crisis and its potential impact, EUROCONSTRUCT's forecast is therefore subject to a high level of uncertainty.

As one of the first countries in the EU, Hungary not merely declared that it would achieve full climate neutrality by 2050, but also committed itself by law. At the beginning of September 2021, the Hungarian government adopted the Sustainable Development Strategy, which describes how climate neutrality will be achieved. A cornerstone of this strategy is that the bulk of the conversion costs will be shouldered by the source of the emissions, meaning companies. Private households will not be burdened. The government estimates the costs of converting the Hungarian economy at €143 billion. To finance this "green transition", Hungary has already issued three green bonds, which were significantly oversubscribed. The country wants to continue the green government bond programme and use the proceeds for green projects. Hungary is also planning to spend substantial amounts of EU funds; on the one hand, funds from the 2021–2027 EU funding period, and on the other, from the coronavirus Recovery and Resilience Facility (RRF). In both cases, the plans are still awaiting approval from the Commission.

Hungary's new national energy strategy was published in January 2020. The country's substantial natural gas consumption will be reduced through energy savings and the use of renewable energies. Of the renewable energies, solar energy is expected play an important role in electricity generation. In district heating, there are plans to cut the share of natural gas from currently over 70% to 50% by 2030, among other things by using geothermal energy. The goal is to increase the share of energy-efficient, renewable solutions for heating and cooling. The "nearly zero-energy building standard", which applies to new buildings since 2021, requires a minimum 25% share of renewable energy share to be provided. Further exponential growth of photovoltaic installations is therefore expected. To fund the programme, the Hungarian government will provide subsidised loans to modernise homes and residential buildings. Eligibility for the zero-interest loan is coupled to an own contribution of at least 10% for modernising heating systems as well as for using renewable energies.

Demand for real estate in Slovakia is also expected to significantly exceed supply in 2022 (source: the national association of real estate agencies). The stated reasons are that neither an increase in interest rates nor a deterioration of the economic situation in Slovakia is expected in 2022. The expected further increase in real estate prices was also due to the fact that too little was still being built in Slovakia. There were only 2,200,000 housing units in Slovakia, meaning that Slovakia is still about 200 homes per 1,000 inhabitants below the EU average. In other words, about 350,000 housing units are missing compared with the EU average.

EUROCONSTRUCT is forecasting 21,600 housing completions in 2022, around 600 fewer than in 2021. In particular in light of the Covid-19 crisis and its potential impact, however, EUROCONSTRUCT's forecast is subject to a high level of uncertainty.

A key component of Slovakia's National Recovery Plan (*OP Slovensko*) is investment under the motto "A Greener Europe". This includes designated EU funds of €3.9 billion and is also intended to finance energy efficiency measures in existing buildings. Much of this is planned for energy efficiency measures in buildings.

Volatility in China's real estate sector as a result of regulatory issues is likely to continue in 2022. A slowdown in the real estate sector due to the financial predicament of one of the largest property developers in the country (Evergrande) therefore does not seem out of the question. However, experts believe it is very likely that the government will intervene to stabilise the situation in light of the potential consequences of the real estate market collapsing. Real estate remains one of the most important drivers of Chinese GDP and the main source of revenue for most local governments. Experts therefore expect that debt reduction in this sector will be orderly and controlled. Nevertheless, weak land and new property sales in 2021 mean that construction activity is expected to be low in 2022.

Expected development of the business and financial position of the Schwäbisch Hall group

DEVELOPMENT OF THE GROUP

The persistently low capital market interest rates continue to shape expectations of the Schwäbisch Hall Group's business development in financial year 2022. However, the consecutive waves of the coronavirus pandemic are also likely to affect new business until the summer months. The increasing requirements for climate protection could have a positive effect, making parts of the building sector an ongoing climate construction site. Following the record year in the Housing Financing core business segment, a consolidation in 2022 is projected here. The volume of new business is therefore likely to remain slightly below the previous year's level. The volume of new business in the *Bausparen* core business area is expected to remain slightly below the previous year's level. The familiar factors will continue to impact financial performance in 2022: the continued extremely low interest rates; higher costs due to the sustained increase in regulatory requirements (the EU is increasingly using the financial system to direct climate protection investments); significant scheduled investments recognised as expenses in the *Bausparen* and especially the Housing Financing strategic core business segments, with the modernisation of IT platforms at Bausparkasse Schwäbisch Hall in particular. The moratorium in Hungary, which is expected to expire in the second half of 2022, will probably also have a positive effect on FLK's earnings.

Profit/loss before taxes is therefore expected to decline slightly by comparison with financial year 2021.

Net interest income is expected to decline slightly year on year in 2022. This is attributable to the persistent low interest rate environment together with legacy tariffs with high interest rates. The expected further portfolio growth for non-collective loans and the newly introduced low-interest *Bauspar* tariffs will have a positive effect. An unexpected adjustment to the ECB's key interest rate and deposit interest rate or other liquidity measures could have an additional negative impact on net interest income in financial year 2022.

Based on the loan portfolio, loss allowances will probably only rise slightly year on year in 2021, developing in line with the loan portfolio, which has risen significantly in recent years, and long-term standard risk costs. The expected moderate trend for loss allowances also reflects the ebbing of the coronavirus pandemic and the ensuing easing of the economic situation, together with growing employment in Germany.

Slight decreases both in housing financing business and the new *Bauspar* business are leading to slightly negative net fee and commission income, as expected.

Excluding companies consolidated for the first time, administrative expenses are expected to move sideways. While the strategic projects and measures implemented for the ongoing development of the *Bausparen* and especially the Housing Financing core business segments will require increased capital spending, implementation of the SOKS cost management programme at Bausparkasse Schwäbisch Hall will lead to a sideways movement in administrative expenses. However, the initial inclusion of other Group companies in the consolidated financial statements means that administrative expenses will increase noticeably.

The Schwäbisch Hall Group continues to pursue a strategic goal of limiting any increase in its cost/income ratio despite further additional expenses, thanks to its systematic cost management. It is expected to remain stable in financial year 2022 versus the previous year, mainly as a result of lower net interest income, higher net fee and commission income and stable administrative expenses.

Economic RORAC is likely to be slightly below the prior-year figure in financial year 2022 due to the lower earnings expectations.

LIQUIDITY POSITION AND NET ASSETS

For financial year 2022, Bausparkasse Schwäbisch Hall is again assuming that savings for *Bauspar* contracts will remain stable in its operational liquidity management. Funds provided by institutional investors and DZ BANK are additionally available. A high level of new *Bauspar* business is assumed for the structural refinancing of Bausparkasse Schwäbisch Hall. Additionally, further benchmark issues in the *Pfandbrief* (German covered bonds) segment are expected for 2022.

From today's perspective, Schwäbisch Hall will continue meeting the economic and regulatory capital adequacy requirements in financial year 2022.

SUSTAINABILITY

When upgrading its sustainability management, Bausparkasse Schwäbisch Hall has prioritised the rising ecological challenges as well as the growing demands of its customers. The *Bausparkasse* has therefore launched projects aimed in particular at deepening understanding for sustainability issues at Bausparkasse Schwäbisch Hall, consolidating management processes and further anchoring sustainability in the *Bausparkasse*'s strategy. In accordance with the expectations of the European Central Bank (ECB) and the European Banking Authority (EBA), Schwäbisch Hall will integrate sustainability aspects, in particular environmental and climate risks, more strongly in risk management in 2022. As key drivers of long-term business success, climate protection and CO_2 reduction are fundamental components of Bausparkasse Schwäbisch Hall's corporate strategy.

Segment development

DEVELOPMENT OF *BAUSPAREN* DOMESTIC

In Germany, the Bausparkasse will again operate in a challenging environment in 2022 that is expected to be shaped by low interest rates, high regulatory requirements and increasing digital transformation, which will be amplified by the effects of the Covid-19 pandemic. Based on this assumption, the Bausparkasse is anticipating a sales performance slightly lower than the previous year across both the core business segments. After the significant increase to the new record level, the housing financing business is likely to fall slightly short of the 2021 volume in 2022. New *Bauspar* business will probably be slightly below the 2021 figure, due in part to the start-up effects following the introduction of the new tariff in 2022.

For 2022, Schwäbisch Hall is expecting the result to be down slightly year on year, reflecting the persistent low interest rate environment.

In the case of net interest income, a sideways movement is being forecast for 2022. Apart from that, the probable further increase in the portfolio of non-collective loans and the newly introduced *Fuchs Bauspar* tariffs are expected to have a positive effect, although they will be unable to fully cushion the decrease attributable to the low interest rates, particularly in the area of financial investments.

Loss allowances are likely to stabilise over the course of the year, reflecting a significant increase in economic growth and an improvement in the employment situation. The clear rise in the lending volume in recent years will probably lead to a slight rise in loss allowances in 2022.

A sales performance down slightly on the previous year is expected to lead to slightly negative net fee and commission income.

Administrative expenses are likely to stay at the 2021 level. With continued high investments to strengthen the *Bausparen* and in particular Housing Financing core business segments, the results of the SOKS cost management programme will stability administrative expenses.

Even if all sales and cost targets are achieved, Schwäbisch Hall is therefore expecting a slight decline in profit before taxes in the *Bausparen* Domestic segment in 2022, due primarily to the low level of interest rates.

DEVELOPMENT OF *BAUSPAREN* NON-DOMESTIC

We are expecting stable development of the *Bausparkassen* outside Germany. After overcoming the coronavirus pandemic, and supported by the economic recovery, rising incomes and stable interest rates, demand for financing products will rise slightly. Thanks to attractive financing opportunities, we expect the *Bausparkassen* in the Eastern European EU member states to benefit particularly strongly from this trend. Volumes of new business in the Housing Financing and *Bausparen* core business segments will be slightly above the prior-year level. Profit before tax is expected to be on a level with the previous year.

FLK will continue its strategic realignment in 2022, focusing on the core business segment of Housing Financing. The government's initiatives to promote energy-efficient flats and houses also offer opportunities for this. FLK is therefore planning to launch a government-subsidised suspended repayment loan as part of the government's "Green Home Programme". As a result, a slight increase in the volume of new business in both core business segments is therefore expected for FLK. Net interest income and net fee and commission income are expected to be up slightly year on year, in particular also because of the significant increase in interest rates in 2021 and the absence of the remaining burdens from the extended loan repayment moratorium as at 1 July 2022. Administrative costs are projected to rise noticeably because of inflation. Profit before taxes is expected to be up slightly year on year.

In Slovakia, PSS is anticipating the volume of new *Bauspar* business in 2022 to be up on the previous year. It will continue to focus clearly on the lending business with attractive financing opportunities. PSS is expecting a significant increase in volumes here compared with the previous year, which should also be positively influenced by a new "annuity loan" financing product. The company is forecasting net interest income on a level with the previous year. This is because of the persistently low level of interest rates in the eurozone. Loss allowances are expected to decline slightly as the pandemic peters out. Whereas net fee and commission income will be down slightly year on year, administrative expenses will only grow marginally. Profit before taxes will therefore probably be slightly lower than the 2021 level.

At SGB, measures in financial year 2022 will focus on the continued profitable and sustainable expansion of its business model towards private housing financing. A decline in new business cannot be ruled out for financial year 2022. This is due to regional closures as a result of recurring new Covid-19 infections as well as the growing share of new *Bauspar* products, most of which have a lower *Bauspar* sum. Further increases in *Bauspar* deposits and the *Bauspar* loan portfolio (especially suspended repayment loans) remain the core issues. The result is expected to continue to grow in 2022, albeit not to the same high extent as in 2021. As a result, profit before taxes is expected to be up on the 2021 result.

BAUSPAR AND LOAN PROCESSING DEVELOPMENT

SHK is working continuously with Bausparkasse Schwäbisch Hall on the strategic evolution of the Schwäbisch Hall Group. IT modernisation will lay the foundations for the digital transformation of the value chain. The preliminary work for the next stages of the SAP-based core banking system, including training employees in processing at SHK, is continuing to run in parallel. In 2022, there will be no revenue at all in the IT divisions because of the transfer to Bausparkasse Schwäbisch Hall. SHK's revenue will therefore decline significantly. Largely stable processing volumes in Processing together with the launch of additional products in the new core banking system will lead to a slight rise in revenues in this business segment. The company is therefore expecting slightly positive profit before taxes for financial year 2022.

Disclosures on Schwäbisch Hall's German GAAP single entity annual financial statements

Financial performance

EARNINGS POSITION

Operating profit after loss allowances grew sharply year on year. The improvement in net profit is characterised by a significant increase in net interest income and a considerable improvement in net fee and commission income, which more than offset the equally noticeable increase in administrative expenses. Non-recurring effects in the current and previous year (net interest income: due to a special allocation to *Bauspar*-specific provisions) were responsible for these changes. Excluding the negative non-recurring effect in the previous year, net interest income would have been €38 million lower year on year.

Bausparkasse Schwäbisch Hall's interest income, including current income from specialised funds and equity investments, declined by €114 million in 2021. Despite the continuing low interest rates, interest income from bridging loans, suspended repayment loans and other building loans experienced a volume-driven increase in income (€13 million) due to the significant business expansion in recent years. This more than offset the decline in earnings from *Bauspar* loans (€-2 million). Interest income from the investment of available funds in registered bonds and bearer bonds, including specialised funds, fell sharply (€-128 million), while income from investment companies increased by €3 million.

Bausparkasse Schwäbisch Hall's interest expenses decreased by €191 million to €674 million and are attributable predominantly to *Bauspar* deposits. Despite the increase in volumes, the introduction of *Bauspar* tariffs with lower interest rates and the implementation of portfolio measures ensured a year on year reduction in current interest expense. The previous year's figure includes a special allocation to *Bauspar*-specific provisions of €115 million. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to pay interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Additions to these provisions amounted to €178 million in the reporting period (2020: €332 million)

INCOME STATEMENT

			Change	
in € million	**2021**	**2020**	**absolute**	**in %**
Net interest income	766	689	77	11.2
Net fee and commission income	-193	-264	71	26.9
Administrative expenses	-509	-467	-42	-9.0
Partial operating result	**64**	**-42**	**106**	**>100**
Other net operating income	8	–	8	-
Loss allowances	20	4	16	>100
Operating profit after loss allowances	**92**	**-38**	**130**	**>100**
Reversal of technical security reserve	–	52	-52	-100
Allocation to fund for general banking risks	-44	-	-44	–
Income taxes	-36	-6	-30	> -100
Profit transfer	-12	-8	-4	-50.0
Net profit for the financial year	**–**	**–**	**–**	**–**

(provisions as at 31 December 2021/31 December 2020: €1,347 million/€1,419 million). Interest expense on *Bauspar* deposits resulted in a further tariff-related decrease of €41 million.

Negative net fee and commission income narrowed significantly from €-264 million to €-193 million. The improvement in this item is mainly due to the increase in income from arrangement fees and other fees. Bausparkasse Schwäbisch Hall introduced a new *Fuchs 05* tariff as at 1 July 2021. The increase in the arrangement fee to 1.6% represented an adjustment to bring Schwäbisch Hall in line with the conditions of many competitors. The annual fee was also increased slightly. By simultaneously reducing debit interest in the new tariff, Schwäbisch Hall continues to focus on the core function of *Bausparen*, namely low-interest financing.

At €509 million, administrative expenses were €42 million up on the previous year.

€155 million (2020: €102 million) of the administrative expenses is attributable to personnel expenses. Expenses for wages and salaries rose by €18 million to €101 million, mainly as a result of a personnel transfer. The employees of SHK's IT divisions transferred to Bausparkasse Schwäbisch Hall effective 1 July 2021. A slight increase in the number of staff in the Housing Financing business segment led to a further increase. Expenses for pensions and other post-employment benefit expenses €36 million to €54 million. €8 million of the increase is attributable to the allocation to pension provisions, resulting in part from the transfer of personnel to BSH. €24 million is attributable to the fair value measurement of plan assets invested in specialised funds under a CTA, which resulted in an expense of €3 million (2020: income of €21 million).

Other administrative expenses declined to €295 million (2020: €316 million). €18 million of the decrease is attributable to lower recharging of IT services (2021: €27 million; 2020: €45 million) by SHK. Expenses for consulting services declined by €7 million, while expenses for contributions and fees rose by €3 million.

Depreciation, amortisation and impairment losses include impairment losses of €11 million on non-current assets. These are the result of measures in connection with the implementation of the new core banking software in the "Next" project.

Loss allowances changed as follows:

Net measurement gains from lending business improved by €10 million to €-10 million. The emerging economic recovery following the current peak of the Covid-19 crisis in 2020 lead to a reduction in the loan default portfolio.

Net measurement gains on the securities portfolio amounted to €18 million in the reporting period, compared with €24 million in the previous year. These gains are attributable to the disposal of bearer bonds and registered bonds.

Net measurement gains of €12 million on equity investments related to the interest in SGB.

As at 31 December 2021, €226 million (2020: €226 million) was allocated to the technical security reserve, which therefore amounts to 0.34% (2020: 0.35%) of *Bauspar* deposits. €44 million was appropriated to the fund for general banking risks in 2021 (2020: €0 million).

The profit to be transferred to DZ BANK on the basis of a profit and loss transfer agreement amounts to €12 million (2020: €8 million). The cost/income ratio was 87.6% (2020: 109.9%).

Bausparkasse Schwäbisch Hall's earnings position is satisfactory.

NET ASSETS

Bausparkasse Schwäbisch Hall's total assets as at 31 December 2021 increased by €4.2 billion to €82.4 billion, reaching a new high.

The business volume amounted to €88.6 billion (2020: €84.3 billion). This figure includes both the total assets and the other commitments of the *Bausparkasse* amounting to €6.2 billion.

The Bausparkasse was able to significantly expand its lending volume in 2021. Building loans rose by €4.6 billion to a new record high of €58.4 billion at year-end 2021. While demand for *Bauspar* loans remained muted due to the interest rate environment, the volume of non-collective housing financing increased significantly.

Financial investments, most of which were invested in German issuers, decreased significantly. They include investments of cash funds from the *Bauspar* business in the form of registered bonds (€7.0 billion; 2020: €8.8 billion) and promissory note loans (€2.6 billion; 2020: €3.2 billion). Securities are listed bearer bonds (€8.8 billion; 2020: €8.2 billion) and shares in UIN Fund No. 817 (€3.25 billion; 2020: €3.0 billion).

The increase in *Bauspar* deposits to the record high of €66.5 billion was driven primarily by the high level of new business in recent years as well as the muted demand for *Bauspar* loans due to the interest rate environment.

The Bausparkasse transferred funds to a CTA for external funding of pension provisions. Employee pension benefits and entitlements were offset against the plan assets, which are administered by DZ BANK Pension Trust e. V. using fund shares.

The derivative financial instruments entered into with DZ BANK (interest rate swaps) in a notional amount of €750 million (2020: €730 million, notional amount) serve exclusively to manage the Bausparkasse's general interest rate risk. They were included in the measurement of the banking book at net realisable value. The fair value of the interest rate swaps was €-2.8 million as at 31 December 2021 (2020: €30.9 million).

Bausparkasse Schwäbisch Hall's net assets are satisfactory.

NET ASSETS

in € million	2021	2020	Change	
			absolute	in %
Building loans	58,356	53,785	4,571	8.5
of which: *Bauspar* loans	2,353	2,403	-50	-2.1
Suspended repayment and bridging loans	46,113	45,206	907	2.0
Other	9,890	6,176	3,714	60.1
Financial investments	23,630	23,888	-258	-1.1
Loans and advances	11,560	12,691	-1,131	-8.9
Securities	12,070	11,197	873	7.8
Fixed assets	388	390	-2	-0.5
Other assets	16	88	-72	-81.8
Bauspar deposits	66,468	65,038	1,430	2.2
Other liabilities	10,101	7,301	2,800	38.4
of which: borrowings	9,515	6,861	2,654	38.7
Provisions	1,586	1,621	-35	-2.2
Technical security reserve	226	226	–	–
Fund for general banking risks	2,197	2,153	44	2.0
Equity	1,812	1,812	–	–
Total net assets	**82,390**	**78,151**	**4,239**	**5.4**

FINANCIAL POSITION

The liquidity position is satisfactory, with only insignificant changes compared with the previous year. The Bausparkasse has had to comply with a 100% liquidity coverage ratio (LCR) since 2018. Under Article 412(5) of the Capital Requirements Regulation (CRR), the national provisions relating to liquidity therefore no longer apply. The CRR LCR was complied with at all times in financial year 2021. As at 31 December 2021, the LCR was 1,780.9% (2020: 441.7%).

Management of Bausparkasse Schwäbisch Hall's longer-term liquidity incorporates any of the Bausparkasse's liquidity-related business positions using liquidity gap analyses and then compares them with the existing liquidity reserves. Liquidity risk is managed using established limits that ensure management action can be taken at an early stage. The liquidity reserves taken into account in the course of liquidity management primarily consist of highly liquid securities as well as the option of borrowing from the ECB, the amount of which is determined by the value of the securities portfolio eligible as collateral with the ECB.

In the option outlined in the "Addendum to the ECB Guide on options and discretions available in Union law", the ECB allows banks to voluntarily apply IFRSs as the accounting framework for reports to which national GAAP is to be applied. Bausparkasse Schwäbisch Hall exercises this option and has prepared its regulatory reports on the basis of IFRSs since 30 June 2017. Bausparkasse Schwäbisch Hall's regulatory capital calculated in compliance with the CRR amounted to a total of €4,881.4 million as at 31 December 2021 (2020: €4,844.6 million). Schwäbisch Hall does not have any Additional Tier 1 capital. It has Tier 2 capital of €6.5 million. Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,208.2 million as at 31 December 2021 (2020: €1,152.3 million). This growth is mainly attributable to the increase in the lending business.

Bausparkasse Schwäbisch Hall's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio decreased from 33.6% as at 31 December 2020 to 32.3% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

The CRR introduced the concept of a leverage ratio for credit institutions. This is the ratio of a bank's Tier 1 capital to its overall risk position. In contrast to risk-based equity requirements underpinned by model assumptions, individual items are not assigned an individual risk weighting for the purposes of the leverage ratio, but rather are taken into account on an essentially unweighted basis. The statutory minimum regulatory ratio of 3% as from 30 June 2021 was complied with.

Starting on 1 January 2022, Bausparkasse Schwäbisch Hall AG has to comply with an MREL requirement, measured against the total risk exposure amount (TREA), of 18.36%, and a leverage ratio exposure (LRE) of 5.79%. The MREL requirement is calculated as the ratio of total regulatory capital and liabilities calculated internally that are eligible for bail-in to Bausparkasse Schwäbisch Hall AG's TREA or LRE.

CRR REGULATORY RATIOS

in € million	IFRS 31.12.2021[1]	IFRS 31.12.2020
Capital		
Common Equity Tier 1 capital	4,874.8	4,844.6
Additional Tier 1 capital	0	0
Tier 1 capital	4,874.8	4,844.6
Tier 2 capital	6.5	0
Total capital	**4,881.4**	**4,844.6**
Capital requirements		
Credit risk (including equity investments)	1,133.5	1,065.2
Market risk	0	0
Operational risk	74.7	87.1
Total	1,208.2	1,152.3
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	32.3%	33.6%
Tier 1 capital ratio (minimum value: 6.0%)	32.3%	33.6%
Total capital ratio (minimum value: 8.0%)	32.3%	33.6%
Liquidity coverage ratio (LCR)	**1,780.9%**	**441.7%**
Leverage ratio (minimum ratio 3.0%)	**7.0%**	**6.0%**

[1] provisional figures

Miscellaneous

CORPORATE GOVERNANCE STATEMENT IN ACCORDANCE WITH SECTION 289F(4) OF THE GERMAN GAAP

In the context of the German "Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors", which has been in force since May 2015, Bausparkasse Schwäbisch Hall has defined targets for the proportion of women in leadership positions.

EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS, ACTUAL AS AT 31 DECEMBER 2021

	in %
Supervisory Board	30.0
Management Board	0.0
Management level 1	16.5
Management level 2	15.0

A target of 30% for the under-represented gender was defined for the Supervisory Board, corresponding to the current composition. For the Management Board, which has four members, the target of "zero" was increased to at least one woman in November 2021. This target will be achieved in the course of succession planning for the Management Board in May 2022.

A target of 15% to be achieved by 31 December 2023 is defined for the proportion of women at management level M1 below the Management Board and 20.0% for management level M2.

At management level M1, this target was already achieved in 2021, with a share of 16.5%; at management level M2, the target was still not reached in the reporting year, with 15%.

SHARE OF WOMEN IN LEADERSHIP POSITIONS

Management level	Target 31.12.2023
M1	15.0
M2	20.0

Opportunity and risk report

Fundamentals

PRELIMINARY REMARKS

The risk report meets the requirements of the German Commercial Code (HGB) and German Accounting Standard No. 20 (GAS 20, Group Management Report). With the exception of qualitative and quantitative data under IFRS 7.35–36 and the maturity analysis pursuant to IFRS 7.39(a) and (b), information about the nature and extent of risks arising from financial instruments (IFRS 7.31–42) is presented in the following.

The statements on the risk position are presented on the basis of the management approach. The risk position of the Schwäbisch Hall Group (in line with MaRisk) is thus presented based on the data used for internal risk management and hence also for internal reporting to the Management Board and the other management bodies.

The internal risk perspective deviates in part from the balance sheet reporting. There are significant differences between internal management and external financial reporting in the differing scopes of consolidation and measurement methods applied.

Within the meaning of the Minimum Requirements for Risk Management (MaRisk), the Schwäbisch Hall Group (SHG in line with MaRisk) comprises Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall Kreditservice GmbH and Schwäbisch Hall Facility Management GmbH. The composition of the Schwäbisch Hall Group (in line with MaRisk) is reviewed from a risk perspective at least once a year, or as required, and harmonised with current developments.

Opportunities

The report on expected developments presents the expected performance of the business segments and the financial position for the 2022 financial year. These factors represent key indicators for determining strategic positioning and the resulting potential for increasing earnings and reducing costs.

Thanks to the good operating environment, the Bausparkasse anticipates improved business opportunities over the coming years. This is attributable to the following factors, among others:

- The Federal Government approved the “German Climate Action Plan 2050” back in 2016. This describes how Germany is to become largely carbon neutral by 2050. A roadmap sets out the overarching aims and measures for the construction sector. As a housing financing specialist, Schwäbisch Hall will be able to benefit from the impetus this provides.
- The German Act to improve the House-Building Premium, was increased the premium from 8.8% to 10% starting in 2021, will provide additional opportunities for Bausparkasse Schwäbisch Hall. Thanks to the new upper income limits, support for targeted home ownership savings will become considerably more attractive again and the incentives will benefit even more people.
- The general conditions for property finance are currently good, particularly due to the sustained low level of interest rates. As a result, real estate demand has been very high for several years. The residential market is set to remain attractive to both private buyers and investors in the future.
- There is growing demand for residential space. This is partly attributable to the rising number of single households, as well as the fact that people increasingly want more living space per person, particularly as they get older.
- Rising life expectancy and demographic change mean that more and more older people continue to live in their own home. As a result, financing to adapt existing properties to the needs of older people is becoming increasingly significant.

To leverage new business opportunities and sources of income, and to occupy the entire service chain in the demand area of construction and housing, the Cooperative Banking Group, under the leadership of Schwäbisch Hall and in close cooperation with the cooperative banks and Atruvia, is driving forward the development of a digital “building and housing” ecosystem. The goal of the initiative is to offer solutions to users – tenants who want to buy, owners or landlords – across the entire life cycle of a property. This offering can be used to make users aware of the offerings of the Cooperative Banking Group and, step by step, to establish contact for them with the existing advisory processes for the topic of “building and living”.

Bausparkasse Schwäbisch Hall has opened up a new sales channel and established a digital broker marketplace in the shape of BAUFINEX GmbH. It foresees opportunities for the brokerage of products via BAUFINEX and other marketplaces, in particular.

In addition, Bausparkasse Schwäbisch Hall expects business opportunities to further increase by using *Pfandbrief* (German covered bonds) for refinancing. There are plans to use this refinancing option to a greater extend in the future.

Despite the challenges faced by the entire housing financing sector in the 2022 financial year, in particular, the Management Board expects the available opportunities to outweigh the stated risks for Bausparkasse Schwäbisch Hall.

Risk management system

RISK MANAGEMENT PRINCIPLES

The Schwäbisch Hall Group (in line with MaRisk) adheres to the principle that for all activities, risks should only be accepted to the extent necessary to achieve business policy goals and insofar as such risks are considered manageable. This requires the ability to effectively identify, measure and manage risks as well as to put in place adequate capital backing and ensure sufficient liquidity. The overriding goals of risk management as part of overall bank management are the continued existence of the company, ensuring appropriate interest on risk capital in line with capital market conditions, as well as establishing an organisational framework for risk management.

Emphasis is placed on a holistic overall risk assessment. As a particular feature of a *Bausparkasse*, a "live" collective portfolio must be simulated. To measure risk, the *Bausparkasse* uses a simulation model that is able to replicate the multiple options offered by *Bausparen* (contractual savings for housing) through a large number of parameters. This process takes into account the special legal requirements applicable to *Bausparkassen* (the German *Bausparkassen* Act and German *Bausparkassen* Regulation).

As a part of the DZ BANK Group, Bausparkasse Schwäbisch Hall is integrated into the Group management of the DZ BANK Group and is accordingly subject to its risk policy requirements. The strategic and operational planning process as well as the Group-wide risk management and control processes of DZ BANK ensure that, in addition to coordinating business planning, there is consistency between the business strategy, risk appetite statement, risk strategy and risk management of the Schwäbisch Hall Group (in line with MaRisk) and DZ BANK.

A return on capital calculated in accordance with section 26a of the KWG (German Banking Act) is not meaningful due to the profit and loss transfer agreement between Bausparkasse Schwäbisch Hall AG and DZ BANK AG. Consequently, no return on capital in accordance with section 26a(1) sentences 3 and 4 of the KWG is disclosed.

RISK STRATEGY

In accordance with MaRisk, the Schwäbisch Hall Group (in line with MaRisk) uses a systematic strategy process to regularly review the business strategy defined by the Management Board, as well as the related risk strategy. The process involves planning, implementing, assessing and, if necessary, adjusting the strategies.

The risk strategy is developed on the basis of the business strategy and takes into account the relevant strategic requirements and objectives in the design of risk management processes and when deriving general operating conditions. The strategic business segments defined within the Schwäbisch Hall Group (in line with MaRisk) and the strategic direction set in this context play a significant role here.

Business policy objectives are integrated via cross-business segment risk policy requirements in the risk strategy. Implementation of these requirements is ensured by two committees set up by the Management Board: the Credit Committee (for credit risk and operational risk – KreCo) and the Asset Liability Committee (for market risk, liquidity risk, *Bauspar* technical risk and equity investment risk – ALCO). Reputational risk is addressed by both committees.

Schwäbisch Hall Group (in line with MaRisk) deems "risk appetite" to be the nature and scope of the risks it is willing to accept to implement the business model. The risk appetite statement contains the risk policy principles of the Schwäbisch Hall Group (in line with MaRisk). These principles are overarching statements that are in harmony with the business model and risk strategy. They are supplemented by quantitative figures that represent the targets for the Schwäbisch Hall Group (in line with MaRisk).

RISK CULTURE

The risk culture of the Schwäbisch Hall Group (in line with MaRisk) is characterised by shared values and a spirit of trust and cooperation. This culture has been primarily shaped by past experience, management insight, as well as an error management culture and accountability.

The key features of the risk culture are set out in a framework document that is accessible to all Schwäbisch Hall Group (in line with MaRisk) employees.

GOVERNANCE

The Schwäbisch Hall Group's risk management (in line with MaRisk) builds on the risk strategy approved by the Management Board. It is supported by three interconnected lines of defence integrated into the control and monitoring system. This risk management governance structure is described in the chart on the following page.

The three lines of defence model illustrates how risk management is understood and stipulates clearly formulated and distinct roles and responsibilities. The interaction of the three lines of defence is essential for effective risk management. In this context, the individual lines of defence are responsible for the following tasks:

1st line of defence:
Operational assumption of risks and their management

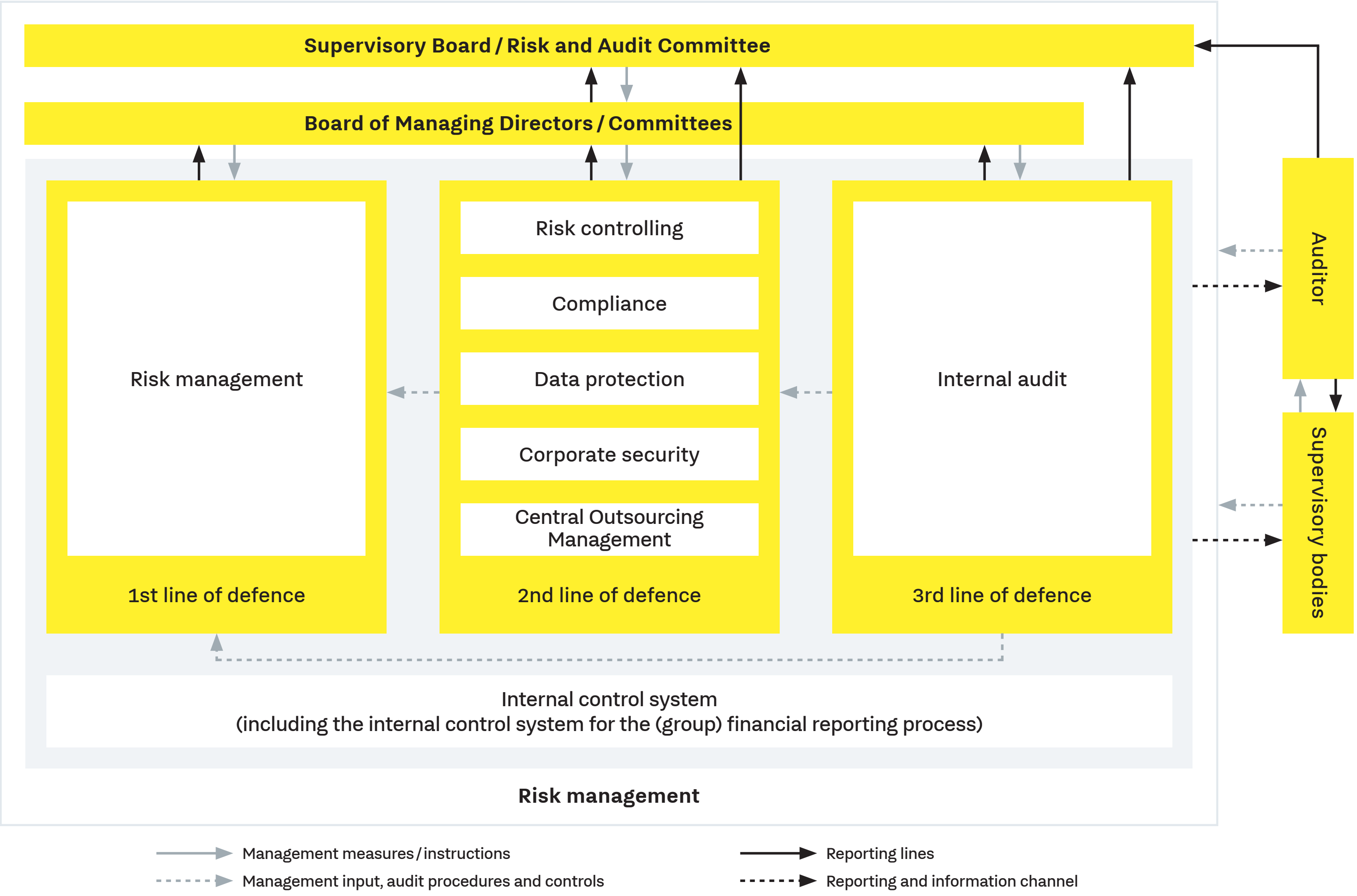
2nd line of defence:
Establishment and continued development of a risk management framework; monitoring of compliance with framework by the 1st line of defence and relevant reporting to the Supervisory Board and Management Board; development and monitoring of data protection compliance principles and monitoring of the issues of Group security (including information security) and outsourcing management. Functions in the 2nd line of defence are performed in particular by the Risk Controlling,

Compliance and Central Outsourcing Management divisions, and the Corporate Security Office and Data Protection departments.

3rd line of defence:
Process-independent review and assessment of risk management and control processes in the 1st and 2nd lines of defence; reporting to the Management Board as well as the Supervisory Board and the Audit Committee. Communication with external control bodies: internal audit

The Supervisory Board monitors corporate governance and evaluates the appropriateness of the risk management system and internal control system.

External auditors and banking supervisory authorities form the external supervisory environment.



The divisions that perform the individual functions are described briefly in the following.

COMPLIANCE

At SHG, the duties of the compliance function are performed by the Compliance unit.

The compliance function is requirement to ensure the implementation of effective procedures for complying with the legal requirements and standards, and the corresponding controls, essential for BSH's business activities.

The compliance function is also responsible for supporting and advising management with regard to compliance with these legal requirements and standards. The most important tasks of the compliance function are therefore to identify, manage and mitigate compliance risks in order to protect customers, BSH and other SHG companies and their employees from violations of legal regulations and requirements. In addition, the compliance function is responsible for monitoring the procedures for complying with legal regulations and requirements. Another task of the compliance function is to inform management about new regulatory requirements and to advise the departments about the implementation of new regulations and requirements.

RISK CONTROLLING

At SHG, the duties of the risk controlling function are performed by the Risk Controlling unit.

Risk Controlling at BSH is responsible for identifying, measuring and assessing risks at SHG. This includes the early detection of all significant risks, their recording as fully as possible and internal monitoring. Risk Controlling also reports the risks to the Management Board, the Supervisory Board and the investment companies.

BSH's Risk Controlling, in cooperation with other SHG companies, prepares a Group-wide risk reporting system for all major risk types on the basis of predefined minimum standards and using agreed methods. At BSH, Risk Controlling is responsible for the transparency of the risks entered into and ensures that the risk measurement methods used are up-to-date.

CORPORATE SECURITY OFFICE

The Corporate Security Office department is BSH's 2nd line of defence (non-financial risk) for corporate security issues, and reports directly to the Management Board. It is primarily responsible for designing and monitoring SHG's corporate security, based on the policies drawn up with the departments in the areas of emergency and crisis management, personnel and physical security, and information security.

Regulatory requirements relating to information security and emergency management for SHG are operationalised in Group guidelines and also include monitoring the Group.

CENTRAL OUTSOURCING MANAGEMENT

At BSH, Central Outsourcing Management (COM), together with the Outsourcing Officer, acts as a central point of contact for all management questions relating to services purchased from third parties. These comprise outsourced services and services purchased from third parties (other purchased third-party IT services and other purchased non-IT services). COM is responsible for developing, introducing and monitoring framework requirements for the appropriate implementation of legal requirements for the services performed from third parties by BSH in terms of the 2nd line of defence. It also ensures regular management reporting with a direct reporting channel to the Management Board regarding all significant outsourcing arrangements.

DATA PROTECTION

The SHG companies have taken precautions to ensure compliance with data protection requirements in respect of its customers, business partners and employees. In particular, the function of a central data protection officer of SHG was created and uniform data protection principles were issued. Furthermore, employees are regularly made familiar with the currently applicable data protection provisions.

The independent Data Protection Officer performs the tasks assigned to them by law to monitor compliance with data protection and, where relevant, perform other data protection-related tasks specified by an SHG company.

INTERNAL AUDIT

BSH AG's Internal Audit department performs process-independent monitoring and control tasks, including as SHG's Group Audit department. It systematically and regularly carries out risk-based audits to ensure compliance with statutory and prudential requirements, reviews and assesses the functionality and effectiveness of business processes and the internal control system, as well as the regularity, security and cost-effectiveness of processing, and monitors the rectification of any audit findings.

SHG's Internal Audit is an instrument of the full Management Board and reports directly to it; it is accountable to BSH's Chief Executive Officer. BSH complies with the specific requirements for the structure of Internal Audit as defined in MaRisk.

INTERNAL CONTROL SYSTEM OF THE (CONSOLIDATED) FINANCIAL REPORTING PROCESS

OBJECTIVE AND RESPONSIBILITIES

Bausparkasse Schwäbisch Hall is required to prepare consolidated financial statements and a group management report, as well as annual financial statements and a management report for the group parent. The Schwäbisch Hall Group is integrated into the consolidated financial statements of DZ BANK.

The primary goal of the external (consolidated) financial reporting of the Schwäbisch Hall Group and Bausparkasse Schwäbisch Hall is to provide information that is useful in decision making for the users of the report. Connected with this is the aim of ensuring orderly (consolidated) financial reporting, thereby avoiding material breaches of financial reporting standards, which could lead to incorrect information being provided to report users or to mismanagement of the Group, with sufficient certainty.

As part of the control systems for general risk management, Bausparkasse Schwäbisch Hall and its subsidiaries have set up an internal control system related to the (consolidated) financial reporting process to limit operational risk in this area. Within this framework, the actions of employees, the controls implemented, the technologies deployed and the workflow design are geared towards ensuring that the (consolidated) financial reporting objectives are met.

Overall responsibility for (consolidated) financial reporting primarily lies with the Accounting and Risk Controlling divisions of Bausparkasse Schwäbisch Hall. Responsibility for preparing and controlling the quantitative and qualitative information required for (consolidated) financial reporting is held by all consolidated companies within the Schwäbisch Hall Group.

INSTRUCTIONS AND RULES

The methods and rules applicable to the preparation of the consolidated financial statements within the Schwäbisch Hall Group are laid down in a Group manual provided by the higher level parent company, DZ BANK AG, as well as in the supplement to the Group manual and the accounting guidelines, and written instructions. Internal rules are continuously updated. The disclosure guidelines of the DZ BANK Group and the risk manual of Bausparkasse Schwäbisch Hall form the basis for external risk reporting.

The instructions and rules are regularly reviewed and continuously updated in line with any changes in internal or external circumstances.

RESOURCES AND PROCEDURES FOR RISK MITIGATION

Within Bausparkasse Schwäbisch Hall and its subsidiaries, processes have been put in place to enable efficient risk management with regard to financial reporting through the use of appropriate IT systems.

The Schwäbisch Hall Group's consolidated financial reporting is decentralised. Preparing and controlling the quantitative and qualitative information required for (consolidated) financial reporting is the responsibility of the organisational units within the Schwäbisch Hall Group. The Bausparkasse Schwäbisch Hall's Accounting and Risk Controlling divisions conduct the relevant controls and tests with regard to data quality and compliance with all regulations of the Schwäbisch Hall Group and/or the DZ BANK Group. The standards for ensuring data quality within the economic capital management process are defined in data quality management and internal control system guidelines that are applicable to Risk Controlling within the management units.

Financial reporting processes for individual transactions are performed by the organisational units. Consolidation processes are primarily performed by the Group Accounting department of Bausparkasse Schwäbisch Hall. This enables the orderly control and recording of all accounting and consolidation processes.

(Consolidated) financial reporting is primarily the responsibility of Schwäbisch Hall Group employees. Certain financial reporting-related business processes, such as treasury settlement and the determination of pension obligations, are outsourced to external service providers.

With regard to consolidated financial reporting, there are agreed binding workflows between Bausparkasse Schwäbisch Hall's Group Accounting department and the accounting departments of the Schwäbisch Hall Group's individual organisational units. They regulate the collection and generation of the quantitative and qualitative data required to prepare statutory company reports and to form the basis for internal management of the Schwäbisch Hall Group's operating units.

The consolidated financial statements, the combined Group management report and the annual financial statement are prepared on the basis of generally recognised measurement methods, the appropriateness of which is regularly reviewed.

In order to ensure (consolidated) financial reporting is cost effective, processing of the underlying data is largely automated using suitable IT systems. As part of this, comprehensive control measures are applied to ensure processing quality and contribute to limiting operational risk. The input and output data for (consolidated) financial reporting is thus subject to numerous machine and manual checks.

Contingency plans have also been put in place to ensure the availability of personnel and technical resources to perform (consolidated) financial reporting processes. The contingency plans are developed on an ongoing basis and regularly reviewed through appropriate testing.

INFORMATION TECHNOLOGY

The IT systems used for (consolidated) financial reporting must meet the relevant security requirements with regard to confidentiality, integrity, availability and authenticity. IT-based controls are used to ensure that the data processed for (consolidated) financial reporting meets the relevant compliance and security requirements. In relation to IT-based (consolidated) financial reporting processes, this particularly concerns controls to ensure authorisations are consistently assigned, checks on changes to master data and logical access controls, as well as change management controls in connection with the development, introduction and alteration of IT applications.

The IT infrastructure needed to use automated (Group) accounting procedures is subject to the security controls implemented on the basis of the general security concept for data processing in the companies of the Schwäbisch Hall Group.

The IT systems used for consolidated financial reporting are able to perform consolidation processes within Group Accounting at Bausparkasse Schwäbisch Hall.

The review of IT-based (consolidated) financial reporting processes is an integral part of the internal audits of Bausparkasse Schwäbisch Hall and the other companies of the Schwäbisch Hall Group.

ENSURING AND IMPROVING EFFECTIVENESS

The processes implemented are regularly reviewed to determine their fitness for purpose and appropriateness and adjusted in line with new products and circumstances, as well as any changes to legal requirements. In order to ensure and enhance the quality of (consolidated) financial reporting at Bausparkasse Schwäbisch Hall and the other Schwäbisch Hall Group companies, the employees responsible for reporting receive training on legal requirements and the IT systems used, as needed. When implementing amended legal requirements, external consultants and auditors are brought in at an early stage to ensure the quality of reporting. Internal Audit regularly reviews the internal control system related to the (consolidated) financial reporting process.

Risk factors

OVERARCHING RISK FACTORS

A multitude of market- and sector-related risk factors pose great challenges to the business model of a *Bausparkasse* in general and therefore also to the Schwäbisch Hall Group (in line with MaRisk).

LOW-INTEREST RATE ENVIRONMENT

In a historically low interest rate environment, there is a risk of declining earnings from collective business. With interest rates remaining at a very low level, *Bauspar* loans are less appealing to customers while higher interest *Bauspar* deposits, in particular, become more attractive. As a result, interest income from *Bauspar* loans declines and interest expenses for *Bauspar* deposits increase. In addition, the available liquidity can only be invested at a low interest rate. This leads to a further negative impact on earnings. Among other things, measures to optimise the *Bauspar* inventory and enhancements to the *Bauspar* product help mitigate the risks resulting from low interest rates.

Risks can also arise due to a rapid increase in capital market interest rates. The price losses on fixed-income securities resulting from such a development could negatively impact the reserve for fair value OCI debt capital instruments and, therefore, capital.

ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

The Covid-19 pandemic and the containment measures imposed to combat it plunged the global economy into a deep recession since the spring of 2020. There is still a high level of uncertainty about economic developments and the related employment situation.

Other potential consequences of the recession are widening credit spreads and a reduction in market liquidity for government and corporate bonds, which could cause market risk to grow.

Additionally, there is a risk that losses in the market value of government and corporate bonds could have a temporary or permanent negative impact on equity.

ESG RISK FACTORS

ESG risk factors are not viewed as a separate risk type in the Schwäbisch Hall Group. Rather, they are events or conditions in the field of environment (“E”), social matters (“S”) or governance (“G”) that impact the managed risks and may adversely affect the net assets, financial or earnings position of the Schwäbisch Hall Group via this transmission mechanism.

In principle, all risk types relevant to Schwäbisch Hall Group are affected by the ESG risk factors. Risks that are managed within the framework of the ICAAP are backed with capital.

The Schwäbisch Hall Group is currently addressing the effects of various regulatory initiatives concerning the management of ESG risks. Specifically, these are the ECB’s guidance on climate and environmental risks and the delegated regulation on the EU Climate Taxonomy. In addition, the Schwäbisch Hall Group will indirectly take part via DZ BANK in the ECB’s macroeconomic climate stress test planned for the coming financial year. To assess the sustainability of its lending business, Schwäbisch Hall Group uses a classification tool based on the Sustainable Development Goals (SDGs). Going forward, it is conceivable that the energy efficiency of the property will be considered in the lending process, for example.

REGULATORY ENVIRONMENT

As part of the revision of the Capital Requirements Regulation (CRR II), comprehensive new regulations were prepared for some aspects of regulatory risk assessment. In addition, the introduction of a mandatory leverage ratio of 3% was implemented starting on 28 June 2021. This figure is calculated by dividing a bank’s Tier 1 capital by its total exposures. One difference compared with the risk-based capital requirements is that the leverage ratio does not provide for differentiation between risk weightings. Consequently, only the unweighted value is taken into account. Over the long term, the introduction of a binding upper limit could restrict ongoing business for Bausparkasse Schwäbisch Hall given the present and currently growing business volume.

The estimate regarding the eligibility of the share capital, including the related premium, for inclusion in Common Equity Tier 1 capital presented in the last report can be confirmed. Following entry into force of CRR II at the end of June 2019, existing profit and loss transfer agreements are not ineligible if certain prerequisites are met (Article 28(3) of CRR II). The BSH profit and loss transfer agreement came to an end on 31 December 2020. The narrow-scope amendments to the agreement to implement the new requirements of CRR II and satisfy regulatory expectations were included in the new agreement entered into in 2021. Only the non-controlling interest attributable to the corresponding capital elements is no longer eligible in Common Equity Tier 1 capital starting on 30 June 2021.

BaFin issued a general administrative act on 31 January 2022 increasing the countercyclical capital buffer to 0.75%. According to the press release dated 12 January 2022, BaFin is also planning to set a systemic risk buffer for the residential real estate sector of 2% of the risk-weighted assets attributable to these exposures. The domestic countercyclical capital buffer was previously 0%. The new sectoral systemic risk buffer is being introduced. Based on current knowledge, the additional capital requirements, which will be reflected in higher minimum capital ratios, are required to be met in full by Common Equity Tier 1 capital as at 1 February 2023 and will apply to Bausparkasse Schwäbisch Hall after they have been finally set. Going forward, BaFin's plans to set the two capital buffers will lead to a higher regulatory capital requirement for Bausparkasse Schwäbisch Hall and could therefore increase the cost of equity.

SIGNIFICANT RISKS AND ASSOCIATED RISK FACTORS

In general, risks are defined as unfavourable future developments that may adversely impact the net assets and financial or earnings position of the company. A differentiation is made between the following risk types: credit risk, market risk, liquidity risk, *Bauspar* technical risk, equity investment risk, operational risk and reputational risk. This selection is underpinned by a materiality concept, which uses various criteria to review whether the financial and earnings position or liquidity situation could be significantly impaired.

Other risks may not be entered into in accordance with the German *Bausparkassen* Act, do not currently exist or are not significant.

RISKS FOR BAUSPARKASSE SCHWÄBISCH HALL AND ASSOCIATED RISK FACTORS

Credit risk

Credit risk refers to the risk of losses due to default or the migration of the creditworthiness of counterparties (borrowers, issuers, counterparties) as well as losses in relation to the realisability of receivables and the realisation of collateral.

Credit risks can arise from traditional lending transactions, securities transactions, and derivative and money market transactions. The traditional lending business largely corresponds to the lending business in the *Bausparen* and housing financing business segments, including financial guarantee contracts and loan commitments. In the context of credit risk management, securities transactions are capital market products such as banking book securities and promissory note loans. “Derivatives and money market transactions” are to be understood as derivatives (e.g. swaps) for hedging purposes.

The key risk factors are deteriorations in the economic environment (particularly rising unemployment rate, real estate prices) and rating downgrades.

Market risk

Market risk comprises the original market risk as well as spread and migration risk arising from Bausparkasse Schwäbisch Hall's own investments.

The original market risk describes the risk of losses from financial instruments caused by a change in interest rates or other price-influencing parameters.

Spread risk denotes the risk of losses from financial instruments caused by a change in the credit spread with a constant rating.

Migration risk is the risk of losses from financial instruments caused by a change in credit rating as a price-influencing parameter.

Market risks are entered into within the framework of the business model, particularly in the *Bausparen* and housing financing business segments, as well in relation to own investments. The key risk factors for market risk are a change in the general interest rate level as well as the widening of credit spreads.

Liquidity risk

Liquidity risk can be subdivided into liquidity risk in the narrow sense, refinancing risk and market liquidity risk.

Liquidity risk in the narrow sense is the risk that liquid funds are not available in sufficient quantity to meet payment obligations. Liquidity risk in the narrow sense is therefore understood as insolvency risk.

Refinancing risk refers to the risk of loss arising from a deterioration in the liquidity spread (as a component of the spread on own issues) to which Bausparkasse Schwäbisch Hall (in line with MaRisk) is exposed.

If liquidity spreads increase, future liquidity needs can only be met with additional costs.

Market liquidity risk is the risk of a loss resulting from detrimental changes in market liquidity, for instance due to a decrease in market depth or market disruptions, with the result that assets can only be liquidated on the market with mark-downs and active risk management can only occur on a limited basis.

Liquidity risks result from the operating business of the *Bausparkasse*, mainly in the *Bausparen* and Housing Financing business segments.

The key risk factors are the refinancing structure of lending transactions, the uncertainty of liquidity commitment, market value fluctuations and saleability of securities, as well as their hypothecation capability in secured refinancing, the exercising of liquidity options, and collective and non-collective new business.

Bauspar technical risk

Bauspar technical risk comprises two components: new business risk and collective risk. New business risk is the risk of negative repercussions from possible deviations from the budgeted new business volume. Collective risk denotes the risk of negative effects that can arise from deviations between actual and forecast developments in the *Bauspar* collective due to persistent and significant non-interest related changes in customers' behaviour.

The key risk factors are a decline in new business and altered customer behaviour (that is not interest-related).

The business risk of Bausparkasse Schwäbisch Hall is also covered as part of the institution-specific *Bauspar* technical risk. Business risk means the risk of an unexpected financial performance that is not covered by other risk types. In particular, this includes the risk that the losses cannot be counteracted through operational measures alone due to changes in significant general conditions (e.g. economic and product environment, customer behaviour, competitive situation).

Equity investment risk

Equity investment risk refers to the risk of losses due to negative changes in value within the equity investment portfolio, the risks of which are not subsumed under other risk types. It also includes the risk of losses arising from a decline in the value of the real estate portfolio of Schwäbisch Hall Group (in line with MaRisk) due to the deterioration of the general real estate situation or particular characteristics of the individual properties (e.g. vacancy, tenant default or loss of use).

Equity investment risks result from the equity investment strategy of Bausparkasse Schwäbisch Hall and the Non-domestic business segment.

The key risk factors are negative changes in equity investment values.

Operational risk

Operational risk refers to the risk of losses resulting from human conduct, technological malfunctions, process or project management weaknesses, or external events. Legal risk is included in the definition. Strategic and reputational risks are not included.

Operational risks result from the operating business of the Bausparkasse and from all business segments.

The key risk factors according to the Basel event types are internal or external fraud, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruption and system failures, and execution, delivery and process management.

Reputational risk

Reputational risk refers to the risk of losses as a result of events that damage confidence in the companies within the Schwäbisch Hall Group (in line with MaRisk) or in its products and services, especially in relation to customers, shareholders, employees, sales partners and the general public. Reputational risks can occur as an independent risk ("primary reputational risk") or as an indirect or direct consequence of other risk types (e.g. liquidity risks, operational risks; "secondary reputational risk").

The key risk factors are unethical practices and loss of reputation due to losses from other risk types.

RISK AND EARNINGS CONCENTRATIONS

The business model of the Schwäbisch Hall Group (in line with MaRisk) is mainly focused on *Bauspar* products, including advance financing and bridge financing, and building loans. This gives rise to a fundamental risk concentration, which has been consciously entered into. There are no risk concentrations for the other types of risks related to financial instruments.

Earnings concentrations exist at the product and/or tariff level. The key figures for monitoring these transactions are regularly collected within the Schwäbisch Hall Group (in line with MaRisk) by the Finance Control division and reported to decision makers. To this end, a comprehensive system of various early warning indicators is available within the Bausparkasse.

Risk concentrations may arise due to one-sided debtor or investment structures. In principle, the Schwäbisch Hall Group (in line with MaRisk) follows a diversification strategy to avoid risk concentrations. This is reflected in the general credit risk principles, for example, on country risk, sector risk, product risk and maturity policy. Within the framework of own investments, efforts are made to achieve the best possible diversification via prescribed minimum ratings and the tradability of securities, as well as via issuer and counterparty limits and a corresponding maturity structure. With the focus on the *Bauspar* products, including advance financing and bridge financing and building loans, possible risk concentrations should be avoided in rating classes with high default rates and/or large default amounts.

Risk management within overall bank management

RISK MONITORING AND RISK MANAGEMENT SYSTEMS

Within the framework of integrated overall bank management, risk management is comprised of risk controlling and risk management. Risk controlling includes in particular the identification, assessment and monitoring of risks. To this end, various early warning indicators have been designed and implemented. These ensure that significant risks are recognised early, fully recorded and monitored and managed in an appropriate way.

Risk management refers to deciding on and implementing measures to actively shape the risk profile while observing prescribed general conditions and limits.

The risk strategy of the Schwäbisch Hall Group (in line with MaRisk) stipulates the central principle of only entering into risks to the extent necessary to achieve business policy goals. In addition, they should be entered into in a targeted and controlled way taking into account earnings targets, and should be effectively identified, assessed, managed, monitored and communicated. Risks must be appropriately hedged with economic and regulatory capital.

The risk identification process determines fully and systematically which risks exist for the Schwäbisch Hall Group (in line with MaRisk). Building on this, the risks are then classified into significant and insignificant risk types. In this process, an assessment is made to determine which risks could significantly impair the net assets, financial position or liquidity position. The significance of a risk type then essentially determines the appropriate backing with economic capital.

The following risks were identified as significant for 2021:

- Credit risk
- Market risk
- Operational risk
- Equity investment risk
- *Bauspar* technical risk
- Liquidity risk in the narrow sense
- Reputational risk
- Risks from pension obligations (longevity risk).

Liquidity risk is currently not taken into account with regard to risk-bearing capacity, as liquidity risks cannot be meaningfully backed by equity capital.

The *Bauspar* technical risk also covers the specific business risk of the *Bausparkasse*.

The risk from pension obligations (longevity risk) refers to the risk of a change in the value of pension obligations due to a higher life expectancy than assumed in the calculation of the pension obligations.

Longevity risk does not result from core business segments, but from the pension obligations entered into. This risk is not actively managed.

A critical analysis of the validity of the quantified risks takes place as part of a suitability review at least once a year. Furthermore, complex methods and processes are quantitatively and qualitatively validated on a regular basis.

At the Schwäbisch Hall Group (in line with MaRisk), various methods and key figures are used for risk management in order to recognise risk-relevant circumstances in the respective business segments at an early stage.

RISK-BEARING CAPACITY

In general, the term “risk-bearing capacity” is understood to mean the ability to cover all significant risks, taking into account risk concentrations, through equity capital. Ensuring the availability of adequate capital resources (capital adequacy) is considered in light of both economic and regulatory aspects. The requirements of MaRisk are taken into account for the economic assessment, while the regulatory assessment takes into account the requirements of the CRR and German legislation implementing the Capital Requirements Directive (CRD) IV.

Economic and regulatory capital adequacy are managed on the basis of two internal indicators.

ECONOMIC PERSPECTIVE

Economic capital management is based on internal risk assessment methods, which take into account all significant risk types from a capital adequacy viewpoint.

When analysing risk-bearing capacity, the risk capital requirement (including the capital buffer) is compared against internal capital to determine economic capital adequacy. Based on the internal capital, the Management Board sets the limits for the risk capital requirement (including the capital buffer) for the relevant financial year. If necessary due to a change in general conditions, for example, the limits can be adjusted in the course of the year.

In 2021, the risk capital requirement under the economic perspective was well within the limit based on internal capital. Economic capital adequacy amounted to 175% as at the 31 December 2021 reporting date. In the course of the financial year, it was above the internal minimum target of 120% at all times. The risk coverage potential at year-end was €5,100 million. With a risk capital requirement for all material types of risk, including risk buffers for other risks, of €2,911 million, the total limit utilisation is therefore 57%.

NORMATIVE INTERNAL PERSPECTIVE

Capital adequacy from a normative internal perspective is determined based on the minimum regulatory requirements plus an internal management buffer.

In this perspective, the total capital ratio, the leverage ratio and the minimum requirement for own funds and eligible liabilities (MREL) are analysed. The total capital ratio is determined by dividing the regulatory capital by the regulatory risk-weighted assets of the Schwäbisch Hall Group. The leverage ratio is the ratio of Tier 1 capital to the total risk exposure. The MREL ratios ensure that a sufficient level of own funds and convertible debt capital is available in the event of recovery and resolution. As at 31 December 2021, the internal limits were 15.0% for the total capital ratio, 3.5% for the leverage ratio and 6.6% for MREL.

STRESS TESTS

In addition to results from risk measurement for normal risk situations, various scenarios are quantified for elevated risk situations. When defining the scenarios, there is a conscious decision to assume unusual but nonetheless entirely plausible events. Such scenarios – “stress tests” – check whether the risk-bearing capacity of the Schwäbisch Hall Group (in line with MaRisk) can be guaranteed from the economic and regulatory perspective, even in the face of extreme general economic conditions. The stress tests are conducted across risk types, and the risk-bearing capacity was demonstrated in the reporting period.

In addition, inverse stress tests are performed, where an examination is made of which events could endanger the ability of the institution to survive.

Internal risk measurement measures are used when performing stress tests. The input parameters for risk measurement are scaled during this process so that they simulate extremely negative economic scenarios.

Furthermore, stress scenarios with parameters that are particularly unfavourable for the *Bauspar* collective are used, in order to assess the impact of unusual developments in the *Bauspar* collective and thus ensure its long-term sustainability. In order to assess the relevance of scenarios, early warning indicators have been developed for risk-bearing capacity, which enable the timely implementation of countermeasures. Like the scenarios themselves, the early warning indicators are also subject to the annual review process and are adjusted as needed in order to take into account changes in general conditions.

RISK REPORTING AND DOCUMENTATION

The most important medium for risk reporting within the Schwäbisch Hall Group (in line with MaRisk) is the quarterly risk report, which provides a detailed overview of the quantified risks of the Schwäbisch Hall Group (in line with MaRisk) and is the basis for reporting to the Management Board and Supervisory Board. Within the framework of the quarterly reporting, the Management Board and Supervisory Board receive portfolio- and exposure-related management information on credit risk as well as management information on other risk types of significance to the Schwäbisch Hall Group (in line with MaRisk).

The risk manual of the Schwäbisch Hall Group (in line with MaRisk), which is available to all employees, presents information on the methods, processes and responsibilities within the Schwäbisch Hall Group (in line with MaRisk) in addition to the general conditions for risk capital management and the management of risk types.

Credit risk

DEFINITION AND CAUSES

Credit risk denotes the risk of losses from the default or deterioration in creditworthiness of counterparties (borrowers, issuers, counterparties, including specialised funds). The credit risk of the Schwäbisch Hall Group (in line with MaRisk) is at a low level due to the granular portfolio made up of residential retail customer loans and the concentration of own investments in issuers and/or debtors with high creditworthiness.

CREDIT RISK STRATEGY

The basis of the strategic direction is the concentration on low-risk residential retail customer business.

Due to *Bausparkassen*-specific requirements, the customer lending business can only extend loans for housing purposes in accordance with the German *Bausparkassen* Act. This is primarily achieved by extending loans to private individuals for personal use and therefore leads to a high level of credit risk diversification both by size category and region.

In contrast, financing that is commercial in nature plays almost no role at all. This is also stipulated by section 10 of the German *Bausparkassen* Regulation, according to which the proportion of loans that serve to finance construction projects that are commercial in nature may only make up a maximum of 3% of the overall loan portfolio. The German *Bausparkassen* Act imposes restrictive requirements in the area of own investments in order to safeguard customer deposits. In general, with regard to new investments only credit ratings of A– or above according to the rating classifications of Standard & Poor’s are permitted. A minimum rating of AA– is required for securities issued by regional / local public authorities, public bodies, state banks, development banks, supranational institutions (multilateral development banks and international organisations), agencies, as well as covered bonds and government bonds. In addition, Bausparkasse Schwäbisch Hall can also make own investments in *Pfandbriefe* with an issue rating of at least AA–, regardless of the issuer rating. The majority of securities are invested in covered securities or in securities in the AAA to AA– rating classes. A portion of our own investments is invested in foreign bank bonds, government bonds and corporate bonds as well as a specialised fund. For these investments as well, the defined minimum rating of A– was observed, which in the case of the specialised fund relates to the fund level. In addition, there is a fund to cover pension obligations. For this purpose, Bausparkasse Schwäbisch Hall is using the options within the framework of section 4(3a) of the German *Bausparkassen* Act.

REPORTING

Various credit risk reports contribute to the prompt notification of decision makers regarding changes in the risk structure of the credit portfolio and form the basis for active credit risk management. The KreCo committee has primary responsibility for credit risk management. It manages credit risk and prepares relevant recommendations. This includes in particular the adjustment of the scoring system described below.

INTERNAL RATING SYSTEMS

The identification of credit risk takes place through a scoring process. This delivers the credit risk parameters required for risk measurement. The Schwäbisch Hall Group (in line with MaRisk) uses the following scoring systems, which have been approved by the banking supervisory authority:

- Application and behavioural scoring to calculate probability of default (PD),
- LGD (loss given default) scoring to calculate loss ratios,
- Credit rating for Bausparkasse Schwäbisch Hall's (in line with MaRisk) own investments based on the rating system of DZ BANK AG (loss ratio for own investments is generally adopted from DZ BANK AG).

All scoring processes are quantitatively and qualitatively validated on an annual basis.

ECONOMIC CREDIT PORTFOLIO MANAGEMENT

Within the framework of economic credit portfolio management, a distinction is made between expected losses from individual transactions and unexpected losses from the credit portfolio. The expected loss is calculated using PD and LGD and covered by the calculated risk premium. The unexpected loss is quantified with the aid of a credit portfolio model on the basis of a credit-value-at-risk approach (CVaR). The CVaR is calculated as a risk indicator for the customer lending business as well as own investments, specifying a certain confidence level and a certain holding period. In the Schwäbisch Hall Group (in line with MaRisk), CVaR is calculated on the basis of the confidence level of 99.9% (economic perspective) and a one-year risk horizon.

RECONCILIATION OF LENDING VOLUME WITH CONSOLIDATED FINANCIAL STATEMENTS

The lending volume underlying internal group management is reconciled with the consolidated financial statements (please see the table "Lending volumes as defined by internal management").

Significant causes of differences between the internal management and external financial reporting values include the differing scopes of consolidation and the allocation of the lending volume.

CREDIT RISK MITIGATION

The Bausparkasse has a broadly diversified and granular customer credit portfolio.

Due to the portfolio structure and the credit risk strategy, there are no cluster risks in the Bausparkasse's customer credit portfolio, which would otherwise require a limit on the issuance of new loans based on certain size criteria.

Credit rating-dependent limits are set for all counterparties and issuers in the area of own-account investing.

COLLATERAL

Another key risk mitigation tool is accepting and taking into account the customary types of banking collateral. In the customer lending business, this relates in particular to real estate liens on residential property. The collateral is valued based on the German *Bausparkassen* Act, German Mortgage Lending Value Regulation (BelWertV), General Business Principles (AGG) and General *Bauspar* Terms and Conditions (ABB).

Of the traditional lending business in the amount of €56,905.8 million (2020: €52,267.7 million), €53.352,9 million (2020: €49,283.0 million) is secured by real property and €214.2 million (2020: €253.0 million) by other securities.

LENDING VOLUMES AS DEFINED BY INTERNAL MANAGEMENT

in € million	Lending volumes as defined by internal management		Reconciliation: Allocation of lending volume		Reconciliation: Scope of consolidation		Lending volumes in the consolidated financial statements		
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	
							–	–	Loans and advances to banks
Traditional lending business	56,905.8	52,267.7	8,471.5	8,374.7	1,429.2	1,350.6	60,608.7	55,851.4	Loans and advances to customers
							6,197.9	6,141.6	Loan commitments
							2,566.1	3,192.5	Loans and advances to customers
							8,045.1	8,936.9	Loans and advances to banks
Own investments	22,469.4	23,879.2	678.6	483.7	340.3	605.8	2.4	30.9	Positive fair values of hedging instruments
							12,874.7	12,808.4	Bonds and other fixed-income securities
Total	**79,375.2**	**76,146.9**	**9,150.1**	**8,858.4**	**1,769.5**	**1,956.4**	**90,294.9**	**86,961.7**	**Total**

COLLATERALISED LENDING VOLUME BY COLLATERAL TYPE

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Guarantees/warranties/ risk sub-participations	162.0	166.7	5,349.2	6,765.6	–	–	5,511.2	6,932.3
Land charges/mortgages/ registered liens	53,352.9	49,283.0	–	–	–	–	53,352.9	49,283.0
Chattel mortgages/assignments/ pledging of receivables	–	–	–	–	–	–	–	–
Financial collateral	–	–	–	–	–	–	–	–
Other collateral	52.2	86.3	–	–	–	–	52.2	86.3
Total	**53,567.1**	**49,536.0**	**5,349.2**	**6,765.6**	**–**	**–**	**58,916.3**	**56,301.6**

Own investments are mainly invested in issues from public issuers, in development banks of the German federal states and in *Pfandbriefe* (covered bonds). As at the 2021 reporting date, 64% of securities were covered or invested in the credit rating classes 0a (AAA / AA) and 0b (AA–).

The volume of derivative and money market transactions does not fall under the internal management definition of secured lending volume.

EARLY WARNING

The early identification of exposures with elevated risks is carried out by means of early warning indicators, which form part of monthly reporting. If defined threshold values are exceeded, an ad hoc notification is sent to KreCo.

Exposures in default are transferred into intensive management/problem loan processing at an early stage, with the aim of reducing potential defaults for the Bausparkasse and, if possible, returning the loan to normal management.

Analysis of the credit portfolio

ANALYSIS OF ECONOMIC CAPITAL REQUIREMENT FOR CREDIT RISK

The economic capital requirement for the Bausparkasse's credit risk amounted to €496 million (2020: €521 million) as at the end of the financial year. The limit from an economic perspective was €670 million (2020: €560 million). The limit was adhered to at all times during the financial year.

The extent of the risk capital requirement is determined by, among other things, the lending volume, credit ratings and the expected loss ratio of the exposures. The following section examines these influencing factors and describes their development over the financial year.

VOLUME-ORIENTED CREDIT PORTFOLIO ANALYSIS

The lending volume is calculated for the instruments subject to credit risk exposure – traditional lending business (customer lending business), securities business (own investments) as well as money market transactions – pursuant to the procedure for internal management of the Bausparkasse. The differentiation by instrument subject to credit risk exposure corresponds to the categories to be used in external reporting on risks resulting from financial instruments.

The following quantitative data for the overall credit portfolio represents the maximum credit risk to which the *Bausparkasse* is exposed. The maximum credit risk under the internal management approach represents a gross value, as the financial instruments subject to credit risk exposure are measured without allowing for credit risk mitigation methods and before loss allowances.

LENDING VOLUME TREND

The lending volume of the customer lending business continued to increase in the financial year due to the continuous expansion of private housing financing.

STRUCTURE OF THE OVERALL CREDIT PORTFOLIO

The sector structure of the credit portfolio shown in the "Lending volume by sector" figure indicates the similarly broad diversification of the customer lending business of Bausparkasse Schwäbisch Hall compared with the previous year. Free liquidity is primarily invested in securities or specialised funds. The lending volume in the Financial sector in the securities and derivative and money market business was almost unchanged compared with 2020 at €12.8 billion. The lending volume in corporates increased by 52% to €326.1 million. The lending volume to the Public sector (administration/government) declined by approximately 13% year on year to €9.3 billion. The lending volume in the core retail business grew by a significant 7% to €55,715.8 million due to the expansion of the immediate financing business.

The "Lending volume by country group" figure presents the geographic distribution of the credit portfolio broken down by the country risk groups. As at 31 December 2021, the loans in the customer lending business and securities investments were concentrated in Germany, with a share of 96% (2020: 96%) of the overall lending volume.

The distribution of the lending volume across maturity ranges can be seen in the "Lending volume by residual maturity" table. In general, retail residential property financing exhibits long-term original maturities. This is largely reflected at the *Bausparkasse* in the form of long-term residual maturity periods. Due to the high new business volume, the share of customer loans with a maturity of more than five years was 95% at year end (2020: 97%).

The "Lending volume by credit rating" figure shows the distribution of the credit portfolio across individual credit ratings. Receivables in default represented by the credit ratings 4a and 4b accounted for 0.9% of the customer lending business as at 31 December 2021 and were therefore slightly below the level of the previous year.

LENDING VOLUME BY SECTOR

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial sector	798.2	15.0	12,749.8	12,595.9	79.8	388.8	13,627.8	12,999.7
Public sector (administration/ state)	74.2	68.2	9,313.7	10,680.5	–	–	9,387.9	10,748.7
Corporates	–	32.3	326.1	214.0	–	–	326.1	246.3
Retail	55,715.8	51,904.3	–	–	–	–	55,715.8	51,904.3
Commercial	301.2	243.6	–	–	–	–	301.2	243.6
Retail customers	55,414.6	51,660.7	–	–	–	–	55,414.6	51,660.7
Miscellaneous	317.6	247.9	–	–	–	–	317.6	247.9
Total	**56,905.8**	**52,267.7**	**22,389.6**	**23,490.4**	**79.8**	**388.8**	**79,375.2**	**76,146.9**

LENDING VOLUME BY COUNTRY GROUP

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Germany	56,602.7	51,936.0	19,617.9	21,087.1	36.7	345.7	76,257.3	73,368.8
Industrialised countries	290.3	318.0	2,771.7	2,403.3	43.1	43.1	3,105.1	2,764.4
Advanced economies	3.9	3.9	–	–	–	–	3.9	3.9
Emerging markets	8.9	9.8	–	–	–	–	8.9	9.8
Total	**56,905.8**	**52,267.7**	**22,389.6**	**23,490.4**	**79.8**	**388.8**	**79,375.2**	**76,146.9**

LENDING VOLUME BY RESIDUAL MATURITY

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
≤ 1 year	1,113.8	123.6	1,713.1	1,980.8	0.1	300.0	2,827.0	2,404.4
> 1 year to ≤ 5 years	1,655.0	1,451.5	5,206.7	6,368.3	37.9	40.4	6,899.6	7,860.2
> 5 years	54,137.0	50,692.6	15,469.8	15,141.3	41.8	48.4	69,648.6	65,882.3
Total	**56,905.8**	**52,267.7**	**22,389.6**	**23,490.4**	**79.8**	**388.8**	**79,375.2**	**76,146.9**

LENDING VOLUME BY CREDIT RATING (BVR II)

in € million	Lending volume by credit rating (BVR II)		Securities business		Derivative and money market business		Total	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
0a	0.2	–	9,219.3	10,433.1	–	–	9,219.5	10,433.1
0b	–	–	1,040.5	205.2	–	–	1,040.5	205.2
0c	797.0	83.1	6,396.5	7,424.6	3.9	310.3	7,197.4	7,818.0
0d	–	–	221.3	135.9	–	–	221.3	135.9
0e	–	–	275.9	342.9	–	–	275.9	342.9
1a	1.8	1.1	544.9	571.9	5.0	5.0	551.7	578.0
1b	41.5	0.1	4,310.7	3,972.3	–	–	4,352.2	3,972.4
1c	3,902.6	26.9	273.3	25.4	–	–	4,175.9	52.3
1d	9,957.3	280.7	107.2	74.1	–	38.1	10,064.5	392.9
1e	13,724.4	1,645.1	–	305.0	38.1	–	13,762.5	1,950.1
2a	10,445.2	10,307.2	–	–	–	–	10,445.2	10,307.2
2b	5,821.3	13,879.4	–	–	–	–	5,821.3	13,879.4
2c	4,479.7	12,912.6	–	–	–	–	4,479.7	12,912.6
2d	2,669.5	6,302.5	–	–	–	–	2,669.5	6,302.5
2e	1,588.4	2,619.2	–	–	32.8	35.4	1,621.2	2,654.6
3a	866.0	1,264.5	–	–	–	–	866.0	1,264.5
3b	515.5	624.8	–	–	–	–	515.5	624.8
3c	273.0	478.9	–	–	–	–	273.0	478.9
3d	140.6	253.5	–	–	–	–	140.6	253.5
3e	582.3	800.5	–	–	–	–	582.3	800.5
4a	321.6	325.6	–	–	–	–	321.6	325.6
4b	191.8	213.6	–	–	–	–	191.8	213.6
Miscellaneous	586.1	248.4	–	–	–	–	586.1	248.4
Total	**56,905.8**	**52,267.7**	**22,389.6**	**23,490.4**	**79.8**	**388.8**	**79,375.2**	**76,146.9**

STRUCTURE OF CREDIT PORTFOLIO WITH IMPECCABLE CREDITWORTHINESS

Own investments were not overdue in 2021 and appropriate loss allowances were recognized in accordance with IFRS. As in the previous year, the lending volume from the traditional lending business with impeccable creditworthiness dominated with an unchanged 98% share (2020: 98%).

LOSS ALLOWANCES

Now that IFRS 9 is to be applied, internal economic credit risk management is directly connected with the processes used to form loss allowances. The procedure here is as follows:

- The multi-year probabilities of default calculated for economic management are based on long-term average migration behaviour. They are modified for the purposes of external financial reporting, in particular to take account of the currently available macroeconomic outlook (including the expected consequences of the Covid-19 pandemic).
- The estimate for the expected losses from lending transactions at the time of default is adjusted to meet the requirements of IFRS 9 regarding parameter-based calculation of loss allowances.

Market risk

DEFINITION AND CAUSES

Market risk at Bausparkasse Schwäbisch Hall is composed of the original market risk as well as spread and migration risk arising from the own investments of Bausparkasse Schwäbisch Hall AG, as well as market liquidity risk. The original market risk describes the risk of losses from financial instruments caused by a change in the interest rates or other price-influencing parameters. Spread risk denotes the risk of losses from financial instruments caused by a change in the credit spread with a constant rating. Migration risk is the risk of losses from financial instruments caused by a change in the rating as a price-influencing parameter. Market liquidity risk (in the sense of market risk) largely arises from the investment of surplus *Bauspar* deposits in securities. The resulting risks are taken into account at BSH through spread and migration risk measurement.

The investment of free *Bauspar* deposits in a specialised fund also in principle leads to fund price risks for Bausparkasse Schwäbisch Hall. However, the specialised fund is broken down into its individual components for market risk measurement and is not treated as a fund position. The calculated risks are managed within the framework of existing limits in line with other risk types.

Other individual risks within market risk such as commodity risk, equity risk, currency risk and volatility risk, result either from transactions not permitted under the German *Bausparkassen* Act and so accordingly cannot arise, or are not currently significant.

MARKET RISK STRATEGY

With regard to market risk, the Schwäbisch Hall Group (in line with MaRisk) is exposed to a particular risk due to the collective *Bauspar* business.

A binding interest guarantee is made to customers with regard to the interest on credit balances and for the interest on loans which will be drawn down in future. This is taken into account in the *Bauspar*-specific form of the risk quantification models. Capital market activities are entered into as hedging transactions for the collective, with the overriding aim of reducing risk. The Bausparkasse does not undertake proprietary trading in the sense of exploiting short-term price fluctuations. The management of interest rate risk therefore takes place at the level of the overall bank and exclusively within the framework of the banking book (non-trading book institution).

MANAGEMENT OF MARKET RISKS

Within the framework of risk-bearing capacity, the original market risk is measured at net present value. Collective scenarios based on standard interest rate trend scenarios are run each month to determine cash flows from the *Bauspar* business that are dependent on interest rate scenarios. The overall bank cash flow is calculated for each interest rate scenario together with the non-collective cash flows.

On the basis of an internal model, a Value at Risk (VaR) is calculated that takes into account the interest-dependent cash flows from the collective. In addition to the general weaknesses of the model, there is uncertainty because of the model assumptions made. Operating VaR is quantified daily using a historical simulation with the following parameters:

- six-year history,
- ten-day holding period,
- confidence level of 99%.

The regulatory standard test limit (ad hoc interest rate shift of +2.0%/-2.0%) of 20% of regulatory capital and the early warning indicator, which has been specified since 2020, were adhered to throughout 2021. Furthermore, net present value risk is calculated monthly with a parallel shift in the yield curve of +/-1%.

The net present value measurement of spread and migration risks is based on a CreditMetrics model. The risk value calculated monthly expresses the net present value loss from own investments due to changes in credit spreads with unchanged credit ratings and/or due to credit rating changes. It is not exceeded in a single year with a probability (confidence level) of 99.9%.

The Bausparkasse Schwäbisch Hall portfolio contains interest rate swaps amounting to €750 million in order to reduce interest rate risk in the overall interest book. In particular there is a risk in the event of falling interest rates due to the existing long duration on the liabilities side of the balance sheet (*Bauspar* deposits). Entering into receiver swaps reduces risk in the event of falling interest rates and only takes place for hedging purposes within the framework of risk management in the Schwäbisch Hall Group (in line with MaRisk).

LIMITING

The market risk classified by the Schwäbisch Hall Group (in line with MaRisk) as significant is backed by risk capital within the overall bank limit system in accordance with the respective perspective. For the calculation of the risk capital requirement for the original market risk, a scaled VaR is calculated with a confidence level of 99.9% under the economic perspective with a holding period of one year.

The risk capital requirement limit is static and is reset as part of the annual revision of the overall bank limit system and approved by the Management Board.

In addition to the overall bank limit system there is a sub-limit system for ALCO. This limit system is used for the operational management of market risk.

Within the spread and migration risk, the risk capital requirement based on the economic perspective is also calculated and limited on the basis of a credit-value-at-risk approach. The confidence level (99.9%) and holding period (one year) match the assumptions used in the other market risk sub-types.

REPORTING

The key figures and market risk indicators are communicated to decision makers by means of various risk reports.

A monthly report with data on relevant risk figures is provided to the Management Board and members of ALCO. The quarterly risk report provided to the Management Board and Supervisory Board presents the market risk in the overall bank limit system along with current utilisation.

BACKTESTING

Backtesting the original market risk helps assess the forecasting quality of the VaR approach. The daily profit and loss is compared against the VaR figures calculated based on risk modelling.

STRESS TESTING

The ongoing analyses that determine the potential losses under normal market conditions are supplemented with “stress tests”, which are scenarios for extraordinary events. In these scenarios, the relevant risk factors are drastically altered, meaning that they are changed in accordance with predefined stress scenarios. Stress tests therefore represent a valuable enhancement to the comprehensive presentation of potential risks. The stress tests calculations are carried out both separately for market risk as well as at the overall bank level.

The key market risk input parameters for the stress tests, derived from the specific business direction and therefore from the risk profile of the Schwäbisch Hall Group (in line with MaRisk) are:

- changes in yield curve (position, twist) and credit spreads,
- changes in migration probabilities of issuers,
- changes in collective cash flows (existing and/or new business),
- changes in other parameters influencing prices (price markdowns).

The results of stress tests provide important information on existing and potential risks as well as their impact on the Schwäbisch Hall Group (in line with MaRisk). The results of the stress tests are also taken into account as part of the annual revision of limits, meaning that they also feed into planning.

ANALYSIS OF MARKET RISKS

As at 31 December 2021, the capital requirements for original market risks of the Schwäbisch Hall Group (in line with MaRisk) amounted to €650 million (2020: €470 million) under the economic perspective (VaR, 99.9% confidence level, one-year holding period), with a limit of €1,052 million (2020: €967 million) Operating VaR (99% confidence level, ten-day holding period) amounted to €31 million (2020: €55 million) as at 31 December 2021. The VaR remained within the limit at all times during the financial year.

The capital requirements for spread and migration risks under the economic perspective (credit VaR, 99.9% confidence level, one-year holding period) amounted to €667 million as at 31 December 2021 (2020: €799 million) with a limit of €1,200 million (2020: €1,200 million).

Liquidity risk

DEFINITION AND CAUSES

Liquidity risk can be subdivided into liquidity risk in the narrow sense, refinancing risk and market liquidity risk. Liquidity risk in the narrow sense is the risk that liquid funds are not available in sufficient quantity to meet payment obligations. Liquidity risk in the narrow sense is therefore understood as insolvency risk. Refinancing risk refers to the risk of loss arising from a deterioration in the liquidity spread (as a component of the spread on own issues). If liquidity spreads increase, future liquidity needs can only be met with additional costs. Market liquidity risk refers to the risk of a loss resulting from detrimental changes in market liquidity, for instance due to a decrease in market depth or market disruptions, with the result that assets can only be liquidated on the market with mark-downs and the options for active risk management are limited.

LIQUIDITY RISK STRATEGY AND MANAGEMENT OF LIQUIDITY RISK

The aim of liquidity management is to ensure solvency and adequate liquidity at all times. From a regulatory perspective, liquidity is measured using the liquidity coverage ratio (LCR). The LCR trend is calculated at least once a month for the subsequent months and is subject to an internal early warning limit. The Net Stable Funding Ratio (NSFR) is forecast quarterly and is also internally limited.

The liquidity position contains all liquidity-related items and is presented based on the expected liquidity trend as well as various stress scenarios for a period of up to ten years.

Under the economic perspective, adequate liquidity is ensured over a one-year horizon by measuring the minimum liquidity surplus. The measurement is based on liquidity developments and the related liquidity reserves and is performed daily for a normal scenario as well as for liquidity developments in stress situations (stress tests). Appropriate limiting ensures that possible liquidity shortfalls within a one-year time window are covered in all scenarios by freely available liquidity reserves. In this way, potential liquidity problems can be identified early and countermeasures can be introduced as required.

The liquidity reserves taken into account within liquidity risk controlling consist primarily of the option to borrow from the ECB, with the maximum amount depending on the value of the securities portfolio eligible as collateral with the ECB. Furthermore, there are refinancing options with the Volksbanken Raiffeisenbanken cooperative financial network. New refinancing sources (e.g. *Pfandbrief* issues) have been opened up to ensure further diversification.

Market liquidity risk is taken into account using stress scenarios, where interest- and creditworthiness-related discounts are calculated on the market value of securities in the liquidity reserve.

REPORTING

Adherence to liquidity risk limits for solvency over a one-year horizon is monitored daily, while the LCR is reviewed at least once a month. The Management Board is informed accordingly at least monthly and the Supervisory Board is informed at least quarterly.

BACKTESTING

The system for measuring and managing liquidity risk is validated annually via a multi-stage process. Among other things, the data used as input factors is examined. Both the data sources and the data quality are verified and tested accordingly. Furthermore, the assumptions underlying the model are defined, justified and reviewed.

STRESS TESTING

Comprehensive stress scenarios have been defined based on the overall bank stress tests and adapted for the liquidity perspective. These are taken into account in daily risk measurement. They include both internal and external factors that have a negative influence on the liquidity position.

The minimum liquidity surplus in the respective stress scenarios fluctuated between €190 million and €1,522 million in 2021.

ANALYSIS OF LIQUIDITY RISK

The liquidity risk limits were adhered to at all times in 2021. The LCR fluctuated between 322% and 1,781% and was therefore clearly above the 100% regulatory minimum value in force for 2021.

Bauspar technical risk

DEFINITION AND CAUSES

Bauspar technical risk comprises two components: new business risk and collective risk. New business risk is the risk of negative repercussions from possible deviations from the budgeted new business volume. Collective risk denotes the risk of negative effects that can arise from deviations between actual and forecast developments in the *Bauspar* collective due to persistent and significant non-interest related changes in customers' behaviour.

The distinction from interest rate risk can be guaranteed through altered customer behaviour that is not interest-related in the collective simulation model. Accordingly, this means that only interest-related changes in customer behaviour are relevant to interest rate risk.

RISK STRATEGY FOR *BAUSPAR* TECHNICAL RISK

Bauspar technical risk is closely connected with the Bausparkasse business model and is therefore unavoidable. Against this backdrop, the risk strategy aims to avoid the uncontrolled spread of risk. Management is carried out by means of a forward-looking tariff and product policy, in particular, as well as via suitable marketing measures and corresponding sales management.

MANAGEMENT OF *BAUSPAR* TECHNICAL RISK

Risk measurement takes place on the basis of a special collective simulation model in which a decline in new business and (negatively) altered customer behaviour can be shown in an integrated way.

The results of the collective simulation model are carried over into a long-term profit and loss account. The discrepancy between the actual result in the risk scenario and the result of a basic variant on the same reporting date is used as a risk measure. The net present value of the differences is determined via discounting. The total of net present value differences represents the *Bauspar* technical risk and therefore the risk capital requirement for this risk type.

LIMITING

The *Bauspar* technical risk is limited for the net present value analysis under the economic perspective and backed by risk capital.

ANALYSIS OF *BAUSPAR* TECHNICAL RISK

The capital requirements for *Bauspar* technical risk as at 31 December 2021 amounted to €639 million (2020: €545 million); with a limit of €706 million (2020: €550 million). The risk capital requirement remained within the limit at all times during the financial year.

REPORTING

The responsible risk committee (ALCO) and – within the framework of the quarterly report – the Management Board as well as the Supervisory Board are informed of the risk capital requirement for the *Bauspar* technical risk.

STRESS TESTING

In order to calculate the *Bauspar* technical risk in the risk type-specific stress situation, a collective simulation model is created in which the relevant parameters are stressed compared with standard risk measurement. This is evaluated in line with the methodology for ongoing risk measurement.

The stress tests are performed on a quarterly basis. In addition, other stress scenarios with extreme parameter values are tested within the framework of the overall bank stress test, the inverse stress test as well as stress tests at the level of the DZ BANK Group.

Equity investment risk

DEFINITION AND CAUSES

Equity investment risk refers to the risk of losses due to negative changes in value for part of the equity investment portfolio for which risks are not subsumed under other risk types. It also includes the risk of losses arising from a decline in the value of the real estate portfolio of Schwäbisch Hall Group (in line with MaRisk) due to the deterioration of the general real estate situation or particular characteristics of the individual properties (e.g. vacancy, tenant default or loss of use).

EQUITY INVESTMENT RISK STRATEGY AND MANAGEMENT OF EQUITY INVESTMENT RISK

Investment companies are assigned to various levels based on a materiality analysis and taken into account in risk management differently depending on their assigned level. The quantification of equity investment risk takes place with the aid of a VaR approach based on a Monte Carlo simulation model.

Equity investment risks arise particularly from international equity investments in *Bausparkassen*. Benchmarks exist in order to limit risk concentrations abroad, with benchmarks set based on the business activity of the respective participation and a country-specific factor.

LIMITING

For equity investment risk the VaR is limited with a confidence level of 99.9% under the economic perspective. Equity investment risk is integrated into the overall bank limit system. Risk measurement is carried out monthly.

REPORTING

The Management Board and Supervisory Board are informed of equity investment risk as part of quarterly reporting.

STRESS TESTING

The ongoing measurement of equity investment risk is supplemented by performing stress tests. Stress scenarios are defined for equity investment risk within the framework of the overall bank stress test.

ANALYSIS OF EQUITY INVESTMENT RISK

As at 31 December 2021, the economic capital requirement for equity investment risk amounted to €209 million (2020: €192 million). This includes a capital buffer requirement of €1.9 million for foreign currency risks and a capital buffer requirement of €8.2 million for real estate risk. The limit set as at 31 December 2021 was €240 million (2020: €250 million) under the economic perspective. The limit was not exceeded at any point during the year. The volume of the equity investments for which equity investment risk is measured amounted to €321 million (2020: €299 million) as at 31 December 2021.

Operational risk

DEFINITION AND CAUSES

Operational risk refers to the risk of losses resulting from human conduct, technological malfunctions, process or project management weaknesses or external events. Legal risk is included in the definition. Strategic and reputational risks are not included.

OPERATIONAL RISK STRATEGY

The task of operational risk management and control is to systematically record and monitor all significant operational risks. The primary goal is not the avoidance of risks but active risk management, i.e. the controlled and/or conscious assumption of opportunities and risks.

Analyses and findings from risk assessments and risk reporting form the basis for management decisions, depending on the consequences of the respective operational risk.

In general, operational risk assessment is differentiated and managed independently by the organisational units concerned. This takes place in line with the existing strategies in accordance with the defined principles. A balanced cost/benefit ratio must be observed at all times. There are four basic management strategies that impact the risk profile and are actively applied:

- accept risk insofar as the costs of possible risk reduction measures outweigh the benefits,
- reduce risk, e.g. through process optimisation and emergency planning,
- transfer risk, e.g. via insurance and outsourcing,
- avoid risk, e.g. by dispensing with certain transactions and processes.

MANAGEMENT OF OPERATIONAL RISK

Basic management responsibility is held locally in the specialist divisions and/or the equity investments. Central control by the Risk Controlling division ensures that existing risks are systematically recorded company-wide in a standard form. To this end, a framework has been approved for the Schwäbisch Hall Group (in line with MaRisk), which describes the methods used.

Management of operational risk analyses the main risk subtypes. The inclusion of risk subtypes enables a more differentiated view of operational risk and better management by the specialised units of the 2nd line of defence. This is reflected in the management tools used for operational risk.

The following subtypes of operational risk were of material importance in the financial year:

- compliance risk, including conduct risk,
- legal risk,
- information risk, including I(C)T risk,
- security risk,
- outsourcing risk,
- project risk,
- other operational risk.

The following methods are used at the Schwäbisch Hall Group (in line with MaRisk) to manage and control operational risks:

Loss database

The aim of this method is to use a central loss database for the structured recording of all losses incurred within the Schwäbisch Hall Group (in line with MaRisk) resulting from operational risks and to introduce measures as applicable. Losses with a gross loss amount of €1,000 or more are recorded. The record includes the categorisation of losses by event and by loss amount, in particular.

Risk indicators

Risk indicators are key figures that can be informative regarding the risk situation of the company by acting as early warning indicators. They are collected and reported by the persons responsible at local level. Risk situations are classified using a traffic light system based on prescribed threshold values. Risk indicators are systematically and regularly collected within the Group on a broad scale.

Scenario analysis

A risk scenario gives a concrete description of potential losses as well as events and factors that could lead to those losses.

In the context of risk self-assessments, scenarios for assessing particularly unfavourable configurations, which may not yet have occurred, are identified and measured according to loss amount and probability of occurrence. Assumptions on the impact and probability of occurrence of these scenarios are based on internal and external losses as well as expert evaluations. A distinction is drawn here between division-specific and inter-divisional scenarios.

The methods are reviewed and adjusted at least once a year by Risk Controlling in collaboration with the responsible operational risk staff and/or experts.

RISK SUBTYPES

Compliance risk, including conduct risk

Compliance risks may arise if the compliance and risk management systems are not sufficient to fully prevent or detect violations of external obligations. Such obligations are understood to mean legal requirements (laws, regulations) as well as external agreements and internal agreements within the company. Examples include the abuse of confidential information, ignoring sanction and embargo requirements, data protection violations or supporting money laundering, terrorist financing and other criminal acts. Employee misconduct (conduct risk) is part of compliance risk.

Legal risk

Legal risk can arise from violations or the incorrect application of applicable law. Legal risk can also result from a change in the legal situation (statutes or case law) affecting transactions entered into in the past.

Information risk, including I(C)T risk

Information risk arises due to breaches of the confidentiality, integrity, availability or authenticity of information or data. If the risk exists in connection with the use of information or communication technology (information media), it is referred to as I(C)T risk.

Security risk

Security risk can arise because of inadequate protection for people, property, tangible assets or time-critical processes. Examples include epidemics or pandemics due to the widespread spread of pathogens, restricted access to workplaces due to natural disasters or demonstrations, or the limited availability of operating resources due to a power supply interruption or failure. Climate change could lead to an increase in the frequency and severity of natural disasters.

Outsourcing risk

Outsourcing risk may arise if the strategic principles pursued by the management units are not observed in the performance of outsourced services or if their operational policies are violated. This may have the following causes:

- non-compliance with regulatory requirements by the responsible service provider and/or sub-service provider
- lack of transparency or ability to enforce in the case of outsourcing outside the domestic market
- increasing complexity in the case of outsourcing of processes that are not classified as standard services (commodity services)
- outsourcing of core responsibilities or knowledge processes due to a potential loss of expertise
- service disruptions (especially failure or inadequate performance of the service provider)
- inadequate management or monitoring of the service provider (in particular lack of transparency with regard to the performance of the services)

Project risk

Project risk means the risk that project outcomes will not be completed as planned. For example, project risk may result from inadequate clarification of project goals and assignments, from deficiencies in the subsequent implementation, from deficiencies in communication inside and outside the project, or from unexpected changes in the overall conditions that apply to a project.

Other operational risk

All other risks fall under the category of “Other operational risk”. This brings together operational risks that are not allocated to the OpRisk subtypes compliance risk, including conduct risk, legal risk, information risk, including I(C)T risk, outsourcing risk, security risk or project risks, and are of subordinate importance based on their risk profile.

IMPACT OF SUBRISK TYPES

The effects on the individual subrisk types are diverse. For example, violations or infringements of applicable law may result in compensation payments. If compliance and risk management systems put in place are not adequately implemented to fully prevent or detect violations of external obligations, this may give rise to compliance risk. Malfunctions or disruptions of IT systems may negatively impact the implementation of processes. Security risk can lead to staff shortages or impact buildings or the ability to access them. Outsourcing risk could lead to business failures or claims for damages. Project risks that materialise can trigger an extraordinary increase in budget requirements or mean that project outcomes are not complete on schedule.

MEASURES

The diverse effects of the OpRisk subrisk types require targeted and efficient management and the resulting derivation of measures. Risks are mitigated by measures such as strict separation of functions, adherence to the dual control principle, restriction of IT authorisations and access authorisation to buildings, as well as a remuneration model focused on sustainability. The organisational units dealing with legal issues continuously monitor and evaluate legally relevant legislative projects, regulatory requirements and the development of case law. Information risk is assessed decentrally in a control process and evaluated in respect of the associated risks. External service providers are monitored by means of communication, coordination, contractually defined service level agreements and audit reports. Projects are managed by project portfolio management, which systematically assesses, monitors and manages the identified risks.

LIMITING

Operational risk is integrated into the overall bank limit system.

One of the key management tools for operational risk is adequate backing with regulatory as well as economic capital. The standard approach (STA) is used to determine regulatory risk capital requirements.

Economic capital requirements are determined by calculating the Operational Value at Risk (OpVaR). Operational risk is quantified using the losses actually realised from loss events (ex post) as well as on the basis of scenarios (ex ante). The data from both methods is transformed into distributions with the aid of assumptions and mathematical processes. Under the basic approach of the quantification model, the “loss distribution approach” is used. These distributions are then aggregated using the Monte Carlo simulation into a loss distribution for the ex post database and a loss distribution for the ex ante database. Finally, both loss distributions are combined to give a complete overview. This is done by merging the datasets received from the Monte Carlo simulation from the ex post perspective with the datasets from the ex ante perspective. Finally, the loss distribution in the complete overview is used to determine the risk measure of Value at Risk at the desired confidence level. Under the economic perspective, a confidence level of 99.9% is applied.

REPORTING

The Management Board and Supervisory Board are informed about operational risk through regular reports. In addition, ad hoc reports are prepared as needed.

Identified operational risks are reported by Risk Controlling and/or within the individual organisational units to the relevant management level. Within the framework of the existing risk management process, the active management of identified operational risks then takes place with a particular focus on prevention.

Furthermore, KreCo is regularly informed regarding the status of operational risk in the Schwäbisch Hall Group (in line with MaRisk).

STRESS TESTING

The ongoing risk measurement via OpVaR is also supplemented with stress tests.

The risk parameters (loss amount and probability of occurrence) are updated annually for the calculation of the economic overall bank stress test. OpVaR is then calculated for the individual overall bank stress scenarios.

ANALYSIS OF OPERATIONAL RISK

On 31 December 2021, a capital requirement of €160 million (2020: €148 million) was calculated under the economic perspective to cover the operational risks of the Schwäbisch Hall Group (in line with MaRisk). At no time has the value exceeded the applicable limit. On 31 December 2021, the limit for operational risks amounted to €200 million (2020: €200 million).

Reputational risk

DEFINITION AND CAUSES

Reputational risk refers to the risk of losses as a result of events that damage confidence in the companies within the Schwäbisch Hall Group (in line with MaRisk) or in the products and services, in relation to customers, shareholders, employees, sales partners and the general public. Reputational risks can occur as an independent risk (“primary reputational risk”) or as an indirect or direct consequence of other risk types (e.g. liquidity risks, operational risks; “secondary reputational risk”).

RISK STRATEGY FOR REPUTATIONAL RISK

The framework for managing reputational risk is formed by the business strategy and the resulting general risk management goals of the Bausparkasse as well as Group requirements.

The business strategy gives rise to targets for qualitative growth (minimum return) and for new business in individual business segments. With regard to reputational risk, it is assumed that new business growth leads to increased sales activities and therefore also to a stronger market presence. Increased reputational risks can also arise due to the resulting higher profile and strength of the Schwäbisch Hall brand.

The risk cannot be avoided due to the strategy and requirements described above.

MANAGEMENT OF REPUTATIONAL RISK

Management measures are introduced by the managers of the organisational units at a local level and/or by the Management Board. Their implementation must be supported by the organisational units concerned. Risk developments are monitored on an ongoing basis using various measurement tools, which are developed in close cooperation with the relevant organisational units (e.g. social media report and customer loyalty index).

There are also further preventative and reactive risk management methods (e.g. new product processes, crisis communication, compliance risk assessment). The risk capital requirement for reputational risk is not quantified independently and is not taken into account on the risk side of risk-bearing capacity. The corresponding risk capital requirement is covered via *Bauspar* technical risk.

(Negatively) altered customer behaviour and a decline in new business (among other things, for example, due to “damage to Bausparkasse image”/“reputational damage”) are presented in an integrated way in the collective simulation model underlying the *Bauspar* technical risk. This covers the possible impact on the *Bausparkasse* of reputational damage.

LIMITING

The risk amounts calculated in the *Bauspar* technical risk are integrated into the overall bank limit system and are backed by economic capital. In this way, the influence of reputation is included in risk-bearing capacity.

REPORTING

The reputation of the Bausparkasse is monitored at various points using different tools and is constantly being strengthened. The Marketing and Communications divisions, in particular, report to decision makers regarding significant findings or changes. In this way, the management of the Bausparkasse is informed about how the Bausparkasse is perceived by stakeholders and is thus in a position to take management decisions.

Furthermore, central analysis and monitoring is carried out by Risk Controlling on a quarterly basis. The various stakeholder views are then aggregated in an index model to create a risk overview. The Management Board is informed of the index model and its respective value.

STRESS TESTING

Reputational risk causes follow-on and/or secondary risks for other risk types. This impact on the relevant risk types is contained in the cross-risk type stress scenarios.

Enhancement of risk measurement methods and the risk monitoring system

Risk measurement methods and risk monitoring systems are continuously improved and developed in accordance with new European and national statutory regulations.

Measurement of overall risk profile

In 2021 the Schwäbisch Hall Group (in line with MaRisk) saw some movement as regards risk capital utilisation within its economic risk-bearing capacity. The risk capital requirement for each risk type only moved within the defined limits in the financial year under review.

The regulatory capital ratios of Bausparkasse Schwäbisch Hall are shown in the Report on economic conditions on page 11.

No risks have been identified that could jeopardise the continuation of the Schwäbisch Hall Group (in line with MaRisk) as a going concern.

Consolidated financial statements

Consolidated financial statements as at 31 December 2021

GENERAL DISCLOSURES

DISCLOSURES ON THE INCOME STATEMENT AND THE STATEMENT OF COMPREHENSIVE INCOME

BALANCE SHEET DISCLOSURES

FINANCIAL INSTRUMENTS DISCLOSURES

OTHER DISCLOSURES

Income statement and statement of comprehensive income

Income statement

in € thousand	(Notes)	1.1. – 31.12.2021	1.1. – 31.12.2020
Net interest income	(29)	580,830	531,300
Interest income calculated using the effective interest method		1,399,408	1,496,572
Current income		1,505	1,318
Interest expenses		-828,816	-971,204
Income from investments in joint ventures using the equity method		8,733	4,614
Net fee and commission income	(30)	11,983	-9,025
Fee and commission income		120,128	103,417
Fee and commission expenses		-108,145	-112,442
Gains and losses on investments	(31)	22,059	55,681
Other gains or losses on valuation of financial instruments	(32)	-245	5,277
Gains or losses on derecognition of financial assets measured at amortised cost	(33)	2,329	14,875
Loss allowances	(34)	-13,730	-28,943
Administrative expenses	(35)	-515,322	-525,959
Other net operating income	(36)	42,025	37,476
Profit/loss before taxes		**129,929**	**80,682**
Income taxes	(37)	-40,296	-21,817
Net profit		**89,633**	**58,865**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		82,206	52,971
Non-controlling interest shareholders		7,427	5,894

Statement of comprehensive income

in € thousand	(Notes)	1.1. – 31.12.2021	1.1. – 31.12.2020
Net profit		**89,633**	**58,865**
Other comprehensive income/loss		**-424,946**	**317,864**
Items that may be reclassified to the income statement		**-436,404**	**324,829**
Gains and losses on debt instruments at fair value through other comprehensive income		-646,945	496,170
Gains (+)/losses (–) arising during the reporting period		-619,689	551,851
Gains (+)/losses (–) reclassified to the income statement on disposal		-27,256	-55,681
Exchange differences on currency translation of foreign operations		-2,244	-14,488
Share of other comprehensive income/ loss of equity-accounted joint ventures		10,550	-1,750
Income taxes	(38)	202,235	-155,103
Items that will not be reclassified to the income statement		**11,458**	**-6,965**
Gains and losses on equity instruments for which the fair value OCI option has been exercised		-3,850	152
Gains and losses arising from remeasurements of defined benefit plans		18,968	-9,466
Share of other comprehensive income/ loss of equity-accounted joint ventures		212	-109
Income taxes	(38)	-3,872	2,458
Total comprehensive income		**-335,313**	**376,729**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		-341,646	377,897
Non-controlling interest shareholders		6,333	-1,168

Balance sheet

Assets

in € thousand	(Notes)	31.12.2021	31.12.2020
Cash and cash equivalents	(13, 39)	997,968	542,499
Loans and advances to banks	(14, 40)	8,045,120	8,936,933
Loans and advances to customers	(14, 41)	63,174,819	59,043,913
Positive fair values of hedging instruments	(15, 42)	2,435	30,869
Investments	(17, 43)	12,892,619	12,824,991
Investments accounted for using the equity method	(18, 43)	113,500	105,755
Intangible assets	(19, 44)	199,033	210,497
Property, plant and equipment and right-of-use assets	(20, 45–47)	110,212	123,077
Current income tax assets	(21, 48)	2,809	3,704
Deferred tax assets	(21, 48)	916	2,600
Other assets	(22, 49)	29,174	34,137
Loss allowances	(23, 50)	-197,807	-185,638
Total assets		**85,370,798**	**81,673,337**

Equity and liabilities

in € thousand	(Notes)	31.12.2021	31.12.2020
Deposits from banks	(24, 51)	9,452,412	7,775,640
Deposits from customers	(24, 52)	66,732,902	65,073,718
Fair value changes of hedged items in portfolio hedges of interest rate risk	(8)	-10,048	23,038
Issued bonds	(25, 53)	1,506,159	513,208
Negative fair values of hedging instruments	(15, 54)	5,196	–
Provisions	(26, 55)	1,682,780	1,766,312
Current income tax liabilities	(21, 48)	37,316	13,588
Deferred tax liabilities	(21, 48)	70,069	269,270
Other liabilities	(22, 56)	176,480	173,718
Equity	(57)	5,717,532	6,064,845
Subscribed capital		310,000	310,000
Capital reserves		1,486,964	1,486,964
Retained earnings		3,450,421	3,390,264
Reserve from fair value OCI equity instruments		-6,733	-3,005
Reserve from fair value OCI debt instruments		332,596	777,306
Currency translation reserve		-6,460	-15,860
Non-controlling interests		80,538	74,205
Net profit		70,206	44,971
Total equity and liabilities		**85,370,798**	**81,673,337**

Statement of changes in equity

in € thousand	Subscribed capital	Capital reserves	Earned equity	Reserve from fair value OCI equity instruments	Reserve from fair value OCI debt instruments	Currency translation reserve	Shareholders' equity	Non-control-ling interests	Total equity
Equity as at 01.01.2020	**310,000**	**1,486,964**	**3,397,346**	**-3,122**	**436,239**	**-6,686**	**5,620,741**	**78,964**	**5,699,705**
Net profit	**–**	**–**	**52,971**	**–**	**–**	**–**	**52,971**	**5,894**	**58,865**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	341,067	–	341,067	–	341,067
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	152	–	–	152	–	152
Exchange differences on currency translation of foreign operations	–	–	–	–	–	-7,425	-7,425	-7,063	-14,488
Remeasurements of defined benefit plans	–	–	-7,008	–	–	–	-7,008	–	-7,008
Share of other comprehensive income/ loss of equity-accounted joint ventures	–	–	-74	-35	–	-1,750	-1,859	–	-1,859
Total comprehensive income	**–**	**–**	**45,889**	**117**	**341,067**	**-9,175**	**377,899**	**-1,169**	**376,730**
Dividends paid	–	–	–	–	–	–	–	-3,590	-3,590
Profit transferred due to profit and loss transfer agreement	–	–	-8,000	–	–	–	-8,000	–	-8,000
Equity as at 31.12.2020	**310,000**	**1,486,964**	**3,435,235**	**-3,005**	**777,306**	**-15,860**	**5,990,640**	**74,205**	**6,064,845**
Net profit	**–**	**–**	**82,206**	**–**	**–**	**–**	**82,206**	**7,427**	**89,633**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	-444,710	–	-444,710	–	-444,710
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	-3,850	–	–	-3,850	–	-3,850
Exchange differences on currency translation of foreign operations	–	–	–	–	–	-1,150	-1,150	-1,094	-2,244
Remeasurements of defined benefit plans	–	–	15,096	–	–	–	15,096	–	15,096
Share of other comprehensive income/ loss of equity-accounted joint ventures	–	–	90	122	–	10,550	10,762	–	10,762
Total comprehensive income	**–**	**–**	**97,392**	**-3,728**	**-444,710**	**9,400**	**-341,646**	**6,333**	**-335,313**
Profit transferred due to profit and loss transfer agreement	–	–	-12,000	–	–	–	-12,000	–	-12,000
Equity as at 31.12.2021	**310,000**	**1,486,964**	**3,520,627**	**-6,733**	**332,596**	**-6,460**	**5,636,994**	**80,538**	**5,717,532**

The composition of equity is explained in Note 57.

Cash flow statement

in € thousand	2021	2020
Net profit	**89,633**	**58,865**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, impairment losses, reversals of impairment losses on assets and other non-cash changes in financial assets and liabilities	63,864	31,741
Non-cash changes in provisions	197,908	363,568
Other non-cash income and expenses	-69,088	180,920
Gains and losses on the disposal of assets and liabilities	-14,682	-15,321
Other adjustments (net)	-586,360	-536,880
Subtotal	**-318,725**	**82,893**
Cash changes in assets and liabilities from operating activities		
Loans and advances to banks	856,493	2,246,423
Loans and advances to customers	-4,221,494	-5,068,068
Other assets from operating activities	38,660	-34,672
Positive and negative fair values of derivative hedging instruments	-31,832	28,414
Deposits from banks	1,687,717	1,626,827
Deposits from customers	1,461,164	1,362,090
Issued bonds	993,145	513,441
Other liabilities from operating activities	-267,500	-307,932
Interest, dividends and income received from equity-accounted joint ventures	1,541,776	1,597,864
Interest paid	-727,365	-869,415
Income taxes paid	-2,080	-3,922
Cash flows from operating activities	**1,009,959**	**1,173,943**
Proceeds from disposals of investments	1,478,966	1,573,022
Proceeds from disposals of property, plant and equipment	791	3,011
Proceeds from disposal of intangible assets	563	2,061
Payments to acquire investments	-1,978,510	-2,239,261
Payments to acquire property, plant and equipment	-12,066	-21,539
Payments to acquire intangible assets	-33,373	-64,058
Cash flows from investing activities	**-543,629**	**-746,764**
Dividends paid to non-controlling interest shareholders	–	-3,591
Profit transfer	-8,000	-16,000
Net change in cash and cash equivalents from other financing activities	-2,861	-2,807
Cash flows from financing activities	**-10,861**	**-22,398**
Cash and cash equivalents as at 01.01	**542,499**	**137,718**
Cash flows from operating activities	1,009,959	1,173,943
Cash flows from investing activities	-543,629	-746,764
Cash flows from financing activities	-10,861	-22,398
Cash and cash equivalents as at 31.12	**997,968**	**542,499**

Prior-year figures adjusted, see Note 2 Correction of errors

The cash flow statement presents the changes in cash and cash equivalents during the financial year. Cash and cash equivalents consist of cash on hand and balances with central banks. Cash and cash equivalents do not include any investments with residual maturities of more than three months at the date of acquisition. Changes in cash and cash equivalents are allocated to operating activities, investing activities and financing activities.

Cash flows from operating activities comprise cash flows mainly arising in connection with the revenue-producing activities of the Group and other activities that cannot be classified as investing or financing activities. Cash flows related to the acquisition and disposal of non-current assets are allocated to investing activities. Cash flows from financing activities include cash flows arising from transactions with equity owners and from other borrowing to finance business activities.

Cash flow from financing activities contains payments by lessees to repay lease liabilities amounting to €2,861 thousand (previous year: €2,807 thousand).

The liquidity position is satisfactory, with no negative changes compared with the previous year.

Notes to the consolidated financial statements

General disclosures

01 Basis of preparation

Bausparkasse Schwäbisch Hall Aktiengesellschaft, *Bausparkasse der Volksbanken und Raiffeisenbanken*, Schwäbisch Hall (referred to in the following as Bausparkasse Schwäbisch Hall), is the Bausparkasse der Volksbanken und Raiffeisenbanken and is firmly embedded in the German Cooperative Banking Group. It is a subsidiary of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (DZ BANK).

The registered office and business address of Bausparkasse Schwäbisch Hall is Crailsheimer Strasse 52 in Schwäbisch Hall, Germany. The company is registered in the Commercial Register of the Local Court in Stuttgart, Germany, under the number HRB 570105.

The consolidated financial statements of Bausparkasse Schwäbisch Hall Aktiengesellschaft (referred to in the following as the Schwäbisch Hall Group) for financial year 2021 have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union (EU), under Regulation (EC) No. 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002.

In addition, the requirements governing publicly traded companies referred to in section 315e (1) of the German Commercial Code (HGB) are applied to Bausparkasse Schwäbisch Hall's consolidated financial statements, other standards adopted by the Accounting Standards Committee of Germany are observed, insofar as they have been published in the German Federal Gazette (*Bundesanzeiger*) by the Federal Ministry of Justice and Consumer Protection in accordance with section 342(2) of the HGB.

Bausparkasse Schwäbisch Hall's consolidated financial statements are included in DZ BANK's consolidated financial statements. DZ BANK prepares the consolidated financial statements of the largest group of affiliated companies to be included in consolidated financial statements and is registered in the Commercial Register of the Local Court in Frankfurt am Main, Germany, under the number HRB 45651. The financial year is the same as the calendar year. The consolidated subsidiaries have prepared their annual financial statements as at the 31 December 2021 reporting date.

In the interest of clarity, certain items in the balance sheet and the income statement have been aggregated and supplemented with additional disclosures in the notes. Unless otherwise indicated, all amounts are shown in thousands of euros (€ thousand). All figures are rounded to the nearest whole number. This may result in very small discrepancies in the accompanying consolidated financial statements in the calculation of totals and percentages.

The consolidated financial statements of Bausparkasse Schwäbisch Hall have been released for publication by the Management Board following approval by the Supervisory Board on 3 March 2022.

02 Accounting policies and estimates

CHANGES IN ACCOUNTING POLICIES

The financial statements of the entities included in Bausparkasse Schwäbisch Hall Group's consolidated financial statements have been prepared using uniform accounting policies.

The consolidated financial statements as at 31 December 2021 were prepared in accordance with IFRSs effective as at 31 December 2021 and required to be applied in the EU to the IFRS consolidated financial statements as at 31 December 2021.

AMENDMENTS TO IFRSs APPLIED FOR THE FIRST TIME IN FINANCIAL YEAR 2021

The consolidated financial statements of Bausparkasse Schwäbisch Hall for financial year 2021 apply the following amendments to IFRSs for the first time:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform – Phase 2,*
- Amendments to IFRS 4 Insurance Contracts – *Extension of the Temporary Exemption from Applying IFRS 9,*
- Amendments to IFRS 16 Leases – *Covid-19-Related Rent Concessions.*

The Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform – Phase 2* follow on from the 2019 amendments and apply if a reporting entity replaces an interest rate benchmark by a nearly risk-free alternative benchmark rate due to the reform. The amendments contain a practical expedient in the case of changes in contractual terms or changes in cash flows that are a direct consequence of the IBOR reform and the new basis is economically equivalent. Under these conditions, any modification attributable to the IBOR reform must be accounted for as a change in a floating rate in line with IFRS 9.B5.4.5 and not in modification gains or losses. Instead, accounting under IFRS 9.B5.4.5 allows subsequent measurement on the basis of the updated effective interest rate and hence recognition of the gain or loss of the economically equivalent adjustment over the remaining term. For all other modifications that were made at the same time and that are not a direct consequence of the IBOR reform, an analysis is necessary to determine the derecognition effects of the modifications. Substantial modifications result in derecognition. If a modification is not substantial, the updated original effective interest rate is used to remeasure the carrying amount of the financial instrument and the modification is accounted for in modification gains or losses.

Other practical expedients are available that all hedge accounting to be continued after transitioning to the new interest rate benchmarks if the amendments are solely the result of the interest rate benchmark reform. The amendments do not provide any practical expedients in cases of hedge ineffectiveness due to the IBOR reform. This must be recognised in the income statement in accordance with IFRS 9. The amendments also contain minor amendments to IFRS 16 and IFRS 4 as well as additional disclosure requirements under IFRS 7.

The amendments must be applied retrospectively for annual periods beginning on or after 1 January 2021. A hedging relationship must be reinstated if it was discontinued solely due to changes required by the interest rate benchmark reform and the entity would not have discontinued it if the Phase 2 amendments had been applied at that time.

Bausparkasse Schwäbisch Hall only accounts for fair value hedges of interest rate risk, and existing hedging relationships can be retained. The impact of the contractual transition of interest rate swaps (collateral) from EONIA to €STR amounting to around €70 thousand is immaterial.

The amendments to IFRS 4 Insurance Contracts – *Extension of the Temporary Exemption from Applying IFRS 9* aim to address the temporary accounting consequences of the different effective dates of IFRS 9 – *Financial Instruments* and the future IFRS 17 – Insurance Contracts. Under the EU endorsement regulation applicable for financial years beginning after 1 January 2021, entities primarily engaged in the insurance business, including the insurance arm of a financial conglomerate, may exercise the optional exemption from applying IFRS 9 until 1 January 2023. This will not impact the consolidated financial statements.

On 31 March 2021, the IASB issued an amendment that prolongs the Covid-19 pandemic-related practical expedients for lessees who apply IFRS 16 by one year. Entities are expected to apply the amendments from 1 April 2021 retroactively for financial years beginning on or after 1 January 2021. Bausparkasse Schwäbisch Hall Group does not apply these practical expedients.

CHANGES IN IFRSS ENDORSED BY THE EU BUT NOT YET ADOPTED

The following IFRS amendments have not been applied voluntarily prior to the effective date:

- IFRS 17 – *Insurance Contracts,*
- Amendments to IFRS 17 – *Insurance Contracts,*
- Amendments to IFRS 3 – *Business Combinations,*
- Amendments to IAS 16 – *Property, Plant and Equipment,*
- Amendments to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets,*
- *Annual Improvements to IFRS Standards, 2018–2020 Cycle.*

The IASB issued IFRS 17 Insurance Contracts on 18 May 2017. The goal of the new standard is to ensure the consistent, principle-based accounting for insurance contracts and requires insurance liabilities to be measured at their with a current fulfilment value. This leads to the more uniform measurement and presentation of all insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts.

Under IFRS 17, insurance contracts are measured using either the general model or, as a practical expedient, the premium allocation approach (PAA). The general model specifies that an entity must measure a group of insurance contracts at initial recognition as the sum of (a) the fulfilment cash flows (FCF) and (b) the contractual service margin (CSM). The FCF consist of the probability-weighted estimate of the future cash flows, an adjustment for the time value of money and the financial risks associated with the future cash flows, and a risk-related adjustment for non-financial risk.

For subsequent measurement, the carrying amount of a group of insurance contracts at the end of a reporting period is the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage reflects the FCF that relate to future benefits and the CSM of the group at that time. The liability for incurred claims consists of the FCF that relate to past benefits and that are allocated to the group at that time.

Measurement of a group of insurance contracts can be simplified by applying the PAA. This practical expedient can be used at initial recognition of a group if an entity reasonably expects that application of the PAA will result in measurement of the liability for remaining coverage that is not materially different from that which would result from the general model or if the coverage period of each contract in the group does not exceed one year.

According to the standard, IFRS 17 is effective for financial years beginning on or after 1 January 2023. The final amendments to IFRS 17 were published on 25 June 2020. Early adoption of IFRS 17 is permitted, provided that IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments are also applied. The endorsement regulation on IFRS 17 was promulgated on 23 November 2021, thus finalising the endorsement process.

The standards, amendments to standards and improvements to IFRS listed above are not expected to have any significant impact on the consolidated financial statements of Bausparkasse Schwäbisch Hall.

NEW AND AMENDED IFRS STANDARDS THAT HAVE NOT BEEN ENDORSED BY THE EU

The EU has not yet endorsed the following amendments to several financial reporting standards:

- Amendments to IAS 1 *Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current,*
- Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 – *Disclosure of Accounting Policies*
- Amendments to IAS 8 *Accounting policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*
- Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to IFRS 17 *Insurance contracts – Initial Application of IFRS 17 and IFRS 9 Comparative Information.*

The amendment to IFRS 17 allows first-time adopters of the standard to present financial assets in the comparative period as if the classification and measurement requirements of IFRS 9 been applied to these financial assets (classification overlay). The amendment can also be applied by users that already implemented IFRS 9 before the transition to IFRS 17. These entities can apply the classification overlay to financial assets derecognised in the comparative period if they use the requirements of IFRS 17 to reassess the classification of financial assets when they transition to IFRS 17.

Bausparkasse Schwäbisch Hall is currently examining the impact on the consolidated financial statements of the amendments to IFRSs described above. They are not currently expected to materially affect the consolidated financial statements. The initial application dates of issued IFRS amendments are subject to their adoption into EU law.

ACCOUNTING ASSUMPTIONS AND ESTIMATES

Assumptions and estimates must be made in accordance with the relevant financial reporting standards in order to determine the carrying amounts of assets, liabilities, income and expenses recognised in the consolidated financial statements. They are based on historical experience, projections and – based on current judgements – probable expectations or forecasts of future events. The estimates and assessments themselves as well as the underlying parameters and estimation methods are periodically reviewed and compared with actual events. In our view, the parameters used are appropriate and supportable. Nevertheless, actual results may differ from expectations.

Assumptions and estimates are applied to the fair value measurement of financial assets and liabilities (Notes 59 and 60).

When loss allowances are recognised, uncertainties arise with regard to the estimated and assumed amount and timing of future cash flows. Judgement is also required, for example with regard to the economic environment, the financial performance of the counterparty and the value of collateral held, as factors affecting the amount of loss allowances (Notes 7 and 23).

Provisions in connection with the *Bauspar* business are measured on the basis of simulation models that are subject to substantial assumptions and estimates about future customer behaviour (Note 6).

Furthermore, estimates have significant influence on the measurement of provisions for employee benefits and other provisions (Note 26), and therefore also under certain circumstances on the accounting for the related deferred tax assets and liabilities. Estimation uncertainty in connection with provisions for employee benefits primarily results from defined benefit pension obligations, the measurement of which is significantly influenced by actuarial assumptions. Actuarial assumptions include numerous long-term forward-looking factors such as salary and pension trends or future average life expectancies. Cash outflows that actually occur in the future due to circumstances for which other provisions were recognised may differ from the expected utilisation.

The deferred tax assets and liabilities disclosed in Note 21 are measured on the basis of estimates of future taxable income of the taxable entities and estimates of tax-relevant matters.

No other sources of estimation uncertainty attributable to the Covid-19 pandemic arise in determining the carrying amounts of assets and liabilities and income and expenses. The impact of the Covid-19 pandemic affects the known assumptions and estimates used to determine fair values for financial assets. Likewise, the Covid-19 pandemic impacts the determination of loss allowances and the assumptions and estimates used for this purpose, which are presented in Note 65.

No other sources of estimation uncertainty attributable to climate-related issues arise in determining the carrying amounts of assets and liabilities and income and expenses. The climate-related impact affects the known assumptions and estimates used to determine fair values for financial instruments. Estimation uncertainty and the associated judgement in climate-related issues generally arise when determining the fair values of financial assets and financial liabilities and when determining impairment losses on financial assets. When determining the fair values of financial assets and financial liabilities and for impairment losses on financial assets, no explicit adjustments were made in the financial year because of climate-related issues. However, climate-related issues are implicitly taken into account in the relevant models.

DISCLOSURE OF PRIOR PERIOD ERRORS

Cash flow statement for the period 1 January to 31 December 2020

Due to correction of an error, the item “Net change in cash and cash equivalents from other financing activities” was adjusted in the 2020 cash flow statement. Essentially, the correction saw non-cash changes in provisions and non-cash changes from currency translation being reclassified in the reconciliation to cash flows from operating activities. Dividend payments to non-controlling interests were recorded with the wrong sign in the previous year. The adjustments made for financial year 2020 are presented in the following table; there was no impact on the consolidated balance sheet, net profit and the statement of comprehensive income.

in € thousand	2020 before adjustment	Adjustment	2020 after adjustment
Net profit	**58,865**	**–**	**58,865**
Non-cash items included in net profit and reconciliation to cash flows from operating activities			
(...)			
Non-cash changes in provisions	370,649	-7,081	363,568
Other non-cash income and expenses	197,158	-16,238	180,920
(...)			
Subtotal	**106,212**	**-23,319**	**82,893**
Cash changes in assets and liabilities from operating activities			
(...)			
Interest paid	-871,750	2,335	-869,415
(...)			
Cash flows from operating activities	**1,194,927**	**-20,984**	**1,173,943**
Proceeds from disposals of investments	1,573,057	-35	1,573,022
(...)			
Cash flows from investing activities	**-746,729**	**-35**	**-746,764**
(...)			
Dividends paid to non-controlling interest shareholders	3,591	-7,182	-3,591
(...)			
Net change in cash and cash equivalents from other financing activities	-31,008	28,201	-2,807
Cash flows from financing activities	**-43,417**	**21,019**	**-22,398**
Cash and cash equivalents as at 01.01	**137,718**	**–**	**137,718**
Cash flows from operating activities	1,194,927	-20,984	1,173,943
Cash flows from investing activities	-746,729	-35	-746,764
Cash flows from financing activities	-43,417	21,019	-22,398
Cash and cash equivalents as at 31.12	**542,499**	**–**	**542,499**

03 Basis of consolidation

In addition to Bausparkasse Schwäbisch Hall as the parent company, the consolidated financial statements of Bausparkasse Schwäbisch Hall for the year ended 31 December 2021 include all subsidiaries that are directly or indirectly controlled by Bausparkasse Schwäbisch Hall AG, including structured entities. Subsidiaries are generally included in the basis of consolidation from the date on which Bausparkasse Schwäbisch Hall obtains control of the investee. In assessing whether control exists, judgement is required in some cases, whereby all relevant facts and circumstances are taken into account. This applies in particular to the consideration of principal-agent relationships in which the Schwäbisch Hall Group acts as the initiator.

The Schwäbisch Hall Group includes Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (referred to in the following as SHK) and the specialised fund UIN Union Investment Institutional Fund No. 817, Frankfurt am Main (referred to in the following as UIN Fund No. 817), as subsidiaries, and Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (referred to in the following as FLK), as a subgroup.

Prvá stavebná sporiteľňa, a. s., Bratislava (referred to in the following as PSS) and Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Co. Ltd., Tianjin, (referred to in the following as SGB) are joint ventures that are jointly controlled with at least one other non-Group company and are accounted for using the equity method. Bausparkasse Schwäbisch Hall has joint control if it is contractually that decisions about the relevant activities of the arrangements require the unanimous consent of the parties sharing control.

The list of shareholdings in accordance with section 315e (1) in conjunction with section 313 (2) of the HGB is a component of the notes and disclosed in Note 78.

04 Consolidation methods

The financial information in the consolidated financial statements contains data relating to the parent company, including its consolidated subsidiaries, and presented as a single economic entity.

Investees are generally included in the basis of consolidation from the date on which Bausparkasse Schwäbisch Hall obtains control of the investee. Under IFRS 10, Bausparkasse Schwäbisch Hall controls an investee if, regardless of the nature of its involvement, it directly or indirectly obtains power over the investee, is thereby exposed to significantly variable returns from the investee and, through its power, is able to affect the level of those variable returns from the investee and to direct the relevant activities of the investee.

If voting rights are relevant and if there are no contractual agreements to the contrary, the Group controls an entity if it directly or indirectly holds more than half of the voting rights in the entity. When assessing control, potential voting rights are also taken into account insofar as they are considered to be substantial.

Specialised investment funds and other structured entities are included as subsidiaries in the consolidated financial statements in accordance with the standard criteria set out in IFRS 10. They are also considered to be consolidated structured entities as defined by IFRS 12 *Disclosure of Interests in Other Entities*. Under IFRS 12, structured entities are entities that are designed in such a way that voting or similar rights are not the dominating factor in deciding who controls the entity. Rather, the existence of control depends on the ability to unilaterally determine the relevant business activity through contractual arrangements.

The group of subsidiaries to be included is reviewed every year.

The consolidated financial statements are prepared using uniform accounting policies for like transactions. The consolidated subsidiaries prepare their annual financial statements as at the reporting date.

Intercompany assets and liabilities as well as intercompany income and expenses are eliminated. Intercompany profits or losses from transactions within the Group are also eliminated. To consolidated subsidiaries in the consolidated financial statements, the carrying amount of the interest in the subsidiary is eliminated against the parent company's share of the equity of the subsidiary in question. Interests in the equity of subsidiaries that are not attributable to the parent company are reported in equity as non-controlling interests.

At the time when the *Bausparkasse* loses control over a subsidiary, the assets and liabilities of the former subsidiary and the carrying amount of any non-controlling interests in the former subsidiary are derecognised. The fair value of the consideration received is recognised at the same time. The gain or loss arising in connection with the loss of control is recognised.

Interests in joint ventures and associates are generally accounted for using the equity method and reported in the balance sheet item "Investments accounted for using the equity method". The financial statements of the equity-accounted investments method are prepared as at the reporting date of the parent entity.

Under the equity method, investments in joint ventures and associates held by the *Bausparkasse* Group are initially recognised at cost, and the carrying amount is subsequently increased (or decreased) by the Group's share of any profit or loss for the year or other changes in net assets of the joint venture or associate concerned.

If significant influence over a joint venture or associate is lost, the gain or loss on disposal of the investment accounted for using the equity method is recognised.

05 Currency translation

All monetary assets and liabilities and unsettled spot transactions are translated at the closing rate into the relevant functional currency of the entities in the Schwäbisch Hall Group. Holdings of foreign notes and coin are translated using the currency buying rate on the reporting date. Non-monetary assets and liabilities are translated using the measure applied to them. Non-monetary assets and liabilities measured at amortised cost are translated using the historical exchange rate. Non-monetary assets measured at fair value are translated using the closing rate. As a general rule, income and expenses are translated using the exchange rate on the date of their initial recognition in profit or loss.

If the functional currency of the subsidiaries included in the consolidated financial statements of the Schwäbisch Hall Group differs from the euro, which is the Group reporting currency, all assets and liabilities are translated using the closing rate and items of equity are translated at historical rates. The resulting difference is reported in the currency translation reserve. Income and expenses are translated using average exchange rates. The functional currency of the entities included in the consolidated financial statements is predominantly the Group reporting currency, which is the euro.

06 *Bausparen*

The conclusion of a *Bauspar* contract is economically comparable to an interest rate hedge. By concluding the contract, the *Bauspar* customer acquires the right to a loan at a guaranteed rate of interest. The Schwäbisch Hall Group functions in this regard as the option writer who, after the conditions for allocation have been met and after the savings phase has concluded, must extend the loan if this right is exercised.

EMBEDDED DERIVATIVES

The cycle of a *Bauspar* contract essentially comprises the savings and allocation phase in the form of a financial liability, as well as the repayment phase in the form of a financial asset. All phases are characterised by diverse option rights that cannot be separated from the host contract. Accordingly, the *Bauspar* contract qualifies as a hybrid contract under IFRS 9.

IFRS 9 does not provide for any separation of the embedded derivative if the host contract relates to a financial asset. Embedded derivatives that have been combined with a non-derivative financial liability (host contract) into a compound financial instrument must generally be separated from the host contract and accounted for and measured separately if their economic characteristics and risks are not closely related to the those of the host contract, if a separate instrument with the same terms would meet the definition of a derivative and if the overall instrument is not measured at fair value through profit or loss. If all of those requirements are not met, the embedded derivative may not be separated from the host contract.

The value of material embedded options of the *Bauspar* contract in the savings and allocation phase, such as a loan option, termination rights or savings intensity, depends on changes in market interest rates, in line with changes in the value of the host contract. Furthermore, the exercise of possible options is determined by a multitude of parameters that cannot be reliably determined and quantified. The influence of economic and behavioural factors on the loan waiver rate is demonstrable but not quantifiable. In addition to fiscal policy and economic factors, the value of options is also determined in particular by subjective behavioural patterns of the *Bauspar* customers. Decisions by *Bauspar* customers based on personal preferences cannot be reliably predicted and measured. In principle, individual savings goals are taken into account by differing tariff versions that reflect both the traditional *Bauspar* customers as well as the yield-driven *Bauspar* customers; other individual factors are not taken into account. Embedded derivatives are not separated and accounted for separately to this extent.

BAUSPAR DEPOSITS

Bauspar deposits are classified as financial liabilities measured at amortised cost (AC) and are initially recognised as a liability at the fair value of the consideration received. They are subsequently measured at amortised cost using the effective interest rate method.

The calculation of the effective interest rate includes all directly attributable fees and other remuneration paid or received that must be taken into account for reasons of materiality. These primarily include fees received from the conclusion of a *Bauspar* contract or an increase in the *Bauspar* sum and the directly related brokerage commissions.

Depending on their personal preferences, the *Bauspar* customer is granted the ability to influence the performance of their *Bauspar* deposits, and thereby the allocation of the *Bauspar* loan, via special savings contributions or by reducing contributions to a savings scheme.

The *Bauspar* customer is guided in the decision on exercising this option by market interest rate trends. If market interest rates are higher than the credit balance interest rate for the *Bauspar* deposit, a rationally acting *Bauspar* customer will use alternative forms of investment on the market and not make any special contributions. If the option is exercised, the level of the *Bauspar* deposit and the level of interest changes.

BAUSPAR LOANS, ADVANCE FINANCING AND BRIDGE FINANCING LOANS

The legally strictly regulated system of *Bausparen* is a closed loop consisting of payments made into a savings account by the *Bauspar* customers and repayments by the borrowers, which generates funds to issue housing financing and is independent of the capital markets. Accordingly, the Schwäbisch Hall Group extends housing financing with the goal of collecting the cash flows up to the maturity of the loan.

Bauspar loans are issued if the conditions for allocation are met. The Ba*uspar* loan is repaid via a minimum monthly instalment, while special repayments of principal are possible at any time and in any amount. These special repayments of principal do not negatively impact cash flows as they only cover unpaid repayments and interest on the outstanding amount.

Collective funds are lent for advance financing and bridge financing to the extent permitted by law. Advance financing loans cover periods until the minimum *Bauspar* contractual sum is reached and the *Bauspar* loan is allocated; bridge financing is granted when the minimum *Bauspar* contractual sum has been reached but the allocation has not yet happened. Advance or bridge financing loans are replaced by *Bauspar* loans once the minimum *Bauspar* contractual sum is reached and allocation occurs. Until the advance payment loan is replaced by the *Bauspar* loan, the cash flows represent interest payments on the principal amount outstanding. The replacement of the loans corresponds to the repayment of the principal amount.

Because of their allocation to the "hold" business model and the fulfilment of cash flow criteria, *Bauspar* loans and advance and bridge financing loans are classified as financial assets measured at amortised cost (AC) and are measured at amortised cost using the effective interest rate method.

BONUSES/*BAUSPAR*-SPECIFIC PROVISIONS

If various requirements are met, the *Bausparkasse's* tariff conditions provide for bonuses for *Bauspar* customers in the form of a refund of parts of the contract fee or in the form of bonus interest on deposits. The bonuses constitute separate payment obligations and are measured and recognised in accordance with IAS 37.

According to the tariff conditions of the *Bausparkasse*, grants of bonuses to the *Bauspar* customers is linked to the occurrence of various conditions, such as choice of the interest incentive option by the *Bauspar* customer, the observance of a waiting period that, if this option is chosen, begins on the measurement date on which the target measurement figure and a certain minimum savings deposit are reached, the *Bauspar* contract reaching a minimum term and a loan waiver after allocation of the loan.

To measure these options, *Bauspar*-specific simulation models (technical simulation models for *Bauspar* business) that forecast the future behaviour of *Bauspar* customers are deployed to measure *Bauspar*-specific provisions. Parameterisation of the collective simulation, including the probabilities that *Bauspar* customers will exercise the options, is performed using the exercise ratio from previously observed customer behaviour. The results of the collective simulations are cash flow projections that are used to measure the *Bauspar*-specific provisions. These cash flow projections are made for a projection period of 15 years at portfolio level. For validate the plausibility, an additional procedure is used and compared with the measurement procedure. Uncertainty in the measurement of provisions can result from the extent to which the assumptions about future customer behaviour projected by the collective simulation will apply in the future, taking interest rate scenarios and management measures into consideration.

Unconditional bonuses in the form of additional interest credits are accounted for as a component of the amortised cost of *Bauspar* deposits under IFRS 9.5.3.1 in conjunction with IFRS 9.4.2.1.

FEES AND COMMISSIONS

Contract fees represent income that, on the basis of the terms and conditions of the *Bausparkassen* of the Schwäbisch Hall Group, is directly connected with the initiation of a *Bauspar* contract and is therefore generally included in the effective interest rate calculation and amortised over the maturity of the *Bauspar* contract (IFRS 9.B5.4.1).

Brokerage commissions reward different services depending on the fee and commission system. Under IFRS 9.B5.4.1 in conjunction with IFRS 9.B5.4.8, the effective interest rate calculation only includes additional, directly attributable transaction costs incurred that are directly connected with the purchase or sale of a financial asset or a financial liability. This means that brokerage commissions paid, in line with their purpose, for information services and general or future support services, or general lead provision, are not measured as transaction-related even if they were paid because of the conclusion of a contract. Equally, additional fee and commission payments and fee and commission refunds resulting from fee and commission systems with quality components (savings-related) also represent transaction costs to be included in the effective interest rate calculation.

The amortisation period of the balance of contract fees and transaction costs generally covers the savings period up to the allocation of the *Bauspar* contract or its early termination.

Other commissions, for example from tariff changes, contract transfers or the calculation of prepayment penalties, are immediately recognised in profit or loss under IFRS 15 after the service has been performed.

FAIR VALUE

The fair value of financial instruments is calculated by reference to active markets. If there are no active markets, fair value can be calculated by applying valuation techniques, for example by a comparison with the current fair value of another essentially identical financial instrument or by analysing discounted cash flows or option pricing models.

For collectively financed building loans and *Bauspar* deposits, there is neither an active market nor are there comparable fair values of essentially identical financial instruments. First, the number of providers of the specialised *Bauspar* contract product is very limited; permission to operate as a *Bausparkasse* is subject to comprehensive statutory requirements. Second, there is considerable variety in the tariff versions of the *Bausparkassen*. Furthermore, *Bauspar* contracts contain a considerable number of potential options, which are exercised depending on a number of fiscal policy, economic and subjective parameters that cannot be reliably determined and quantified.

Calculating fair value using measurement models, particularly interest rate option models or discounted cash flow analyses, is based on the assumption of ideal circumstances. However, the assumption of a financially rational *Bauspar* customer ignores real-world conditions.

Particularly in the savings period, *Bauspar* contracts offer a wide range of options. The right of the *Bauspar* customer to vary the contributions to a savings scheme to a limited extent means it is difficult to assess the observation period. This is defined as the savings phase until the *Bauspar* contract is ready for allocation. Readiness for allocation is not an event that is dependent solely on individual saving behaviour. Rather, its occurrence depends on the relevant collective development. The identified uncertainties open up broad discretion when defining calculation parameters. In this respect, this option alone leads to the impossibility of an informed and clear quantification of the payment period and the relevant payment amount.

In contrast to other building loans with a special principal repayment right, *Bauspar* loans are not connected with an obligation to pay a prepayment penalty. The fair value of *Bauspar* loans is particularly influenced by the value of the special principal repayment option. The option value itself is significantly dependent on the market interest rate and therefore on possible aspects of refinancing. *Bauspar*-specific technical simulation models can provide support when estimating the behaviour of *Bauspar* customers. They forecast saving and repayment behaviour as well as loan waiver rates, i.e. the development in the *Bauspar* collective (probabilities of behaviour) based on past experience and current market parameters. The *Bauspar*-specific technical simulation models work with a variety of default parameters to structure new business for subsequent periods that does not yet exist as at the reporting date. The inflow of new savings as a source of refinancing and steady new business are conditions for the authorisation of the *Bausparkassen*. However, the fair value analysis only takes account of assets and liabilities that are eligible for recognition at the reporting date, which corresponds to the settlement case of a *Bausparkasse*. To this extent, the results of the *Bauspar*-specific technical simulation models cannot be used for the purposes of calculating fair value.

For the non-collective financing business of the Schwäbisch Hall Group, a fair value measurement based on a discounted cash flow (DCF) can be performed based on identified cash flows. The fixed interest rate period serves as the observation period. After the fixed interest period expires, the borrower has the right to repay the loan. For advance and bridge financing loans, the date of allocation of the replacement *Bauspar* loan is decisive. This is dependent on the relevant collective development and individual savings behaviour, where relevant. The discount rate is based on the market level for comparable loans under comparable conditions.

However, partial disclosure of fair values leads to considerable anomalies, which can lead to misinterpretations by the users of the financial statements. For this reason, the fair value in accordance with IFRS 7.25 is not disclosed and the relevant financial instruments are not classified into the levels of the fair value hierarchy.

SIGNIFICANT RESTRICTIONS

The business activity of *Bausparkassen* is subject to a special legal framework (BauSpkG, Hungarian Act CXIII/1996), which leads to the fact that, in addition to business activities, assets, liabilities and, to a limited extent, retained earnings accounted for in the context of *Bausparen* (see Note 57) are subject to restrictions in the form of earmarking. Restrictions also exist due to earmarking of non-collective refinancing funds and assignments of assets as collateral.

07 FINANCIAL INSTRUMENTS

CLASSES OF FINANCIAL INSTRUMENTS

Financial assets measured at fair value through profit or loss (fair value PL)

Financial assets that are not measured at amortised cost or at fair value through other comprehensive income are classified as "financial assets measured at fair value through profit or loss".

Financial assets mandatorily measured at fair value through profit or loss

Financial assets mandatorily measured at fair value through profit or loss comprise financial assets that do not meet the cash flow criterion under IFRS 9 or are acquired with the intention of short-term resale. These related to derivative financial instruments (interest rate swaps) that are in an economic hedging relationship or are not yet designated as hedging instruments in effective hedging relationships.

Financial assets measured at fair value through other comprehensive income (fair value OCI)
This category consists of the following subcategories:

Financial assets mandatorily measured at fair value through other comprehensive income
Financial assets are classified in this subcategory if they are held in accordance with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition, the contractual terms of a financial asset must give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Because of the cash flow criterion, these financial assets only comprise debt instruments and are measured at fair value. Interest income, impairment losses and currency translation effects are recognised in profit or loss. Differences between amortised cost and fair value are recognised in other comprehensive income. The amounts recognised in other comprehensive income must be reclassified ("recycled") to the income statement on derecognition of the financial asset.

Financial assets designated at fair value through other comprehensive income (fair value OCI option)
There is an irrevocable option to designate equity instruments initially as "financial assets designated at fair value through other comprehensive income" (fair value OCI option). Except for dividends that do not represent recovery of an investment, changes in fair value are recognised in other comprehensive income. Subsequent recycling of accumulated other comprehensive income to the income statement – for example due to the disposal of the instrument – does not occur. Rather, after disposal of these equity instruments, the accumulated other comprehensive income is reclassified to retained earnings. The fair value OCI option can generally only be exercised for equity instruments that are not held for trading and do not constitute contingent consideration recognised by the acquirer in a business combination under IFRS 3.

Financial assets measured at amortised cost (AC)
Financial assets are classified in this category if they are held in accordance with a business model whose objective is achieved by holding financial assets to collect contractual cash flows. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets in this category solely comprise debt instruments because of the cash flow criterion. They are measured at amortised cost using the effective interest method. Interest income, impairment losses and currency translation effects are recognised in profit or loss.

Financial liabilities measured at fair value through profit or loss (fair value PL)
Financial liabilities that are not measured at amortised cost are classified as "financial liabilities measured at fair value through profit or loss".

Financial liabilities mandatorily measured at fair value through profit or loss
The item "Financial liabilities mandatorily measured at fair value through profit or loss" comprises financial liabilities that are issued with the intention of repaying them in the near future. To this end, these financial liabilities must be part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or that are derivatives that are not designated as derivatives in effective hedging instruments.

Financial liabilities measured at amortised cost (AC)
Financial liabilities are classified as "financial liabilities measured at amortised cost" for measurement subsequent to initial recognition. Exception: "Financial liabilities measured at fair value through profit or loss", financial liabilities that arise if a transfer of a financial asset does not meet the condition for derecognition or is accounted for based on continuing involvement, financial guarantee contracts, loan commitments with an interest rate below the market interest rate and contingent consideration recognised by the acquirer in a business combination under IFRS 3.

OTHER FINANCIAL INSTRUMENTS

Hedging instruments
The designation of derivative and non-derivative financial assets and liabilities as hedging instruments is governed by IFRS 9. The recognition and measurement of these hedging instruments is presented in Note 15.

Finance lease receivables and liabilities
Finance lease receivables and liabilities are governed by IFRS 16. The derecognition and impairment requirements of IFRS 9 are applied to the subsequent measurement of lease receivables.

INITIAL RECOGNITION AND DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES
Derivatives are initially recognised and derecognised at the trade date. Regular way purchases and sales of non-derivative financial assets are generally recognised and derecognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in accordance with the category of the financial instrument.

All financial instruments are generally measured at fair value at initial recognition. Financial assets or liabilities not measured at fair value through profit or loss are recognised plus or minus transaction costs that are directly attributable to the acquisition or issuance of the financial asset or liability.

Differences between transaction prices and fair values calculated using valuation techniques that are based largely on observable market data are recognised in profit and loss at initial recognition. There are no differences to be recognised in future financial years between transaction prices and fair values that are calculated using valuation techniques incorporating a significant input not observable in the market.

Financial assets are derecognised if the contractual rights to the cash flows from the financial assets expire or these rights have been transferred to third parties and substantially no risks or rewards of ownership of the financial assets are retained. If the criteria for derecognising financial assets are not satisfied, the transfer to third parties is recognised as a collateralised loan. Financial liabilities are derecognised if the contractual obligations have been discharged or cancelled or expire.

Gains or losses on derecognition of financial assets measured at amortised cost are presented as a separate item in the income statement.

IMPAIRMENTS UNDER IFRS 9

IFRS 9 impairment losses relate to financial assets that are debt instruments as well as financial guarantee contracts and loan commitments. By contrast, equity instruments do not fall within the scope of the IFRS 9 impairment model. Impairment losses are recognised for the following financial assets:

- Financial assets in the IFRS 9 category “Financial assets measured at amortised cost”,
- Financial assets (debt instruments only) in the IFRS 9 category “Financial assets measured at fair value through other comprehensive income”,
- Undrawn loan commitments where there is a current legal obligation to grant credit (irrevocable loan commitments), provided they are not measured at fair value through profit or loss,
- Financial guarantee contracts, provided they are not measured at fair value through profit or loss,
- Lease receivables and
- Trade receivables and contract assets that fall within the scope of IFRS 15.

All financial assets are generally assigned to Stage 1 at the time of acquisition. The only exception is purchased or originated credit-impaired (POCI) financial assets. Loss allowances for assets in Stage 1 must, as a minimum, be recognised in an amount equal to the 12-month expected credit loss.

At each reporting date, assets are assigned to Stage 2 if their credit risk has significantly increased since first-time recognition but there is no objective evidence of impairment. For these assets, impairment is measured as the amount of lifetime expected credit losses.

For the sake of simplification, it can be assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if the financial instrument has a low credit risk at the reporting date (low credit risk exemption). The low credit risk exemption was not applied by Bausparkasse Schwäbisch Hall to loans and hence also to borrower’s note loans.

Financial assets that are deemed to be impaired on the basis of objective evidence are assigned to Stage 3. For these assets, impairment is measured as the amount of lifetime expected credit losses.

Financial assets subject to IFRS 9 impairment requirements must be reviewed at every reporting date to establish whether one or more events have occurred that have a sustained impact on the estimated future cash flows of that financial asset.

Purchased or originated credit-impaired assets (POCI) are initially recognised at their carrying amount less the lifetime expected credit losses and amortised using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes to the lifetime expected credit losses since initial recognition are recognised as an impairment loss. No stage transfer is intended for these assets. More detailed explanations on the impairment of financial assets can be found in Note 65.

CLASSES OF FINANCIAL INSTRUMENTS

Financial instruments within the scope of IFRS 7 are assigned to the classes of financial instruments presented in the following for disclosures about the significance of the financial instruments for the net assets, financial position and results of operations.

Classes of financial assets

Financial assets measured at fair value

The class of financial assets measured at fair value contains financial assets in the following IFRS 9 categories:

- “Financial assets mandatorily measured at fair value through profit or loss” or
- “Financial assets measured at fair value through other comprehensive income” with the subcategories “Financial assets mandatorily measured at fair value through other comprehensive income” and “Financial assets designated at fair value through other comprehensive income” (“fair value OCI option”).

In addition to the financial assets in the categories outlined above, the class of financial assets measured at fair value also includes positive fair values of hedging instruments.

Financial assets measured at amortised cost

The class of financial assets measured at amortised cost includes in particular loans and advances to banks and customers measured at amortised cost, investments measured at amortised cost.

Finance leases

The class of finance leases consists of both receivables and liabilities from finance leases.

Classes of financial liabilities

Financial liabilities measured at fair value

Financial liabilities in the category “Financial liabilities mandatorily measured at fair value through profit or loss” and negative fair values of hedging instruments form the class of financial liabilities measured at fair value.

Financial liabilities measured at amortised cost

The class of financial liabilities measured at amortised cost is identical to the category of financial liabilities of the same name.

Leases

The class of leases consists solely of lease liabilities.

Financial guarantee contracts and loan commitments

This class combines provisions for financial guarantee contracts and loan commitments falling with the scope of IAS 37.

08 Hedge accounting

GENERAL REMARKS ON HEDGE ACCOUNTING

Interest rate risk in financial instruments is hedged as part of the risk management strategy.

Hedging relationships are designated to eliminate or reduce any accounting mismatches between the hedged items and the hedging instruments used that arise from hedging this risk. In accordance with the option in IFRS 9.6.1.3, portfolio hedges are accounted for under IAS 39.

FAIR VALUE HEDGES

Fair value hedge accounting is designed to offset changes in the fair value of hedged items through opposite changes in the fair value of hedging instruments. To do this, changes in the fair value of the hedged items attributable to the hedged risk and changes in the fair value of the hedging instruments are recognised in profit or loss. The hedging relationships are portfolio hedges.

Hedged items in the “Financial liabilities measured at amortised cost” are measured in accordance with the general measurement principles for these financial instruments and their carrying amount is adjusted by the change in fair value attributable to the hedged risk. Interest income and expenses resulting from hedged items and hedging instruments is recognised in net interest income.

The cumulative changes in the fair value of the portfolio of financial liabilities resulting from fair value portfolio hedges of interest rate risk and attributable to the hedged risk are presented in the balance sheet item “Fair value changes of hedged items in portfolio hedges of interest rate risk”.

In the case of effective hedges, the changes in fair value attributable to the hedged risk and recognised in profit or loss are fully offset over the term of the hedging relationship. The changes in fair value recognised in the carrying amount of the hedged items are amortised to profit or loss no later than when the hedging relationship is terminated.

09 Repurchase agreements

Repurchase agreements are collateralised transactions in which the transferor and the transferee agree to sell and subsequently repurchase securities at a fixed price and time. The risks and rewards from securities sold under repurchase agreements remain entirely with the transferor, insofar as the transactions are genuine repurchase agreements. Securities sold under repurchase agreements as a transferor (repos) continue to be recognised in the consolidated balance sheet because they do not meet the IFRS 9 derecognition criteria. A corresponding liability is recognised in the amount of the purchase price received.

Cash collateral provided under repurchase agreements is recognised as a receivable and cash collateral received is recognised as a liability.

Interest expenses for repos are reported in net interest income.

10 Collateral

Assets pledged as collateral in the form of cash collateral result in the recognition of receivables. There is no change in the recognition of other assets pledged as collateral. Matching liabilities are recognised for cash collateral received. Other financial and non-financial assets received as collateral are not recognised unless they are received in connection with the realisation of collateral or are foreclosed assets.

11 Leases

THE SCHWÄBISCH HALL GROUP AS LESSOR

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset from the lessor to the lessee. If substantially all the risks and rewards stay with the lessor, it is an operating lease.

A receivable from the lessee is recognised if a lease is classified as a finance lease. The receivable is measured at the net investment in the lease at the inception date of the lease. The lease payments received are classified into a principal portion and an interest portion. The interest portion is recognised as interest income on the basis of the interest rate implicit in the lease to produce a constant periodic rate of return, while the principal portion reduces the recognised receivable.

If a lease is classified as an operating lease, beneficial ownership of the underlying asset remains with the Schwäbisch Hall Group. Underlying assets are reported as assets. Underlying assets are measured at cost and reduced by depreciation and impairment losses. Unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished, lease payments are recognised on a straight-line basis over the term of the lease.

THE SCHWÄBISCH HALL GROUP AS LESSEE

The lessee recognises a right-of-use asset and a corresponding lease liability for all leases. Exceptions to apply only to short-term leases with a term from the commencement date of less than one year and for leases of low-value assets with a new acquisition value of up to €5,000 net, for which the lease payments are recognised as expenses.

The amount of the right-of-use asset at the date of initial recognition generally corresponds to the amount of the lease liability. The right-of-use asset is measured at amortised cost in subsequent periods. Right-of-use assets are generally depreciated using the straight-line method over the entire lease term, with depreciation charges recognised in administrative expenses.

Lease liabilities are measured at the present value of future lease payments and are reported in other liabilities. The lease payments are classified into a principal portion and an interest portion. The interest portion is recognised as interest expense on the basis of the interest rate implicit in the lease or the lessee’s incremental borrowing rate, while the principal portion reduces the liability.

The Schwäbisch Hall Group exercises the practical expedient not to separate non-lease components from lease components and instead to account for the entire lease as a single lease component.

12 Income

INTEREST AND DIVIDENDS

Interest is recognised on an accrual basis. If the effective interest method is used to accrue interest income, that income is reported as interest income calculated using the effective interest method.

The cash flows used to calculate the effective interest rate take into account contractual arrangements in connection with the relevant financial assets and financial liabilities. Premiums and discounts are reversed using a constant effective interest rate over the term of the financial instruments. Additional directly assignable transaction costs are included in the calculation of the effective interest rate if they are directly connected with the acquisition or disposal of a financial asset or liability. This includes in particular contract fees and commissions received that are directly connected with the initiation of Bauspar contracts and commitment fees for loans. Dividends are recognised as soon as a legal entitlement to payment is established.

Interest income from and interest expenses for derivative financial instruments that were entered into for purposes other than trading are reported in net interest income.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is recognised when the underlying service has been performed, it is probable that the future economic benefits will flow to the entity and the amount of revenue can be reliably measured.

Revenue from contracts with customers relates to fee and commission income.

Fees and charges that represent an integral component of the effective interest rate are excluded from the scope of IFRS 15 and are accounted for under IFRS 9, regardless of whether the financial assets are measured at fair value or at amortised cost.

13 Cash and cash equivalents

Cash on hand, balances with central banks and debt instruments issued by public institutions are reported as cash and cash equivalents.

Cash on hand comprises cash denominated in euros and foreign currencies, which are measured at the principal amount or translated using the closing rate. Balances with central banks and debt instruments issued by public institutions are assigned to the category “Financial assets measured at amortised cost (AC)”. Interest income on these balances is recognised as interest income from lending and money market business.

14 Loans and advances to banks and customers

All demand and term loans and advances from lending and money market business, promissory note loans and registered bonds, and finance lease receivables are accounted for as “Loans and advances to banks and customers”.

Loans and advances to banks and customers are measured at amortised cost using the effective interest rate method.

Loss allowances on loans and advances to banks and customers are calculated in accordance with the IFRS 9 requirements applicable to the category. Finance lease receivables are also subject to the IFRS 9 impairment rules. Impairment losses are presented in a separate item on the assets side of the balance sheet.

Interest income from loans and advances to banks and customers is recognised under interest income from lending and money market business. Gains and losses on loans and advances to banks and customers that are allocated to the category “Financial assets measured at amortised cost” are contained in “Gains or losses on valuation of financial assets measured at amortised cost”.

15 Positive and negative fair values of hedging instruments

Positive and negative fair values of hedging instruments are the carrying amounts of financial instruments that are designated as hedging instruments in effective, documented hedging relationships.

These financial instruments are measured at fair value through profit or loss. Changes in the fair value of hedging instruments are reported in the income statement in gains or losses from hedge accounting as part of the “Other gains or losses on valuation of financial instruments”.

Changes in the fair value of hedging instruments attributable to the ineffective portion of hedging relationships are contained in hedging gains or losses as part of the “Other gains or losses on valuation of financial instruments”.

Interest income and expenses and the pull-to-par effective of hedges are recognised in net interest income.

16 Positive and negative fair values of derivative financial instruments

This item contains derivative financial instruments that are entered into to manage interest rate risk in the interest book but are not included in hedge accounting. They are measured at fair value through profit or loss.

Measurement gains or losses on derivative financial instruments entered into for hedging purposes but are not included in hedge accounting are reported in gains or losses on derivative financial instruments used for purposes other than trading as part of the “Other gains or losses on valuation of financial instruments”.

Interest income from and interest expenses for derivative financial instruments that are not included in a hedging relationship are reported in net interest income.

17 Investments

Bearer bonds and other fixed-income securities, shares and other variable-yield securities, and other bearer ownership interests in entities over which no significant influence is exercised are reported as investments, insofar as these securities or shares are not held for trading. Investments also include investments in subsidiaries and interests in joint ventures and associates.

Investments are measured at fair value at initial recognition. Other ownership interests, investments in subsidiaries and interests in joint ventures and associates that are not fully consolidated or accounted for using the equity method are measured at fair value at initial recognition. Investments are subsequently measured using the principles of the measurement category to which they were allocated.

Impairment losses on investments are calculated using the IFRS 9 requirements applicable to the relevant category of financial assets or in accordance with the financial reporting standards relevant to the financial assets concerned. They are generally deducted as a separate line item on the face of the balance sheet or reported in other comprehensive income.

Interest and premiums or discounts amortised over the maturity of the investment using the effective interest method are recognised in net interest income. Dividends from equity instruments are recognised as current income in net interest income.

Gains and losses realised on the derecognition of financial assets allocated to the category “Financial assets measured at amortised cost” are contained in “Gains or losses on derecognition of financial assets measured at amortised cost”; gains and losses realised on the disposal of bonds and other fixed-income securities in the category “Financial assets measured at fair value through other comprehensive income” are reported in gains on investments.

18 Investments accounted for using the equity method

Investments in joint ventures are recognised at amortised cost in the consolidated balance sheet at the date of acquisition. Subsequent measurement of investments in joint ventures are measured in accordance with the equity method. The investor’s share of the annual profit of the investee is included in the item “Income from investments in joint ventures using the equity method” within net interest income in the consolidated income statement.

If there are indications that the interest in an equity-accounted entity is impaired, the interest is tested for impairment and an impairment loss is recognised if necessary. An impairment loss is reversed if the reasons for impairment no longer apply. Impairment losses and reversals of impairment losses are reported in “Gains or losses on investments”. Gains from the disposal of investments accounted for using the equity method are also reported in “Gains or losses on investments”.

19 Intangible assets

Intangible assets are recognised at cost. In the course of subsequent measurement, software and other intangible assets with finite useful lives are reduced by accumulated amortisation and accumulated impairment losses. Amortisation is charged using the straight-line method over the useful life of the asset. Impairment losses are recognised if necessary. Software is amortised over a useful life of one to twelve years.

Amortisation charges and impairment losses on intangible assets are recognised as administrative expenses.

20 Property, plant and equipment and right-of-use assets

“Property, plant and equipment and right-of-use assets” comprise land and buildings, office furniture and equipment, and other items of property, plant and equipment with an estimated useful life of more than one year used by the entities in the Schwäbisch Hall Group.

Property, plant and equipment is measured at cost and reduced by accumulated depreciation and accumulated impairment losses in subsequent reporting periods. Depreciation is charged using the straight-line method over the useful life of the asset. The underlying useful life is 25 to 50 years in the case of buildings and 3 to 13 years in the case of operating and office equipment.

Right-of-use assets from leases are recognised in accordance with the lease accounting requirements and reduced by accumulated depreciation and accumulated impairment losses in the subsequent financial years. Depreciation is charged using the straight-line method over the useful life of the asset.

The recoverable amount is calculated if facts or circumstances indicate the impairment of assets. An impairment loss is recognised if the recoverable amount is lower than the carrying amount at which the asset is recognised. Recoverable amount is the higher of fair value less costs to sell and value in use.

Depreciation charges and impairment losses on property, plant and equipment and right-of-use assets are recognised as administrative expenses.

21 Income tax assets and liabilities

Current and deferred income tax assets are reported in the “Income tax assets” item, while current and deferred tax liabilities are reported in the “Income tax liabilities” item. Current income tax assets and liabilities are recognised in the amount of any expected refund or future payment.

Deferred tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax base, insofar as their realisation is sufficiently probable. They are measured at the national and entity-specific tax rates expected to apply at the time of their realisation. There is a profit and loss transfer agreement between Bausparkasse Schwäbisch Hall as a tax group subsidiary and DZ BANK AG. Current and deferred taxes are presented as if the Schwäbisch Hall Group were an independent entity for tax purposes. A uniform consolidated tax rate is used for Group entities that are tax group subsidiaries of Bausparkasse Schwäbisch Hall.

Deferred tax assets and liabilities are not discounted. If temporary differences arise in other comprehensive income, the resulting deferred tax assets and liabilities are also recognised in other comprehensive income. Income and expenses recognised in profit or loss for current and deferred income taxes are included in the “Income taxes” item in the income statement.

22 Other assets and liabilities

Other assets and liabilities that are not allocated to any other item of assets or liabilities are reported in “Other assets” and “Other liabilities”.

23 Loss allowances

Loss allowances for cash and cash equivalents, loans and advances to banks and customers, investments and other assets measured at amortised cost or classified as finance leases are deducted on the face of the balance sheet as a separate line item. Additions to and reversals of loss allowances for these balance sheet items are recognised as loss allowances in the income statement.

Loss allowances for investments at fair value through other comprehensive income are not deducted from the assets but reported in the reserve from fair value OCI debt instruments. Additions to and reversals of loss allowances are recognised as loss allowances in the income statement.

Recognised loss allowances also include changes in the provisions for loan commitments and financial guarantee contracts. Additions to or reversals of provisions for loan commitments and financial guarantee contracts are also recognised as loss allowances in the income statement.

24 Deposits from banks and customers

All registered liabilities that are not classified as “Financial liabilities mandatorily measured at fair value through profit or loss” are reported as deposits from banks and customers.

In addition to liabilities from the *Bauspar* business, these include in particular demand and term refinancing funds from DZ BANK AG and issuances of borrower’s note loans and registered bonds.

Deposits from banks and customers are generally measured at amortised cost using the effective interest method. Interest expenses on deposits from banks and customers are recognised separately in net interest income. Interest expenses include in particular early redemption gains and losses and the amortisation of fair value changes of hedged items in portfolio hedges of interest rate risk. Adjustments to the carrying amount of the hedged items resulting from fair value hedges are recognised in gains or losses from hedge accounting within other gains or losses on measurement of financial instruments.

25 Issued bonds

Mortgage *Pfandbriefe* and other bonds that are issued in the form of transferable registered certificates are presented in “Issued bonds”.

Issued bonds are measured and measurement gains and losses are recognised in the same way as deposits from banks and customers.

26 Provisions

Provisions for employee benefits under IAS 19 and other provisions are reported in provisions.

PROVISIONS FOR DEFINED BENEFIT PENSION OBLIGATIONS

Provisions for defined benefit obligations primarily relate to pension plans that are no longer accepting any more employees (closed plans).

There are other defined benefit plans for members of the Management Board or Managing Directors. New employees are almost exclusively offered defined contribution pension plans, for which no provision generally has to be recognised.

Defined contributions are paid to external pension providers in the case of defined contribution pension plans. The amount of the contributions and the resulting return on plan assets determine the amount of future pension benefits. Risks arising from the obligation to pay corresponding benefits in the future are borne by the pension provider. No provisions are recognised for these defined contribution pension commitments. The contributions paid are recognised as post-employment benefit costs in administrative expenses.

In the case of defined benefit plans, the employer promises a specific benefit and bears all the risks arising from this promise. Defined benefit pension plans are measured using the projected unit credit method. Measurement is underpinned by various actuarial assumptions. Assumptions are made in particular regarding long-term salary and pension trends and average life expectancy. Assumptions about salary and pension trends are based on past developments and take into account expectations regarding future labour market trends. The process of estimating average life expectancy is based on recognised biometric actuarial assumptions (2018 G mortality tables published by Prof. Klaus Heubeck). The discount rate used to discount future payment obligations is an appropriate market interest rate for investment-grade, fixed-income corporate bonds with a maturity equivalent to that of the defined benefit pension obligations.

The discount rate is derived in line with the liability structure (duration) on the basis of a portfolio of investment-grade corporate bonds that must meet defined quality characteristics. The quality characteristics are in particular an AA rating by at least one of the two rating agencies with the greatest coverage for each currency zone. For the eurozone, they are Moody's Investors Service and Standard & Poor's, both in New York. Bonds with existing call rights in the form of embedded derivatives are not taken into account here.

Actuarial gains and losses arising from experience-based adjustments and the impact of changes to actuarial assumptions for defined benefit pension obligations, as well as gains and losses arising from the remeasurement of plan assets and reimbursement rights, are recognised in other comprehensive income in the reporting period in which they occur.

The plan assets of defined benefit plans primarily consist of a building that is managed by the *Unterstützungskasse* (pension fund) of Bausparkasse Schwäbisch Hall and a Contractual Trust Arrangement (CTA) between Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH, which are managed as trust assets by DZ BANK Pension Trust e. V., Frankfurt am Main.

In addition to provisions for defined benefit pension obligations, provisions for employee benefits also include provisions for other long-term employee benefits, provisions for termination benefits and provisions for short-term employee benefits. Provisions for early retirement arrangements and loyalty bonuses are recognised for obligations in connection with termination of employment. Other long-term employee benefits include provisions for service anniversaries.

LIABILITIES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Bausparkasse Schwäbisch Hall and Schwäbisch Hall Kreditservice have entered into various agreements with members of the Management Board, managing directors and selected executives on variable remuneration components, the amount and payment of which depend, among other things, on the development of the theoretical share price of the *Bausparkasse*. These agreements are classified as cash-settled share-based payment transactions.

Provisions for share-based payment transactions are recognised at their fair value if future payment of the remuneration is sufficiently probable. The date of initial recognition of the provision is therefore before the grant date and payment in the subsequent years.

Provisions for share-based payment transactions are also measured subsequently at fair value.

OTHER PROVISIONS

Provisions are liabilities of uncertain timing or amount. They are recognised for present obligations as a result of past events when it is probable that there will be an outflow of resources embodying economic benefits and the amount of the obligation can be reliably estimated.

Provisions are recognised and measured at the best estimate of the present value of expected settlement amount. The risks and uncertainties associated with the relevant events and circumstances and future trends are taken into account. Cash outflows that actually occur in the future may differ from the expected settlement amount.

Other provisions comprise *Bauspar*-specific provisions, other provisions and provisions for loan commitments. Provisions for commissions paid to sales force employees and banks are recognised as other provisions and relate to quality commissions for savings under *Bauspar* contracts.

Bauspar-specific provisions are recognised if agreed bonuses have to be paid under the tariff conditions for Bauspar contracts. These may occur as refunds of portions of contract fees or bonus interest on deposits. Expenses from compounding of provisions are recognised as interest expenses in net interest income.

Provisions for loan commitments reflect uncertainties to the extent customary in the industry. Past experience is factored into the underlying assumptions.

27 Contingent liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by future events not wholly within the control of the Schwäbisch Hall Group. Present obligations arising from past events but not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or because the amount cannot be measured with sufficient reliability, also constitute contingent liabilities.

The amount of contingent liabilities is disclosed in the notes unless the probability of an outflow of resources embodying economic benefits is remote. Contingent liabilities are measured at the best estimate of the possible future settlement amount.

Disclosures on the income statement and the statement of comprehensive income

28 Segment reporting

in € thousand	*Bausparen* Domestic	*Bauspar* and Loan Processing	*Bausparen* Non-domestic	Consolidation	Total
Financial year 2021					
Net interest income	516,337	2,340	68,705	-6,552	580,830
Net fee and commission income	7,099	–	4,884	–	11,983
Gains and losses on investments	38,757	–	–	-16,698	22,059
Other gains or losses on valuation of financial instruments	-245	–	–	–	-245
Gains or losses on derecognition of financial assets measured at amortised cost	-42	–	2,371	–	2,329
Loss allowances	-9,600	–	-4,130	–	-13,730
Administrative expenses	-479,073	-97,513	-39,379	100,643	-515,322
Other net operating income	29,701	115,861	-2,894	-100,643	42,025
Profit/loss before taxes	**102,934**	**20,688**	**29,557**	**-23,250**	**129,929**
Financial year 2020					
Net interest income	473,633	2,163	59,279	-3,775	531,300
Net fee and commission income	-13,528	–	4,503	–	-9,025
Gains and losses on investments	55,681	–	–	–	55,681
Other gains or losses on valuation of financial instruments	5,277	–	–	–	5,277
Gains or losses on derecognition of financial assets measured at amortised cost	12,933	–	1,942	–	14,875
Loss allowances	-23,083	–	-5,860	–	-28,943
Administrative expenses	-472,344	-140,703	-36,950	124,038	-525,959
Other net operating income	19,948	144,631	-3,065	-124,038	37,476
Profit/loss before taxes	**58,517**	**6,091**	**19,849**	**-3,775**	**80,682**

General information on segment reporting

Information on the business segments is prepared using the management approach under IFRS 8. Under this standard, external reporting must include segment information that is used internally for the management of the entity and for the purposes of reporting to the entity's chief operating decision-makers. The information on the business segments of the Schwäbisch Hall Group is therefore prepared on the basis of the internal management reporting system.

Definition of segments

The Schwäbisch Hall Group manages its activities based on an internal reporting system to the Management Board. Its central component is business management reporting on domestic and non-domestic business activities corresponding to the Group's organisational structure.

The *Bausparen* Domestic segment includes the activities of Bausparkasse Schwäbisch Hall. This comprises the core business segments of *Bausparen* and Housing Financing and the Cross-Selling business segment. The activities of UIN Fund No. 817 are also reported in this segment.

The *Bauspar* and Loan Processing segment comprises SHK's processing and IT services. SHK's IT units were reintegrated as at 1 July 2021 with the *Bausparkasse*, where IT management was already located.

The activities of FLK and the PSS and SGB foreign joint ventures are reported in the *Bausparen* Non-domestic segment.

Segment presentation

Interest income and the associated interest expenses generated by the segments are offset in the segment reporting and reported as net interest income because the segments are managed solely on the basis of this net figure from the Group's perspective.

Measurement

Internal reporting to the chief operating decision-makers of the Schwäbisch Hall Group is based on the IFRS accounting policies applicable to the Schwäbisch Hall Group.

Cross-segmental intragroup transactions are carried out on an arm's length basis. These transactions are reported internally using the accounting policies applied to external financial reporting.

The key indicator used to assess segment performance is profit or loss before taxes.

Consolidation

The adjustments shown under consolidation to reconcile segment profit/loss before taxes to profit/loss before taxes are attributable exclusively to the elimination of intragroup transactions.

Intragroup dividend payments are consolidated in net interest income.

Income and expenses are consolidated in the area of administrative expenses and in other net operating income in particular as a result of the services between Bausparkasse Schwäbisch Hall and SHK.

Schwäbisch Hall Group-wide disclosures

Information about geographical areas: information on geographical areas is implicitly contained in the information provided by segment.

Information about products and services

Information on the products and services offered by the Schwäbisch Hall Group is included in the income statement disclosures presented in the following.

29 Net interest income

in € thousand	2021	2020
Interest income	**1,399,408**	**1,496,572**
calculated using the effective interest method	**1,399,408**	**1,496,572**
Bauspar loans	66,586	68,249
Advance and bridge financing loans	903,585	925,778
Other building loans	94,044	72,966
Lending and money market transactions	207,480	292,406
Fixed-income investment securities	136,024	144,433
Finance leases	35	23
Financial assets with other immaterial modifications	-1,946	-6,475
Financial assets with negative effective yield	-6,400	-808
Current income	**1,505**	**1,318**
Current income from FVOCI equity instruments held at the reporting date	1,505	1,318
Interest expense on	**-828,816**	**-971,204**
Deposits from banks and customers	-850,185	-987,350
of which: for *Bauspar* deposits	-845,550	-984,223
Debt certificates including bonds	-1,063	–
Financial liabilities with positive effective yield	18,604	13,753
Provisions	-1	-10
Losses on other immaterial modifications of financial liabilities	-172	-74
Leases	-478	-669
Fair value changes of hedged items in portfolio hedges of interest rate risk	4,479	3,146
Income from investments in joint ventures using the equity method	**8,733**	**4,614**
Total	**580,830**	**531,300**

The losses on other immaterial modifications of financial assets and liabilities result from modifications resulting from the Covid-19 pandemic not attributable to credit risk.

30 Net fee and commission income

in € thousand	2021	2020
Fee and commission income	**120,128**	**103,417**
Bauspar business	42,987	38,545
Fee and commission income from cross-selling	77,141	64,872
Fee and commission expenses	**-108,145**	**-112,442**
Bauspar business	-66,298	-72,088
Commissions for contract conclusion and brokerage	-66,298	-72,088
Other	-41,847	-40,354
Total	**11,983**	**-9,025**

Fee and commission income during the reporting period contains revenue of €120,128 thousand (previous year: €103,284 thousand) from contracts with customers under IFRS 15.

Commission income from cross-selling includes fee and commission income from brokering building loans to primary banks, from fund investments at Union Investment and from insurance brokerage at R+V Versicherung.

In the case of brokering building loans, the performance obligation arises when the contract is concluded and is correspondingly recognised.

When brokering fund investments and insurance contracts, fee and commission income arises over the entire insurance term or the entire investment period once the contract has been concluded.

DISCLOSURES ON REVENUE FROM CONTRACTS WITH CUSTOMERS BY OPERATING SEGMENT

in € thousand	*Bausparen* Domestic	*Bausparen* Non-domestic	Total
Financial year 2021			
Revenue types	**110,328**	**9,800**	**120,128**
Fee and commission income from the *Bauspar* business	37,143	5,844	42,987
Fee and commission income from cross-selling	73,185	3,956	77,141
Primary geographical markets	**110,328**	**9,800**	**120,128**
Germany	110,328	–	110,328
Rest of Europe	–	9,800	9,800
Type of revenue recognition	**110,328**	**9,800**	**120,128**
At a point in time	110,328	9,800	120,128
Financial year 2020			
Revenue types	**94,518**	**8,766**	**103,284**
Fee and commission income from the *Bauspar* business	32,530	6,015	38,545
Fee and commission income from cross-selling	61,988	2,751	64,739
Primary geographical markets	**94,518**	**8,766**	**103,284**
Germany	94,518	–	94,518
Rest of Europe	–	8,766	8,766
Type of revenue recognition	**94,518**	**8,766**	**103,284**
At a point in time	94,518	8,766	103,284

No revenue from contracts with customers other than fee and commission income is included in the income statement.

31 Gains or losses on investments

in € thousand	2021	2020
Net income from the sale of bonds at fair value through other comprehensive income	27,257	55,681
Net income from the sale of interests in joint ventures	-5,198	–
Loss allowances	-9,391	–
Reversals of impairment losses	4,193	–
Total	**22,059**	**55,681**

Impairment losses on investments in joint ventures reported in financial year 2021 were attributable to PSS, and the reversals of impairment losses on investments in joint ventures were attributable to SGB.

32 Other gains or losses on valuation of financial instruments

Other gains or losses on valuation of financial instruments include “Gains or losses from hedge accounting” and “Gains or losses on derivative financial instruments used for purposes other than trading”.

in € thousand	2021	2020
Gains or losses from hedge accounting	**-94**	**-414**
Gains or losses on hedging instruments (portfolio fair value hedges)	-32,500	27,863
Gains or losses on hedged items (portfolio fair value hedges)	32,406	-28,277
Gains or losses on measurement of derivative financial instruments used for purposes other than trading	**-151**	**5,691**
Total	**-245**	**5,277**

Gains or losses on derivative financial instruments used for purposes other than trading result from the measurement of derivative financial instruments used in economic hedges but not included in hedge accounting.

33 Gains or losses on derecognition of financial assets measured at amortised cost

Financial assets measured and derecognised at amortised cost resulted in the following gains and losses:

in € thousand	2021	2020
Gains on derecognition of financial assets measured at amortised cost	**4,703**	**14,903**
Loans and advances to banks and customers	910	12,033
Bonds and fixed-income securities	3,793	2,870
Losses on derecognition of financial assets measured at amortised cost	**-2,374**	**-28**
Loans and advances to banks and customers	-1,788	–
Investments	-586	-28
Total	**2,329**	**14,875**

Gains or losses on derecognition of financial assets measured at amortised cost, are attributable mainly to the transfer of registered bonds and bearer bonds of DZ BANK to DZ BANK (€1 million, previous year: €8.6 million). All sales from these portfolios were below the materiality threshold, so there was no violation of the business model.

34 Loss allowances

in € thousand	2021	2020
Loss allowances for loans and advances to banks	**1,436**	**-3,965**
Additions	-511	-4,788
Reversals	1,947	823
Loss allowances for loans and advances to customers	**-14,541**	**-21,262**
Additions	-256,131	-165,578
Reversals	240,180	143,558
Directly recognised impairment losses	-4,120	-4,823
Recoveries on loans and advances to customers previously impaired	5,530	5,581
Loss allowances for investments	**-90**	**-1,771**
Additions	-1,129	-2,316
Reversals	1,039	545
Loss allowances for other assets	**-67**	**-24**
Additions	-83	-58
Reversals	46	67
Directly recognised impairment losses	-36	-38
Recoveries on other assets previously impaired	6	5
Other loss allowances	**-468**	**-1,921**
Change in provisions for loan commitments	-468	-1,921
Total	**-13,730**	**-28,943**

Of the net addition to loss allowances for loans and advances to banks and customers, investments, other assets and the other lending business amounting to €14 million in the financial year (previous year: €20 million), €6 million is related to the effects of the Covid-19 pandemic. The need for additions due to the Covid-19 pandemic is a result of the adjusted macroeconomic projects used to determine expected losses. In the case of an extreme weighting of 100% of the basic and risk scenarios used to calculate the risk allowance, loss allowances (Note 50) due to the Covid-19 pandemic would reduce by approximately 1.10% or increase by approximately 0.59%, respectively.

In the loss allowance for loans and advances to customers, there is an addition to €19 million because of changes in estimates in the risk parameters used to measure probability of default and the loss rate for loans in the *Bauspar* business.

35 Administrative expenses

in € thousand	2021	2020
Personnel expenses	**-232,045**	**-255,728**
Wages and salaries	-185,129	-206,039
Social security contributions	-30,003	-28,800
Post-employment benefit expenses	-14,643	-18,774
Expenses arising from share-based payment transactions	-2,270	-2,115
General administrative expenses	**-214,452**	**-210,907**
Contributions and fees	-23,909	-20,170
Consulting	-12,675	-20,007
Office expenses	-53,643	-59,065
IT expenses	-90,769	-79,785
Property and occupancy costs	-11,610	-8,596
Public relations/marketing	-17,378	-18,500
Other general administrative expenses	-4,468	-4,784
Depreciation and amortisation	**-68,825**	**-59,324**
Property, plant and equipment	-23,153	-26,703
of which: right-of-use assets	-2,407	-2,778
Intangible assets	-45,672	-32,621
Total	**-515,322**	**-525,959**

In the reporting period, amortisation charges and impairment losses on intangible assets include impairment losses of €11,028 thousand on the NEXT core banking system (previous year: €0 thousand) due to future restrictions or inability to continue using individual program components and functionalities.

The net pension expense comprises the following items:

in € thousand	2021	2020
Net pension expense	**-11,147**	**-14,051**
Current service cost	-9,983	-10,645
Past service cost and settlement gains or losses	–	-1,806
Net interest	-1,164	-1,600
of which: interest expense	-6,396	-8,228
of which: return on plan assets	5,232	6,628
Other post-employment benefit expenses	**-3,496**	**-4,723**
Total	**-14,643**	**-18,774**

Other post-employment benefit expenses include expenses for defined contribution plans amounting to €798 thousand (previous year: €613 thousand).

36 Other net operating income

in € thousand	2021	2020
Income from loan processing and administration	9,271	9,400
Income from IT application service and IT application development	469	937
Expense from additions to provisions and accruals	-1,016	-636
Income from reversals of provisions and accruals	6,116	7,549
Recognition of terminated and non-interest-bearing *Bauspar* deposits	9,376	–
Expenses for other taxes	-4,536	-3,794
Miscellaneous other operating income	34,522	43,633
Miscellaneous other operating expense	-12,177	-19,613
Total	**42,025**	**37,476**

Other net operating income includes income of €9,376 thousand (previous year: €0 thousand) from the initial recognition of terminated and non-interest-bearing *Bauspar* deposits that are now time-limited, with any claims on them being remote.

37 Income taxes

in € thousand	2021	2020
Current income tax expense	-39,488	-14,997
Deferred income tax income/expense	-808	-6,820
Total	**-40,296**	**-21,817**

Deferred taxes include expenses of €808 thousand (previous year: expenses of €6,820 thousand) relating to the origination and reversal of temporary differences. Deferred taxes do not include any income or expenses attributable to changes in tax rates (previous year: €0 thousand). Of the current taxes, expenses of €2,652 thousand (previous year: income of €1,368 thousand) is attributable to previous years.

Unchanged from the previous year, an effective corporation tax rate of 15.825% was used for the reconciliation, based on a corporation tax rate of 15.000% plus the solidarity surcharge used to calculate current income taxes for German corporations. The effective trade tax rate used for the reconciliation is 15.435%, as in the previous year.

The calculation of deferred income taxes is based on the tax rates that are expected to be enacted at the time of their realisation. It uses the tax rates that have been enacted or substantively enacted at the reporting date for the period in question.

The reconciliation shown below reconciles the expected and reported income taxes, based on the application of current tax law in Germany.

TAX RECONCILIATION

in € thousand	2021	2020
Profit/loss before taxes	**129,929**	**80,683**
Group income tax rate	31.260%	31.260%
Expected income taxes	**-40,616**	**-25,221**
Income tax effects	**320**	**3,404**
Impact of tax-exempt income and non-deductible expenses	-1,384	-219
Adjustments resulting from other types of income tax or trade tax multipliers and changes in tax rates	6,460	3,702
Tax rate differences relating to components of income subject to taxation in other countries	-655	–
Current and deferred income taxes relating to prior years	-2,429	-75
Other effects	-1,672	-4
Reported income taxes	**-40,296**	**-21,817**

38 Income taxes relating to components of other comprehensive income/loss

The following income taxes are attributable to the components of other comprehensive income/loss:

in € thousand	Amount before taxes	Income taxes	Amount after taxes
Financial year 2021			
Items that may be reclassified to the income statement	**-638,639**	**202,235**	**-436,404**
Gains and losses on debt instruments at fair value through other comprehensive income	-646,945	202,235	-444,710
Exchange differences on currency translation of foreign operations	-2,244	–	-2,244
Share of other comprehensive income/loss of equity-accounted joint ventures	10,550	–	10,550
Items that will not be reclassified to the income statement	**15,330**	**-3,872**	**11,458**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	-3,850	–	-3,850
Gains and losses arising from remeasurements of defined benefit plans	18,968	-3,872	15,096
Share of other comprehensive income/loss of equity-accounted joint ventures	212	–	212
Other comprehensive income/loss	**-623,309**	**198,363**	**-424,946**
Financial year 2020			
Items that may be reclassified to the income statement	**479,932**	**-155,103**	**324,829**
Gains and losses on debt instruments at fair value through other comprehensive income	496,170	-155,103	341,067
Exchange differences on currency translation of foreign operations	-14,488	–	-14,488
Share of other comprehensive income/loss of equity-accounted joint ventures	-1,750	–	-1,750
Items that will not be reclassified to the income statement	**-9,423**	**2,458**	**-6,965**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	152	–	152
Gains and losses arising from remeasurements of defined benefit plans	-9,466	2,458	-7,008
Share of other comprehensive income/loss of equity-accounted joint ventures	-109	–	-109
Other comprehensive income/loss	**470,509**	**-152,645**	**317,864**

Balance sheet disclosures

39 Cash and cash equivalents

in € thousand	31.12.2021	31.12.2020
Cash on hand	10	9
Balances with central banks and other government institutions	997,958	542,490
Total	**997,968**	**542,499**

The average target minimum reserve for the financial year was € 4,453 thousand (previous year: € 3,077 thousand).

40 Loans and advances to banks

Loans and advances to banks can be disaggregated by transaction type as follows:

in € thousand	31.12.2021	31.12.2020
Registered bonds	7,014,040	8,465,683
Money market transactions	77,852	354,343
Other loans secured by mortgages	32,777	35,420
Other loans and advances	920,451	81,487
Total	**8,045,120**	**8,936,933**

Among other things, registered bonds include registered public-sector *Pfandbriefe* of €51 million (previous year: 216 million) and registered mortgage *Pfandbriefe* of €1,016 million (previous year: €1,051 million); the other loans and advances relate to bank overdrafts of €788 million (previous year: €0 million) at DZ BANK AG and cash collateral furnished of €37 million (previous year: €0 million).

in € thousand	31.12.2021	31.12.2020
Domestic banks	**7,986,336**	**8,872,420**
Repayable on demand	902,154	72,822
Other loans and advances	7,084,182	8,799,598
Non-domestic banks	**58,784**	**64,513**
Repayable on demand	11,968	8,452
Other loans and advances	46,816	56,061
Total	**8,045,120**	**8,936,933**

41 Loans and advances to customers

Loans and advances to customers can be disaggregated by transaction type as follows:

in € thousand	31.12.2021	31.12.2020
Building loans by the Bausparkasse	60,439,152	55,698,193
from allocations (Bauspar loans)	2,525,071	2,578,256
for advance and bridge financing	47,726,393	46,739,530
other	10,187,688	6,380,407
Other loans and advances	2,735,667	3,345,720
Total	**63,174,819**	**59,043,913**
Loans and advances to domestic customers	61,500,398	57,663,185
Loans and advances to non-domestic customers	1,674,421	1,380,728
Total	**63,174,819**	**59,043,913**

42 Positive fair values of hedging instruments

As at 31 December 2021, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €255 million, previous year: €730 million) with a positive fair value of €2,435 thousand (previous year: €30,869 thousand) in its portfolio.

The interest rate swaps were designated as hedging instruments to hedge the fair value of financial liabilities.

43 Investments and investments accounted for using the equity method

in € thousand	31.12.2021	31.12.2020
Bonds and other fixed-income securities	**12,874,693**	**12,808,416**
Mandatorily measured at fair value through other comprehensive income	10,581,797	10,320,620
Measured at amortised cost	2,292,896	2,487,796
Shares and other variable-yield securities	**2,681**	**2,681**
Fair value OCI option	2,681	2,681
Shares in subsidiaries	**12,615**	**13,894**
Fair value OCI option	12,615	13,894
Investments in associates	**2,630**	**–**
Fair value OCI option	2,630	–
Interests in equity-accounted joint ventures	**113,500**	**105,755**
Total	**13,006,119**	**12,930,746**

Bonds and other fixed-income securities include *öffentliche Inhaberpfandbriefe* (German public sector bearer covered bonds) amounting to €614 million (previous year: €621 million), *Hypothekeninhaberpfandbriefe* (German mortgage bearer covered bonds) amounting to €876 million (previous year: €887 million) and bonds from public-sector issuers amounting to €4,659 million (previous year: €4,888 million).

Investments include shares and other variable-yield securities as well as investments in subsidiaries and associates with a carrying amount of €17,926 thousand (previous year: €16,575 thousand) for which the fair value OCI option has been exercised.

For strategic reasons, Bausparkasse Schwäbisch Hall acquired 50% of the shares of Impleco GmbH, Berlin, in the reporting period. This company provides a comprehensive digital information and quotation platform in the context of building and building society operations and uses it to offer related services. Bausparkasse Schwäbisch Hall is contractually obliged to pay a further €1,750 thousand into the company's capital reserves as at 1 April 2022.

Effective 31 December 2021, Bausparkasse Schwäbisch Hall acquired a further 49% of the shares of Schwäbisch Hall Facility GmbH, Schwäbisch Hall.

In the event of a shareholder resolution, Bausparkasse Schwäbisch Hall has an obligation to make additional contributions of €3,300 thousand to DOMUS Beteiligungsgesellschaft der Privaten Bausparkassen mbH, €1,400 thousand to BAUFINEX GmbH and €500 thousand to Impleco GmbH.

Furthermore, under certain conditions that it can influence, Bausparkasse Schwäbisch Hall has committed itself to an additional capital contribution to SGB by means of a commitment letter in order to comply with the regulatory requirements of the Chinese financial supervisory authority and, as a result, to safeguard its rights as a minority shareholder.

FINANCIAL DATA FOR INTERESTS IN EQUITY-ACCOUNTED JOINT VENTURES

Interests in joint ventures relate to the credit institutions PSS and SGB (see Note 78), which operate *Bauspar* business in accordance with German principles in Slovakia and China. Schwäbisch Hall is pursuing the goal of transferring the benefits of the *Bauspar* system to non-domestic markets and thereby leveraging additional growth opportunities.

The summarised financial information and the reconciliation to the carrying amount of equity-accounted joint ventures are presented in the following:

	PSS	SGB	PSS	SGB
in € million	**2021**	**2021**	**2020**	**2020**
Current assets	**549**	**1,596**	**570**	**1,105**
of which: cash and cash equivalents	22	574	76	417
Non-current assets	**2,399**	**2,747**	**2,414**	**2,017**
Current liabilities	**652**	**2,986**	**664**	**2,062**
of which: current financial liabilities	637	2,775	650	1,883
Non-current liabilities	**2,011**	**954**	**2,053**	**685**
of which: non-current financial liabilities	1,985	954	2,027	680
Underlying net assets[1]	**222**	**167**	**233**	**121**
Shareholding	32.5%	24.9%	32.5%	24.9%
Equity-accounted carrying amount	**72**	**41**	**76**	**30**

[1] including adjustments of the Group from an investor perspective

	PSS	SGB	PSS	SGB
in € million	**2021**	**2021**	**2020**	**2020**
Net interest income	**64**	**69**	**62**	**63**
Interest income	92	136	95	107
Interest expenses	-28	-67	-33	-44
Net fee and commission income	**11**	**-8**	**12**	**-9**
Fee and commission income	12	8	13	5
Fee and commission expenses	-1	-16	-1	-14
Administrative expenses	**-40**	**-43**	**-36**	**-34**
of which depreciation/amortisation	-6	-2	-6	-2
Income taxes	**-5**	**-4**	**-4**	**-3**
Profit or loss after tax from continuing operations	**17**	**13**	**8**	**8**
Other comprehensive income or loss	**1**	**42**	**–**	**-10**
Total comprehensive income or loss	**18**	**55**	**8**	**-2**
Dividend received	–	7	–	–

44 Intangible assets

in € thousand	31.12.2021	31.12.2020
Internally generated intangible assets	18,062	16,788
Other intangible assets	180,971	193,709
Total	**199,033**	**210,497**

Of other intangible assets, €142.5 million (previous year: €150.8 million) is attributable to Project NEXT.

45 Property, plant and equipment and right-of-use assets

in € thousand	31.12.2021	31.12.2020
Land and buildings	47,993	52,670
Office furniture and equipment	49,607	54,104
Right-of-use assets	12,612	16,303
Right-of-use assets for land and buildings	12,538	15,978
Right-of-use assets for office furniture and equipment	74	325
Total	**110,212**	**123,077**

46 Statement of changes in non-current assets

Changes in property, plant and equipment and intangible assets are presented in the following:

in € thousand	Intangible assets: Internally generated intangible assets	Intangible assets: Other intangible assets	Property, plant and equipment: Land and buildings	Property, plant and equipment: Office furniture and equipment
Carrying amount as at 01.01.2020	**15,876**	**167,315**	**57,530**	**54,555**
Costs as at 01.01.2020	98,791	322,455	260,003	165,283
Additions	10,832	53,226	1,135	20,405
Transfers	-1,093	1,093	-143	143
Disposals	-22	-5,158	–	-9,209
Changes attributable to currency translation	-533	-2,706	–	-1,848
Costs as at 31.12.2020	**107,975**	**368,910**	**260,995**	**174,774**
Depreciation, amortisation and impairment as at 01.01.2020	-82,915	-155,140	-202,473	-110,728
Additions from depreciation and amortisation	-8,426	-24,195	-5,852	-18,073
Disposals	19	3,100	–	7,500
Changes attributable to currency translation	135	1,034	–	631
Depreciation, amortisation and impairment as at 31.12.2020	**-91,187**	**-175,201**	**-208,325**	**-120,670**
Carrying amount as at 31.12.2020	**16,788**	**193,709**	**52,670**	**54,104**
Costs as at 01.01.2021	107,975	368,910	260,995	174,774
Additions	8,201	25,172	1,106	10,960
Transfers	–	–	–	–
Disposals	-66	-1,595	–	-5,093
Changes attributable to currency translation	-113	-432	–	-279
Costs as at 31.12.2021	**115,997**	**392,055**	**262,101**	**180,362**
Reversals of impairment losses as of 01.01.2021	–	–	–	–
Additions	–	1,727	–	–
Reversals of impairment losses as of 31.12.2021	**–**	**1,727**	**–**	**–**
Depreciation, amortisation and impairment as at 01.01.2021	-91,187	-175,201	-208,325	-120,670
Additions from depreciation and amortisation	-6,818	-27,826	-5,783	-14,963
Additions from impairment losses	–	-11,028	–	-3
Disposals	40	1,057	–	4,764
Changes attributable to currency translation	30	187	–	117
Depreciation, amortisation and impairment as at 31.12.2021	**-97,935**	**-212,811**	**-214,108**	**-130,755**
Carrying amount as at 31.12.2021	**18,062**	**180,971**	**47,993**	**49,607**

The carrying amount of buildings includes prepayments of €1,567 thousand (previous year: €559 thousand). The carrying amount of office furniture and equipment includes prepayments of €5 thousand (previous year: €3 thousand), and the carrying amount of other intangible assets includes prepayments of €13,288 thousand (previous year: €44,455 thousand).

47 Lease disclosures

SCHWÄBISCH HALL GROUP AS LESSEE

The Schwäbisch Hall Group acts as a lessee in leases that relate primarily to office space, office furniture and equipment, and motor vehicles. The average term is five to ten years for office space and one to three years for office furniture and equipment, and for vehicles.

Property, plant and equipment include right-of-use assets relating to underlying assets. The carrying amounts of right-of-use assets by class of underlying assets changed as follows:

	Right-of-use assets	
in € thousand	**Land and buildings**	**Office furniture and equipment**
Carrying amount as at 01.01.2020	**18,192**	**816**
Additions	1,398	–
Remeasurements	-671	-58
Depreciation	-2,345	-433
Disposals	-596	–
Carrying amount as at 31.12.2020	**15,978**	**325**
Additions	227	–
Remeasurements	-1,524	23
Depreciation	-2,132	-274
Disposals	-10	–
Carrying amount as at 31.12.2021	**12,538**	**74**

Other liabilities include lease liabilities of €14,680 thousand (previous year: €19,210 thousand). Interest expense on lease liabilities is disclosed in net interest income (Note 29).

The contractual maturities of lease liabilities are structured as follows:

in € thousand	31.12.2021	31.12.2020
Up to 1 year	2,605	3,438
More than 1 year and up to 3 years	4,939	6,171
More than 3 years and up to 5 years	4,335	5,767
More than 5 years	4,479	8,348

Total cash outflows from lease liabilities amounted to €3,162 thousand in the reporting period (previous year: €2,762 thousand).

The following income and expenses are recognised in the income statement for right-of-use assets relating to underlying assets:

in € thousand	31.12.2021	31.12.2020
Expense from short-term leases	654	477
Expense from variable lease payments not included in the lease liability	750	632
Income from subleasing right-of-use assets	188	157

Expenses for short-term leases relate primarily to leases of motor vehicles with lease terms of up to twelve months.

THE SCHWÄBISCH HALL GROUP AS LESSOR

The Schwäbisch Hall Group acts as lessor in finance lease arrangements for subleases of office and business premises. The total term of these leases is up to ten years.

The contractual maturities of lease receivables are structured as follows:

in € thousand	31.12.2021	31.12.2020
Lease payments		
Up to 1 year	182	174
More than 1 year and up to 2 years	175	174
More than 2 years and up to 3 years	175	174
More than 3 years and up to 4 years	175	174
More than 4 years and up to 5 years	175	174
More than 5 years	353	523
Gross investment in leases	**1,235**	**1,393**
less unrealised finance income	125	160
Net investment in leases	**1,110**	**1,233**

Finance income from the net investment in leases amounts to €35 thousand (previous year: €23 thousand).

48 Income tax assets and liabilities

in € thousand	31.12.2021	31.12.2020
Current income tax assets	2,809	3,704
Deferred tax assets	916	2,600
Income tax assets	**3,725**	**6,304**
Current income tax assets	37,316	13,588
Deferred tax liabilities	70,069	269,270
Income tax liabilities	**107,385**	**282,858**

Deferred tax assets and liabilities are recognised for temporary differences in respect of the items shown below:

	Deferred tax assets		Deferred tax liabilities	
in € thousand	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Loans and advances to banks and customers	292	425	159,610	131,775
Loss allowances	44,172	40,579	–	–
Positive and negative fair values of derivative financial instruments/hedging instruments	–	–	1,725	1,981
Investments	–	6	143,992	346,045
Property, plant and equipment	2,051	1,609	–	–
Intangible assets	3,912	–	–	2,582
Deposits from banks and customers	2,271	3,810	113,728	141,375
Provisions for employee benefits	138,985	145,472	–	–
Other provisions	159,748	160,894	1,584	1,603
Other balance sheet items	394	6,035	339	139
Total (gross)	**351,825**	**358,830**	**420,978**	**625,500**
Netting of deferred tax assets and liabilities	-350,909	-356,230	-350,909	-356,230
Total (net)	**916**	**2,600**	**70,069**	**269,270**

There are deferred tax assets recognised in other comprehensive income of €84,236 thousand (previous year: €88,108 thousand) relating to provisions for employee benefits, and deferred tax liabilities recognised in other comprehensive income of €151,250 thousand (previous year: €353,486 thousand) relating to investments.

Furthermore, there are deferred tax liabilities recognised in other comprehensive income of €1,861 thousand (previous year: €1,889 thousand) relating to the FLK settlement provision.

Deferred tax assets that are only expected to be realised after twelve months or more amount to €916 thousand (previous year: €2,600 thousand). Deferred tax liabilities that are only expected to be realised after twelve months or more amount to €70,069 thousand (previous year: €269,270 thousand).

No deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries and joint ventures amounting to €11,445 thousand (previous year: €13,674 thousand), as it is unlikely that these differences will reverse through realisation in the foreseeable future.

49 Other assets

in € thousand	31.12.2021	31.12.2020
Other financial receivables	5,447	8,470
Payments in advance and accruals	18,228	19,162
Remaining other assets	5,499	6,505
Total	**29,174**	**34,137**

Other financial receivables primarily include trade receivables.

50 Loss allowances

Changes in asset-side loss allowances were as follows:

	Loss allowances for								
	Loans and advances to banks		Loans and advances to customers			Investments	Other assets		
in € thousand	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Balance as at 01.01.2020	**585**	**–**	**23,601**	**48,597**	**91,722**	**305**	**64**	**–**	**164,874**
Additions	482	4,306	28,404	97,754	39,420	230	58	–	170,654
Utilisations	–	–	–	–	-3,030	–	–	–	-3,030
Changes due to contract modifications	–	-1,425	–	–	–	–	–	–	-1,425
Reversals	-151	-672	-67,493	-42,795	-33,270	-158	-67	–	-144,606
Change due to stage transfer	-50	50	56,892	-46,689	-10,203	–	-15	15	–
Transfer from Stage 1	-50	50	-2,265	2,135	130	–	–	–	–
Transfer from Stage 2	–	–	53,302	-61,458	8,156	–	-15	15	–
Transfer from Stage 3	–	–	5,855	12,634	-18,489	–	–	–	–
Other changes	–	5	-195	-7	-592	-29	-11	–	-829
Balance as at 31.12.2020	**866**	**2,264**	**41,209**	**56,860**	**84,047**	**348**	**29**	**15**	**185,638**
Additions	150	361	44,425	160,529	51,177	34	36	48	256,760
Utilisations	–	–	–	–	-2,524	–	–	–	-2,524
Reversals	-346	-1,601	-123,314	-65,503	-51,362	-120	-39	-8	-242,293
Change due to stage transfer	–	–	91,263	-89,639	-1,624	–	3	-3	–
Transfer from Stage 1	–	–	-5,672	5,544	128	–	–	–	–
Transfer from Stage 2	–	–	93,808	-104,384	10,576	–	-29	29	–
Transfer from Stage 3	–	–	3,127	9,201	-12,328	–	32	-32	–
Other changes	–	1	-125	-21	377	-5	-2	1	226
Balance as at 31.12.2021	**670**	**1,025**	**53,458**	**62,226**	**80,091**	**257**	**27**	**53**	**197,807**

51 Deposits from banks

Deposits from banks can be broken down by transaction type as follows:

in € thousand	31.12.2021	31.12.2020
Bauspar deposits	1,567,121	1,575,773
Current business accounts	19,210	426,000
Promissory note loans	4,906,233	2,078,990
Money market transactions	99,734	1,698,616
Repurchase agreements	2,715,561	1,855,991
KfW subsidised loans	139,551	135,270
Mortgage *Pfandbriefe*	5,002	5,000
Total	**9,452,412**	**7,775,640**

Deposits from banks have the following maturities:

in € thousand	31.12.2021	31.12.2020
Deposits from domestic banks	9,452,412	7,775,640
of which: repayable on demand	19,210	426,000
with agreed maturity or notice period	7,866,081	5,773,867
with indefinite maturity	1,567,121	1,575,773
Total	**9,452,412**	**7,775,640**

52 Deposits from customers

in € thousand	31.12.2021	31.12.2020
Deposits from domestic customers	**63,974,634**	**62,567,365**
Bauspar deposits	63,438,163	62,167,737
Other deposits	536,471	399,628
of which: repayable on demand	477,709	349,377
with agreed maturity or notice period	58,762	50,251
Deposits from non-domestic customers	**2,758,268**	**2,506,353**
Bauspar deposits	2,756,163	2,504,821
Other deposits	2,105	1,532
of which: repayable on demand	2,105	1,532
Total	**66,732,902**	**65,073,718**

53 Issued bonds

As at the reporting date, this item contained issued mortgage *Pfandbriefe* in the amount of €1,506,159 thousand (previous year: €513,208 thousand), for which transferable registered certificates were issued.

In the reporting period, mortgage *Pfandbriefe* amounting to €993 million were issued (previous year: €513 million), and there were no early repurchases.

54 Negative fair values of hedging instruments

As at 31 December 2021, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €495 million, previous year: €0 million) with a negative fair value of €5,196 thousand (previous year: €0 thousand) in its portfolio.

The interest rate swaps were designated as hedging instruments to hedge the fair value of financial liabilities.

Cash collateral of €3,770 thousand was furnished for the swaps (previous year: cash collateral of €30,640 thousand received), which is reported in loans and advances to banks.

55 Provisions

in € thousand	31.12.2021	31.12.2020
Provisions for employee benefits	**190,865**	**230,790**
Defined benefit obligations	134,329	170,446
Long-term employee benefits	7,556	7,978
Termination benefits	48,980	52,366
of which: loyalty bonus	15,680	16,574
early retirement arrangements	3,168	3,123
other provisions	30,132	32,669
Liabilities arising from share-based payment transactions	**4,446**	**4,335**
Other provisions	**1,487,469**	**1,531,187**
Bauspar-specific provisions	1,398,202	1,443,431
Other provisions	80,854	79,808
Provisions for loan commitments	8,413	7,948
Total	**1,682,780**	**1,766,312**

Other provisions include provisions in connection with the lending and *Bauspar* business amounting to €52,799 thousand (previous year: €52,744 thousand).

PROVISIONS FOR DEFINED BENEFIT PLANS

Provisions for defined benefit obligations primarily result from plans with benefit obligations that are no longer accepting any further employees (closed plans). There are other defined benefit plans for members of the Management Board or Managing Directors. New employees are almost exclusively offered defined contribution pension plans (insured pension fund and direct insurance), for which no provision generally has to be recognised. This resulted in an expense in the reporting period of €798 thousand (previous year: €613 thousand).

The present value of defined benefit obligations can be classified into the following risk classes:

in € thousand	31.12.2021	31.12.2020
Defined benefit obligation	**831,506**	**868,352**
of which: active participants	285,513	315,044
departed participants	94,678	97,579
retirees	451,315	455,729

in € thousand	31.12.2021	31.12.2020
Defined benefit obligation	**831,506**	**868,352**
of which: final-salary pension commitments	798,157	837,550
capital commitments	33,349	30,802

A significant risk factor for all plans is the level of market interest rates for investment grade corporate bonds, because the interest rate derived from this affects both the amount of the obligations and the measurement of plan assets.

The predominantly final salary plans involve pension commitments by the employer to employees whose amount depends on the final remuneration before retirement (x% of the remuneration for each year of service) and that are expected to result in a lifelong payment obligation in most cases. Under section 16(1) of the German Occupational Pensions Act (BetrAVG), the amount of the pension must be realigned with consumer prices or net wages every three years.

To a small extent, there are pension obligations as part of capital account plans that are paid out to the pension beneficiary as a lump sum.

The level of the net pension obligations depends strongly on the underlying discount rate. If the discount rate were to decline, the pension obligations would rise accordingly and represent a growing charge on the balance sheet.

Increasing longevity, higher salary growth trends or higher inflation rates lead to longer or higher benefit payments by Bausparkasse Schwäbisch Hall to the relevant beneficiaries. These benefits must be funded by Bausparkasse Schwäbisch Hall and also represent an increasing charge on the balance sheet due to the higher obligation.

The agreed benefit commitments are not subject to any minimum funding requirements.

All defined benefit obligations are attributable to Germany.

The present value of defined benefit obligations changed as follows:

in € thousand	2021	2020
Present value of defined benefit obligations as at 01.01.	**868,352**	**837,524**
Current service cost	9,983	10,645
Past service cost	–	1,806
Interest expenses	6,396	8,228
Pension benefits paid	-28,328	-28,495
Actuarial gains (losses)	-24,897	38,706
of which: from changes in financial assumptions	-20,692	34,291
experience adjustments	-4,205	4,415
Transfer payments	–	-62
Present value of defined benefit obligations as at 31.12.	**831,506**	**868,352**

Changes in financial assumptions include actuarial losses of €4,006 thousand from the initial recognition of defined benefit pension obligations relating to commitments via R+V Pensionsversicherung a. G.

The measurement of defined benefit pension obligations used mortality in accordance with Heubeck – RT 2018 G, the final funding age in accordance with the *RV-Altersgrenzenanpassungsgesetz* (Pensionable Age Limit Adjustment Act – RVAGAnpG) as well as the following actuarial assumptions:

in € thousand	31.12.2021	31.12.2020
Discount rate (in %)	1.10	0.75
Salary increase (in %)	1.80	1.80
Pensions increase (in %)	1.80	1.60

Since the 31 December reporting date, rounding to the nearest 10 basis points is used instead of the previous 25 basis points when determining the discount rate use to measure the pension obligation (change in estimate). For a discount rate of 1.0% rounded to the nearest 25 basis points, the provision would be around €13.8 million higher.

SENSITIVITY ANALYSIS

The following table shows the sensitivity of defined benefit obligations to the change in the actuarial parameters. The effects presented are based on an isolated observation of the change of one parameter, with the other parameters remaining constant. Correlation effects between individual parameters are therefore not taken into account.

Change in the present value of defined benefit obligations as at the reporting date if	Impact on defined benefit obligations 31.12.2021		Impact on defined benefit obligations 31.12.2020	
	in € thousand	in %	in € thousand	in %
the discount rate were 50 basis points higher	-61,139	-7.35	-66,491	-7.66
the discount rate were 50 basis points lower	69,201	8.32	75,571	8.70
future salary increases were 50 basis points higher	7,761	0.94	9,313	1.07
future salary increases were 50 basis points lower	-7,849	-0.95	-9,440	-1.09
future pension increases were 25 basis points higher	27,113	3.28	27,918	3.22
future pension increases were 25 basis points lower	-25,867	-3.13	-26,620	-3.07
future life expectancy were 1 year higher	48,277	5.83	51,013	5.87
future life expectancy were 1 year lower	-48,065	-5.81	-50,660	-5.83
the future financing maturity age were 1 year higher	-8,208	-0.99	-8,481	-0.98
the future financing maturity age were 1 year lower	6,888	0.83	6,887	0.79

The duration of defined benefit obligations at the end of the reporting period is 15.80 years (previous year: 16.45 years).

PLAN ASSETS

The defined benefit obligations are offset by the plan assets of Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH. Of these plan assets, €687,887 thousand (previous year: €692,616 thousand) are attributable to the Contractual Trust Arrangement (CTA) of DZ BANK and Bausparkasse Schwäbisch Hall, which are managed as trust assets by DZ BANK Pension Trust e. V., Frankfurt am Main. The investment company's investment policy and strategy are defined by the relevant CTA investment committees. Trustees or administrators are responsible for administering and managing the plan assets and compliance with regulatory requirements.

The plan assets also include a building with a value of €5,283 thousand (previous year: €5,290 thousand), which is managed by the *Unterstützungskasse* (pension fund) of Bausparkasse Schwäbisch Hall.

In the course of the persist low interest rates, R+V Pensionsversicherung a.G. established an extended initial fund in accordance with section 178(5) of the *Versicherungsaufsichtsgesetz* (Insurance Supervision Act), to which Schwäbisch Hall Kreditservice GmbH also contributed.

For the benefit commitment previously treated as a defined contribution plan under IAS 19.46, the low interest rate environment and the associated grant of the initial fund loan resulted in a reassessment of the probability of claims being made against the pension provider. Due to the higher probability, the benefit commitments are now accounted for as a defined benefit plan and recognized in comprehensive income as of the 31 December 2021 reporting date.

The plan assets to be offset against the present value of defined benefit obligations under IAS 19.57(a)(iii) are attributable to R+V Pensionsversicherung a.G. Plan assets include assets with a fair value of €4,289 thousand that exceed the present value of defined benefit obliga-tions by €282 thousand. As the plan assets cannot as a matter of principle be returned to the sponsoring companies and accounting for the benefit obligation is associated with uncertain-ty, the theoretical surplus is not recognised, but limited to €0 as part of the asset ceiling. The reassessment of the recognition as a defined benefit plan does not result in any impact on recognised equity.

The following table shows the funded status of the defined benefit obligations:

in € thousand	31.12.2021	31.12.2020
Present value of defined benefit obligations funded by plan assets	831,506	868,352
Present value of defined benefit obligations	**831,506**	**868,352**
less fair value of plan assets	-697,459	-697,906
Defined benefit obligations (net)	**134,047**	**170,446**
Unrecognised surplus (asset ceiling)	282	–
Provisions for defined benefit plans	**134,329**	**170,446**

The net provision for defined benefit pension obligations was composed of the following items in the reporting period:

in € thousand	2021	2020
Net provision for defined benefit pension obligations at 01.01.	**170,446**	**174,793**
Current service cost	9,983	10,645
Interest income/expense (expected interest expenses)	1,164	1,600
Past service cost	–	1,806
Return on plan assets/reimbursement rights (excluding interest income)	5,646	-29,240
Actuarial gains and losses	-24,614	38,706
of which due to change in financial assumptions	-20,409	34,291
of which experience adjustments	-4,205	4,415
Employer contributions	600	–
Pension benefits paid (continuous)	27,696	27,802
Transfer payments	–	62
Total	**134,329**	**170,446**

The unrecognised surplus (asset ceiling) was composed of the following items in the reporting period:

in € thousand	2021	2020
Asset ceiling at 01.01.	**–**	**–**
Reassessment component	282	–
Asset ceiling at 31.12.	**282**	**–**

Plan assets changed as follows:

in € thousand	2021	2020
Fair value of plan assets as at 01.01.	**697,906**	**662,731**
Employer contributions to plan assets	600	–
Interest income	5,232	6,628
Return on plan assets (excluding interest income)	-5,646	29,240
Pension benefits paid	-633	-693
Fair value of plan assets as at 31.12.	**697,459**	**697,906**

Payments to plan assets of €50,865 thousand are planned for financial year 2022 (financial year 2021: €0 thousand). All additions to plan assets are made by the employer.

We are expecting pension payments of €31,489 thousand in financial year 2022 (financial year 2021: €30,948 thousand).

Plan assets (CTA) are primarily invested in fixed-income assets (approximately 80%; previous year approximately 83%). This takes account of the interest rate sensitivity of the defined benefit obligations. Plan assets are primarily invested in the eurozone. Plan assets are divided into the "core portfolio" and "income portfolio" segments.

The core portfolio (approximately 60%, previous year: approximately 60%) is primarily invested in fixed-income investments in the form of *Pfandbriefe*, covered bonds and government and corporate bonds. The investments have a minimum investment grade rating (AAA to BBB).

The second segment (approximately 40%; previous year: approximately 40%) represents the "income portfolio" and primarily consists of investments in subordinated and high-yield bonds, as well as globally diversified non-fixed-income securities (shares and investment fund units). The ratings of the fixed-income exposures are mainly in the range AAA to BBB, with the addition of investments with BB and B ratings.

Derivative financial instruments are also used for portfolio management. Defined benefit obligations and plan assets are denominated in euros.

The fair value of plan assets can be disaggregated by asset class as follows:

in € thousand	31.12.2021			31.12.2020		
	Quoted price in an active market	No quoted price in an active market	Total	Quoted price in an active market	No quoted price in an active market	Total
Cash and money market investments	–	14,682	14,682	–	17,025	17,025
Bonds and other fixed-income securities	531,147	–	531,147	554,067	–	554,067
Shares	121,862	–	121,862	104,787	–	104,787
Derivative financial instruments	-89	–	-89	-65	–	-65
Land and buildings	–	5,260	5,260	–	5,020	5,020
Other assets	–	24,597	24,597	–	17,072	17,072
Total	**652,920**	**44,539**	**697,459**	**658,789**	**39,117**	**697,906**

The property and other assets contained in plan assets are assets that are not used by the company itself.

The assets of €4,289 thousand attributable to R+V Pensionsversicherung a. G. are contained in the other assets.

OTHER PROVISIONS

Other provisions changed as follows:

in € thousand	*Bauspar*-specific provisions	Other provisions	Provisions for loan commitments	Total
Balance as at 01.01.2020	**1,405,911**	**73,473**	**6,056**	**1,485,440**
Additions	325,929	18,616	12,462	357,007
Utilisation	-288,023	-10,656	–	-298,679
Reversals	-353	-1,370	-10,541	-12,264
Interest expenses	–	10	–	10
Other changes	-33	-265	-29	-327
Balance as at 31.12.2020	**1,443,431**	**79,808**	**7,948**	**1,531,187**
Additions	210,464	14,724	30,682	255,870
Utilisation	-254,388	-11,412	–	-265,800
Reversals	-1,299	-2,226	-30,214	-33,739
Interest expenses	–	1	–	1
Other changes	-6	-41	-3	-50
Balance as at 31.12.2021	**1,398,202**	**80,854**	**8,413**	**1,487,469**

The relevant expected future payment obligations are recognised at their present value on the basis of past experience and forecasts.

Depending on the tariff, the Schwäbisch Hall Group grants *Bauspar* customers interest incentives that are tied to the fulfilment of various conditions. There was no special allocation to the provision for interest bonuses at Bausparkasse Schwäbisch Hall in the reporting period (previous year: €115 million).

The expected maturities of other provisions are classified as follows:

in € thousand	≤ 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Balance as at 31.12.2021				
Bauspar-specific provisions	5,818	331,293	551,055	510,036
Other provisions	344	54,624	25,827	59
Provisions for loan commitments	8,413	–	–	–
Total	**14,575**	**385,917**	**576,882**	**510,095**
Balance as at 31.12.2020				
Bauspar-specific provisions	5,328	949,475	426,276	62,352
Other provisions	584	54,585	24,566	73
Provisions for loan commitments	212	–	7,736	–
Total	**6,124**	**1,004,060**	**458,578**	**62,425**

The loss allowances reported in provisions for loan commitments changed as follows:

	Loss allowances		
in € thousand	Stage 1	Stage 2	Stage 3
Balance as at 01.01.2020	**6,054**	**–**	**2**
Additions	12,458	–	4
Reversals	-10,201	-332	-8
Other changes	-364	332	3
Balance as at 31.12.2020	**7,947**	**–**	**1**
Additions	25,472	3,024	2,186
Reversals	-27,073	-2,099	-1,042
Other changes	175	46	-224
Balance as at 31.12.2021	**6,521**	**971**	**921**

56 Other liabilities

in € thousand	31.12.2021	31.12.2020
Accruals	104,070	94,366
for management bonuses and bonuses paid to non-Group persons	51,986	52,596
for short-term employee benefits	39,556	30,164
for outstanding invoices	12,005	10,878
other accruals	523	728
Liabilities to DZ BANK AG from profit and loss transfer agreement	12,000	8,000
Other tax liabilities to taxation authorities	36,885	41,373
Lease liabilities	14,680	19,210
Other financial liabilities	3,771	8,062
Remaining other liabilities	5,074	2,707
Total	**176,480**	**173,718**

57 Equity

in € thousand	31.12.2021	31.12.2020
Subscribed capital	310,000	310,000
Capital reserves	1,486,964	1,486,964
Retained earnings	3,450,421	3,390,264
Reserve from fair value OCI equity instruments	-6,733	-3,005
Reserve from fair value OCI debt instruments	332,596	777,306
Currency translation reserve	-6,460	-15,860
Non-controlling interests	80,538	74,205
Net profit	70,206	44,971
Total	**5,717,532**	**6,064,845**

Loss allowances included in the reserve from fair value OCI debt instruments changed as follows:

in € thousand	2021	2020
Balance as at 01.01.	**1,750**	**967**
Additions	1,095	2,086
Utilisations	–	-561
Reversals	-919	-387
Other changes	-55	-355
Balance as at 31.12.	**1,871**	**1,750**

SUBSCRIBED CAPITAL
The subscribed capital (share capital) of Bausparkasse Schwäbisch Hall is composed of 6,000,000 no-par value shares. Each share conveys one vote. All issued shares are outstanding and fully paid-up.

DISCLOSURES ON SHAREHOLDERS
The interest in the share capital held by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, was 97.053% at the end of the financial year. The remaining 2.947% is mainly held by primary banks.

CAPITAL RESERVES
The capital reserves contain an amount of €45 million, representing the premium paid on the nominal amount of Bausparkasse Schwäbisch Hall's shares on issuance.

RETAINED EARNINGS
Retained earnings contain the Group's accumulated, undistributed capital and the actuarial gains and losses from defined benefit plans, net of deferred taxes. Accumulated actuarial gains and losses amount to €-179.2 million (previous year: €-194.4 million).

Retained earnings include undistributed profits of €226 million (previous year: €277.8 million) that are allocated to the technical security reserve in accordance with section 6 of the Bausparkassen Act (BauSparkG), as well as €25.5 million (previous year: €25.5 million) that was recognised for the same purpose on the basis of the Hungarian Act CXIII/1996 on Bausparkassen.

RESERVE FROM FAIR VALUE OCI EQUITY INSTRUMENTS
The reserve from fair value OCI equity instruments presents changes in the fair values of equity instruments that were designated irrevocably in the "Fair value through other comprehensive income" measurement category (fair value OCI option) in accordance with IFRS 9.4.1.4. After the disposal of equity instruments for which the fair value OCI option was exercised, accumulated gains and losses are reclassified from other comprehensive income to retained earnings.

RESERVE FROM FAIR VALUE OCI DEBT INSTRUMENTS
The reserve from fair value OCI debt instruments presents changes in the fair values of financial assets in the "Fair value through other comprehensive income" measurement category, net of deferred taxes. Gains and losses are only recognised in profit or loss if the corresponding asset has been derecognised. Loss allowances are included in the reserve from fair value OCI debt instruments.

CURRENCY TRANSLATION RESERVE
The currency translation reserve results from the translation of foreign currency financial statements of subsidiaries and joint ventures into the euro, which is the Group reporting currency.

NON-CONTROLLING INTERESTS
Non-controlling interests comprise interests in the equity of subsidiaries that are not attributable to the Group.

CAPITAL MANAGEMENT
The Management Board of Bausparkasse Schwäbisch Hall AG manages the capital resources on the basis of the requirements for regulatory capital ratios in accordance with the CRR.

For information on capital management and the regulatory ratios, which is also a part of the IFRS consolidated financial statements, please refer to the section "CRR regulatory ratios" (page 25) and to the section "Risk management within comprehensive bank management" (page 54) in the combined management report.

Financial instruments disclosures

58 Disclosures on fair values of financial assets and liabilities

in € thousand	Carrying amount 31.12.2021	Carrying amount 31.12.2020
Financial assets measured at fair value	**10,602,265**	**10,368,064**
Financial assets mandatorily measured at fair value through profit or loss	2,542	30,869
Positive fair values of hedging instruments	2,435	30,869
Loans and advances to customers	107	–
Financial assets measured at fair value through other comprehensive income	10,599,723	10,337,195
Debt instruments	10,581,797	10,320,620
Equity instruments	17,926	16,575
Financial assets measured at amortised cost	**74,317,249**	**70,832,768**
Cash and cash equivalents	997,958	542,490
Loans and advances to banks	8,042,897	8,933,803
Loans and advances to customers	62,978,389	58,860,601
Investments	2,292,638	2,487,448
Other assets	5,367	8,426
Finance leases	**1,077**	**1,196**
Financial liabilities measured at fair value	**5,196**	**–**
Negative fair values of hedging instruments	5,196	–
Financial liabilities measured at amortised cost	**77,707,244**	**73,378,628**
Deposits from banks	9,452,412	7,775,640
Deposits from customers	66,732,902	65,073,718
Issued bonds	1,506,159	513,208
Other liabilities	15,771	16,062
Financial guarantee contracts and loan commitments (provisions)	**8,413**	**7,948**
Finance leases	**14,680**	**19,210**

IFRS 7.25 requires disclosure of the fair value of each class of financial assets and liabilities, and hence also of *Bauspar* deposits and *Bauspar* loans. In principle, the contracts would have to be measured separately in this case.

Due to the complex structure of a *Bauspar* contract and the great variety of tariff structures, no suitable method for calculating fair value on a single contract basis in line with the reporting date principle is available at this time. Consequently, fair values under IFRS 7.25 cannot be determined using either comparative market prices or suitable option pricing models. The models developed in practice to manage *Bausparkassen* only serve comprehensive bank management and likewise do not offer any sufficient basis for measurement based on fair values as defined in IFRS (see Note 6). Accordingly, Bausparkasse Schwäbisch Hall does not disclose fair value and does not classify the relevant financial instruments into the levels of the fair value hierarchy.

The portfolio fair value hedge accounting used to hedge interest rate risk for *Bauspar* deposits leads to a €-10,048 thousand (previous year: €23,038 thousand) change in the carrying amount of the portfolio of hedged items. The hedged portfolio of hedged items amounts to €749 million (€725 million).

Although any potential hidden liabilities are not disclosed, they are taken into account as a deduction in the course of calculating the risk coverage potential (RCP). Hidden reserves are not included to increase the RCP for reasons of prudence. There are no hidden liabilities to be taken into account in the determination of the RCP at the reporting date.

On the basis of the Bausparkasse's comprehensive bank management models, which comprise both the collective and non-collective business including financial investments, the *Bauspar* business produced an overall positive amount during the financial year.

59 Fair value hierarchy

Financial instruments accounted for at fair value are categorised within the hierarchy in line with the fair value measurement method and the underlying assumptions.

Financial instruments are transferred between Level 1 and 2 due to the disappearance or emergence of active markets. They are transferred when there is a change in the inputs relevant for categorisation in the fair value hierarchy. Financial instruments are transferred between Level 1 and Levels 2 and 3 of the fair value hierarchy on the basis of a change in the estimated market observability of the inputs used in the valuation techniques. There were no transfers in the reporting period.

Fair values in Level 1 of the hierarchy are calculated by reference to prices in active markets for the financial instrument in question (quoted market prices). In the reporting period, investments in the category “Financial assets mandatorily measured at fair value through other comprehensive income” amounting to €10,581,797 thousand (previous year: €10,320,620 thousand) were accounted for at the quoted market price in Level 1 of the hierarchy.

The fair value of financial instruments categorised within Level 2 of the measurement hierarchy is measured by reference to prices in active markets for similar, but not identical, financial instruments, or by using valuation techniques that are predominantly based on observable measurement inputs. The fair value of derivative financial instruments is calculated using standard industry models customary that use observable inputs. Cash flows relating to derivative financial instruments are discounted using a yield curve that takes collateralisation into account. In the reporting period, interest rate swaps used for hedging with a positive fair value of €2,435 thousand (previous year: €30,869 thousand) and with a negative fair value of €5,196 thousand (previous year: €0 thousand) in the “Financial instruments at fair value through profit or loss” category were accounted for in Level 2 of the hierarchy.

The fair value of equity instruments such as shares and other variable-yield securities and interests in subsidiaries and associates in the fair value OCI category that are categorised within Level 3 of the fair value is measured using an income capitalisation approach in which future income and dividends (unobservable inputs) based on projected figures and estimates are discounted using risk parameters.

The carrying amount of equity instruments in the Fair Value OCI category allocated to Level 3 changed in the reporting period from €16,575 thousand to €17,926 thousand due to additions of €5,201 thousand and fair value changes of €-3.850 thousand.

The DCF method is applied as a valuation technique to measure the fair value of loans and advances to customers. The probability of default was identified as a non-observable input and was 75% at the reporting date.

60 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities regularly reference standard master agreements, although these standard master agreements generally do not meet the offsetting criteria of IAS 32.42, as the legal right to offset under these agreements depends on the occurrence of a future event.

The following tables present financial assets that are subject to a legally enforceable bilateral netting agreement or similar agreement:

in € thousand	Gross amount of financial instruments before offsetting	Net amount of financial instruments (recognised amount)	Related amounts of financial instruments not set off	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received/furnished	
Balance as at 31.12.2021						
Financial assets						
Derivative financial instruments	2,435	2,435	2,435	–	–	–
Total	**2,435**	**2,435**	**2,435**	**–**	**–**	**–**
Financial liabilities						
Derivative financial instruments	5,196	5,196	2,435	–	2,761	–
Repurchase agreements	2,715,561	2,715,561	–	2,657,239	33,700	24,622
Total	**2,720,757**	**2,720,757**	**2,435**	**2,657,239**	**36,461**	**24,622**
Balance as at 31.12.2020						
Financial assets						
Derivative financial instruments	30,869	30,869	–	–	30,640	229
Total	**30,869**	**30,869**	**–**	**–**	**30,640**	**229**
Financial liabilities						
Repurchase agreements	1,855,991	1,855,991	–	1,872,361	-16,370	0
Total	**1,855,991**	**1,855,991**	**–**	**1,872,361**	**-16,370**	**0**

61 Repurchase agreements

Transfers in which the transferred assets remain on the balance sheet were performed in the Schwäbisch Hall Group in the financial year exclusively under genuine repurchase agreements between Bausparkasse Schwäbisch Hall AG and DZ BANK AG on the basis of the German master agreement for repurchase agreements at standard market conditions. The *Bausparkasse* acts exclusively as a securities provider. The master agreement provides for the unrestricted availability of the securities for the transferee or their transfer as collateral in absence of default by the counterparty, as well as the return of the same class. If the fair value of the securities transferred under the repurchase agreements increases or decreases, the relevant entity may be required to provide further collateral or require the provision of collateral.

Debt securities in the class of financial assets measured at fair value and financial assets measured at amortised cost are transferred in repurchase agreements (repos). The carrying amounts of the securities sold under repurchase agreements and the related liabilities are as follows at the reporting date:

in € thousand	Carrying amount of financial assets sold under repurchase agreements	Carrying amount of related financial liabilities measured at amortised cost
Balance as at 31.12.2021		
Financial assets measured at fair value	**1,822,496**	**1,866,433**
Investments	1,822,496	1,866,433
Financial assets measured at amortised cost	**766,105**	**849,128**
Investments	766,105	849,128
Total	**2,588,601**	**2,715,561**
Balance as at 31.12.2020		
Financial assets measured at fair value	**797,706**	**794,222**
Investments	797,706	794,222
Financial assets measured at amortised cost	**953,811**	**1,061,769**
Investments	953,811	1,061,769
Total	**1,751,517**	**1,855,991**

The master agreement does not meet the IAS 32 offsetting criteria because the right of set-off is contingent on the occurrence of a future event.

Additional cash collateral of €33,700 thousand was provided for securities repurchase transactions at the closing date (previous year: cash collateral of €16,370 thousand received), which was recognised as loans and advances to banks (previous year: deposits from banks). The fair value of the securities sold under repurchase agreements was €2,657,239 thousand at the closing date (previous year: €1,873,730 thousand).

62 Collateral

On the reporting date, loans and advances to customers amounting to €139,958 thousand (previous year: €135,625 thousand) were provided as collateral for building loans extended under KfW Group development loan programmes. KfW Group's receivables from Bausparkasse Schwäbisch Hall are secured by the assignment of receivables arising from transmission of the earmarked loan and the fiduciary holding of collateral made available for this purpose.

Bausparkasse Schwäbisch Hall AG also has receivables secured by mortgages and bearer bonds in the cover pool under sections 12 and 19 of the German *Pfandbrief* Act. As at 31 December 2021, the cover pool amounted to €1,842 million (previous year: €746 million), with mortgage *Pfandbriefe* with a nominal value of €1,506 million (previous year: €506 million) outstanding.

63 Items of income, expense, profit and loss

The influence of financial instruments on the earnings positions of the Schwäbisch Hall Group in accordance with IFRS 7 is presented in the following by means of supplementary disclosures.

NET GAINS AND LOSSES

Net gains and losses on financial instruments by IFRS 9 category are attributable to financial assets and financial liabilities in the amounts shown:

in € thousand	2021	2020
Derivative financial instruments mandatorily measured at fair value through profit or loss	**-151**	**5,691**
Financial assets measured at fair value through other comprehensive income	**-516,276**	**662,194**
Financial assets mandatorily measured at fair value through other comprehensive income	-513,932	660,724
Net gains and losses recognised in profit or loss	133,013	164,554
Net gains and losses recognised in other comprehensive income	-646,945	496,170
Financial assets designated at fair value through other comprehensive income	-2,344	1,470
Net gains and losses recognised in profit or loss	1,506	1,318
Net gains and losses recognised in other comprehensive income	-3,850	152
Financial assets measured at amortised cost	**1,282,680**	**1,375,537**
Financial liabilities measured at amortised cost	**-832,136**	**-972,055**

Net gains and losses comprise gains and losses on fair value measurement and impairment losses, and gains and losses from the sale and early repayment of the financial instruments concerned. They also include interest income and expense, current income, income from profit transfer agreements and expenses from loss absorption.

INTEREST INCOME AND EXPENSE

The following total interest income and expense was recognised for financial assets and financial liabilities that are not measured at fair value through profit or loss:

in € thousand	2021	2020
Interest income	**1,399,408**	**1,496,572**
from financial assets measured at cost, including finance leases	1,293,476	1,385,999
from financial assets measured at fair value through other comprehensive income	105,932	110,573
Interest expense on financial liabilities measured at amortised cost, including finance leases	**-832,614**	**-972,724**

INCOME AND EXPENSE ITEMS FROM COMMISSIONS

Net fee and commission income includes fee and commission expenses of €108,139 thousand (previous year: €112,442 thousand) and fee and commission income of €42,987 thousand (previous year: €38,545 thousand) from financial assets and financial liabilities that are not measured at fair value through profit or loss.

64 Hedge accounting

RISK MANAGEMENT STRATEGY

Fair value hedges are recognised as part of the risk management strategy to eliminate or mitigate accounting mismatches.

HEDGED ITEMS

Fair value hedged accounting is used in hedges of interest rate risk. Risk of interest rate changes in this context means the risk that the fair value or a fixed-income financial instruments will be adversely affected by a change in market interest rates. The hedged financial liabilities are deposits from customers measured at amortised cost. Liability-side interest rate risk portfolios of selected tariff versions of the *Bausparkasse* are identified and designated as hedged items in portfolio hedge accounting (portfolio fair value hedges). During the term of the hedging relationship, these portfolios are exposed to changes in the volume and number of included contracts, which are taken into account as part of the regular hedging cycle.

The hedging relationships are normally designated for one month. They are then closed and redesignated on the basis of the changed overall portfolio.

HEDGING INSTRUMENTS

Interest rate swaps are designated as hedging instruments to account for hedges of the fair value of financial liabilities.

The hedging instruments are reported in positive and negative fair values of hedging instruments.

EFFECTIVENESS TEST

Hedge accounting requires the hedge to be effective both prospectively and retrospectively. The entity seeks to establish an effective hedging relationship for each maturity band to which at least one hedging instrument has been allocated. For this purpose, changes in the fair values of the hedging items, including the attributable future contractual cash flows, must almost fully offset changes in the fair values of the hedging instruments.

In the case of portfolio hedges, there is no direct economic relationship between the hedged item and the hedging instruments. The approximate offsetting of the changes in fair value is ensured by determining an individual hedge ratio based on the sensitivities of the hedged item and the hedging instruments.

Hedge effectiveness is tested and demonstrated at each month-end.

Portfolio hedges that continue to be accounted for in accordance with IAS 39 are deemed to be effective if changes in the fair values of the hedged items and the hedging instruments offset each other within the range of 80% to 125% defined by IAS 39. If this test establishes that the hedge is not sufficiently effectively, it must be terminated retrospectively as at the date of the most recent effective test.

In fair value hedges, prospective and retrospective effectiveness is tested using a regression model.

To do this, the accumulated changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments.

GAINS AND LOSSES AND INEFFECTIVENESS OF HEDGE ACCOUNTING

Hedge ineffectiveness results from opposing changes in the fair value of hedging instruments and hedged items that do not fully offset each other.

Hedge ineffectiveness is recognised in “Other gains or losses on valuation of financial instruments” in the income statement. Hedge ineffectiveness may arise in fair value hedges of interest rate risk. This is because the changes in the fair values of hedged items and hedging instruments may not fully offset each other because of differences relating to maturities, cash flows and discount rates.

SCOPE OF RISKS MANAGED USING HEDGES AND IMPACT ON CASH FLOWS

Information on the volume of hedged items and hedging instruments that were designated in hedging relationships to hedge risk in interest rate changes is presented in the following:

in € thousand	Carrying amount	Nominal amount of hedging instruments	Adjustments from fair value hedges contained in carrying amount of hedged items		Changes in fair value as basis for measuring ineffectiveness for the period
			Existing hedging relationships	Terminated hedging relationships	
Balance as at 31.12.2021					
Assets	**2,435**	**255,000**	**–**	**–**	**-8,900**
Positive fair values of hedging instruments	2,435	255,000			-8,900
Liabilities	**754,666**	**495,000**	**-10,048**	**–**	**8,806**
Deposits from customers	749,470		-10,048	–	32,406
Negative fair values of hedging instruments	5,196	495,000			-23,600
Balance as at 31.12.2020					
Assets	**30,869**	**730,000**	**–**	**–**	**27,863**
Positive fair values of hedging instruments	30,869	730,000			27,863
Liabilities	**725,202**	**–**	**23,038**	**–**	**-28,277**
Deposits from customers	725,202		23,038	–	-28,277
Negative fair values of hedging instruments	–	–			–

The residual maturities of the hedging instruments entered into to hedge interest rate risk are presented in the following:

in € thousand	≤ 3 months	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years	Total
Balance as at 31.12.2021						
To hedge interest rate risk	–	–	–	50,000,000	700,000,000	750,000,000
Total	**–**	**–**	**–**	**50,000,000**	**700,000,000**	**750,000,000**
Balance as at 31.12.2020						
To hedge interest rate risk	–	–	–	–	730,000,000	730,000,000
Total	**–**	**–**	**–**	**–**	**730,000,000**	**730,000,000**

65 Nature and extent of risks arising from financial instruments

The disclosures on the nature and extent of risks arising from financial instruments (IFRS 7.31-42) are in part contained in the combined management report and in part in the notes to the IFRS consolidated financial statements.

The disclosures on credit risk in accordance with IFRS 7.35A-36 and the maturity analysis in accordance with IFRS 7.39(a) and (b) are made directly in the notes to the IFRS consolidated financial statements.

The disclosures listed in the following, which are also part of the IFRS consolidated financial statements, are contained in the sections of the combined management report stated in the following:

- IFRS 7.33-34 (qualitative and quantitative disclosures): section “Risk management within overall bank management” (page 44).
- IFRS 7.39(c) (managing liquidity risk): section “Liquidity risk” (page 42)
- IFRS 7.40-42 (market risk): section “Market risk” (page 42)

CREDIT RISK MANAGEMENT PRACTICES

The rules for recognising impairment losses are based on the calculation of expected losses in the lending business, from investments and from other assets. The application of the impairment loss rules is limited to financial assets as well as loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. These include:

- financial assets measured at amortised cost,
- debt instruments held as financial assets measured at fair value through other comprehensive income.

The impairment rules also apply to:

- loan commitments and financial guarantee contracts under IFRS 9 and not measured at fair value through profit or loss,
- lease receivables,
- trade receivables.

Under IFRS 9, the three-stage approach is used to calculate expected losses, with additional consideration of POCIs:

- Stage 1: a 12-month expected credit loss is applied to financial assets without a significantly increased credit risk compared with the acquisition date and not impaired at acquisition. Interest is recognised in the basis of the gross carrying amount.
- Stage 2: loss allowances are calculated in the amount of lifetime expected credit losses for financial assets whose credit risk has increased significantly since initial recognition. Interest is recognised in the basis of the gross carrying amount.
- Stage 3: financial assets are credit-impaired if one or more events have occurred that have a detrimental effect on the estimated future cash flows of that financial asset or if they are considered to be in default in accordance with Article 178 of the Capital Requirements Regulation (CRR). The latter also matches the definition of default within the Schwäbisch Hall Group. Loss allowances are likewise recognised in the amount of the lifetime expected credit losses. In addition, interest income is calculated on the amortised cost after loss allowances using the effective interest method.
- POCI: financial assets that are credit-impaired on initial recognition are not assigned to the three-stage model and are measured separately. POCI financial assets are not measured at their gross carrying amount, but rather at their fair value. Accordingly, interest income for POCI financial assets is recognised using a risk-adjusted effective interest rate.

No financial assets that are credit-impaired on initial recognition (purchased or originated credit-impaired assets, POCI) were identified during the reporting period.

The review of whether there has been a significant increase in the credit risk of financial assets or financial guarantee contracts and loan commitments compared with the credit risk at acquisition date is performed monthly, with a special focus at every reporting date. The assessment is made at the level of the financial asset with the aid of quantitative and qualitative analyses.

The quantitative analyses are usually performed by reference to the expected credit risk over the entire residual life of the financial instruments under review. This also takes macroeconomic information into account by transferring these inputs into shift factors for determining the probability of default. The credit risk at the reporting date for the residual maturity is generally compared with the credit risk of the asset estimated at the acquisition date for the relevant maturity. The threshold values that indicate a significant increase in credit risk are generally calculated separately for each portfolio in relation to its historical probability of default migration. Internal risk measurement systems and risk forecasts are also used to assess the credit risk of financial assets. This review is supplemented with qualitative criteria that increase credit risk, insofar as these are not already reflected in the probability of default. In principle, a transfer into Stage 2 is assumed at the latest in the case of a default of 30 days. Depending on the business segment, the criterion is defined as a supplementary backstop criterion or payments past due are already part of the rating and scoring system and are reflected in this way.

No review of any significant increase in credit risk is performed for securities with a low credit risk. Securities with an investment grade rating are therefore assigned to Stage 1. This exception does not apply to Bausparkasse Schwäbisch Hall for loans and advances.

If it is established on the reporting date that there is no longer a significant increase in credit risk compared with earlier reporting dates, the financial assets concerned are transferred back to Stage 1 and the loss allowances are returned to the level of the expected 12-month expected credit loss. For retransfer from Stage 3, the default status is not lifted until after a corresponding good behaviour period in line with the regulatory definition.

Expected losses are calculated as the probability-weighted present value of expected defaults over the entire expected maturity from default events within the next twelve months for assets assigned to Stage 1 of the credit loss model and from default events over the entire residual life for assets assigned to Stage 2. The expected losses are discounted at their original effective interest rate. As a rule, this calculation uses the regulatory model harmonised with the requirements of IFRS 9, consisting of probability of default, loss rate (including probability of recovery) and expected loan amount at the date of default. The estimated probability of default in this regard contains not only historical, but also forward-looking default information. These are reflected in the calculation of loss allowances in the form of shifts in the statistically calculated probabilities of default (shift factors). For individual Stage 3 exposures, the expected loss is also calculated using this input-based approach, depending on the portfolio or, in individual cases, on the basis of individual expert estimates about recoverable cash flows and probability-weighed scenarios at the level of individual transactions.

The calculation of expected losses is based on loss histories, which are adjusted in order to forecast future defaults. In addition, two macroeconomic scenarios are included on the basis of experience estimates. For example, these scenarios include future labour market trends, gross domestic product growth, inflation and real estate price movements. To ensure an undistorted expected loss, several scenarios are calculated when determining risk parameters. These are subsequently reflected in the amount of the loss allowance on a probability-weighted basis. The methods and assumptions, including the forecasts, are regularly validated.

Directly recognised impairment losses reduce the carrying amounts of assets directly. In contrast to loss allowances, directly recognised impairment losses are not estimated, but are recognised at a known exact amount if this is justified by the uncollectibility of the debt (for example by disclosing an insolvency ratio). Write-downs can be charged as directly recognised impairment losses and/or the utilisation of existing loss allowances. Directly recognised impairment losses are usually recognised after the completion of all recovery and enforcement measures. Directly recognised impairment losses are also recognised for immaterial minor amounts.

EFFECTS FROM COVID-19

The established models and processes for determining expected losses under IFRS 9 were generally retained during the Covid-19 pandemic.

Current economic developments in the era of Covid-19 are primarily taken into account by updating the macroeconomic forecasts. In doing so, Bausparkasse Schwäbisch Hall used the macroeconomic forecasts for the years 2021–2025 from the DZ BANK’s Research division that are taken into account when determining expected losses.

Due to the extreme macroeconomic changes, which were not be observed to this extent in the past, and the extensive government support measures, an expert-based override of the shift factors statistically determined on the basis of DZ BANK’s macroeconomic forecasts was performed for the portfolio segments affected by the pandemic. This ensures that the shift factors used correspond to the technical expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

Expected macroeconomic trends are reflected by adjusting the model-based default probability profiles used in economic and regulatory risk management. The shift factors are used to include current economic trends (“point-in-time focus”) as well as forecasts of future economic conditions for the years in the macroeconomic forecast horizon in the calculation of loss allowances. These shift factors are derived through existing stress testing models from macroeconomic inputs for various levels of probability of default. These PD shift factors are based on DZ BANK’s macroeconomic forecasts. Three macroeconomic scenarios (base scenario, risk scenarios I and II) are taken into account at the closing rate, with a 65% weighting for the base scenario, 15% for risk scenario I and 20% for risk scenario II.

The base scenario is based on the assumption that the increasingly dynamic recovery that started in mid-2021 will continue. A condition is that the available vaccines remain effective and are rolled out rapidly on a wide scale (which is what happened). The resulting recovery in consumption, investment and foreign trade is continuing to drive strong growth in 2022, with the economies assumed to return to their trend growth thereafter. The base scenario with a 65% weighting corresponds to DZ BANK’s forecasts of November 2021.

Risk scenario I is based on the assumption that the coronavirus crisis flares up again. New, more aggressive virus mutations that are not covered by the existing vaccines are conceivable in this context. As a result, both the incidence figures and the utilisation of hospital beds rise sharply again worldwide, even in countries with a high vaccination rate. Risk scenario I is included in the calculation of the shift factors with a 15% weighting. Risk scenario II is based on the assumption that the US economic recovery becomes an overheating of the economy. An unexpectedly strong and sustained demand boom is triggered by the extensive fiscal programmes or by the unwinding of Covid-19 savings by private households. Companies try to compensate for the strong demand by increasing capacity that the labour market is unable to service. This results in a pronounced shortage of skilled workers, which is accompanied by strong wage effects. A wage-price spiral is set in motion and inflation rises significantly. The overheating effect also spreads to Europe. The share of exports to the USA rises sharply, commodity prices increase markedly and the EUR/USD exchange rate weakens considerably. As a result, inflationary pressures also rise noticeably in Europe. Unlike the main scenario, however, the rise in inflation is more prolonged and the higher inflation rate also becomes entrenched over the subsequent years. Risk scenario II is included in the weighting with a 20% probability.

In particular, the following macroeconomic forecasts for the years 2021 to 2025 are also included in the calculation of expected loss as at the reporting date, with the ECB scenarios of December 2021 also lying within their range:

		2021	2022	2023	2024	2025
Unemployment, Germany						
Base scenario	in %	5.75	5.25	5.00	4.75	4.50
Risk scenario I	in %	6.75	6.50	6.25	6.00	5.75
Risk scenario II	in %	5.00	4.50	4.25	4.00	3.75
Real GDP growth, Germany (seasonally and calendar-adjusted)						
Base scenario	as year on year %	2.75	4.50	1.75	1.25	1.00
Risk scenario I	as year on year %	2.75	–	1.50	2.00	1.50
Risk scenario II	as year on year %	2.75	5.00	3.00	2.50	1.00

The calculated values were validated using Group-wide expert surveys and supplemented by management’s estimates. This ensures that the shift factors used correspond to the technical expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

The adjustments described represent adjustments to inputs in the models for reflecting the Covid-19 pandemic. It was not therefore necessary to develop additional post-model adjustments in the Schwäbisch Hall Group.

To mitigate the effects of Covid-19, individual support measures were agreed between borrowers, including a temporary deferral of repayments of principal. In addition to the individual measures, there were also measures under general payment holidays, both statutory and voluntary. In the Schwäbisch Hall Group, payment holidays were used for consumer loans under legislative moratoria in Hungary (until 30 June 2022). In accordance with the EBA Guidelines on legislative and non-legislative moratoria on loan payments applied in the light of the Covid-19 crisis (EBA/GL/2020/02 and EBA/GL/2020/15), the general legislative and non-legislative payment moratoria are not generally considered to be forbearance measures if the borrower is in financial difficulties and therefore do not lead to a forbearance-related step transfer within the credit loss model. If other transfer criteria apply, for example a payment period of more than nine months, there is a stage transfer. This exception does not apply to individual support measures.

No significant deterioration of the value of collateral held in the form of real estate liens is currently being observed as a result of the Covid-19 pandemic. Any valuation haircuts on real estate held as collateral are subject to continuous monitoring, taking into account the further development of the Covid-19 pandemic. No decreases in real estate collateral as a result of the pandemic have currently been identified.

To date, the Covid-19 pandemic has not led to any significant transfers between the stages of the credit loss model for the gross carrying amounts of financial instruments in the classes “Financial assets measured at fair value”, “Financial assets measured at amortised cost” and the nominal amounts of the class “Financial guarantee contracts and loan commitments”.

Additions to loss allowances, which are presented in the statement of changes in loss allowances and include the effects of the Covid-19 pandemic, are also attributable to the changes in the macroeconomic forecasts used to determine expected losses.

LOSS ALLOWANCES AND GROSS CARRYING AMOUNTS

In the Bausparkasse Schwäbisch Hall Group, loss allowances are recognised for the amount of expected credit losses for the classes “Financial assets measured at fair value”, “Financial assets measured at amortised cost”, “Finance leases” and “Financial guarantee contracts and loan commitments”. Trade receivables form part of the class “Financial assets measured at amortised cost”.

There are finance lease receivables with a gross carrying amount of €1,110 thousand (previous year: €1,233 thousand) in the Schwäbisch Hall Group. A loss allowance of €33 thousand (previous year: €37 thousand) was recognised on these receivables.

FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Stage 1	
in € thousand	**Loss allowances**	**Fair value**
Balance as at 01.01.2020	**967**	**9,260,147**
Additions/increase in credit utilisation	2,086	2,045,740
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	-561	–
Reversals and repayments	-387	-1,469,685
Amortisation, changes in fair value	–	484,418
Other changes	-355	–
Balance as at 31.12.2020	**1,750**	**10,320,620**
Additions/increase in credit utilisation	1,095	1,945,314
Reversals and repayments	-919	-1,028,117
Amortisation, changes in fair value	–	-656,020
Other changes	-55	–
Balance as at 31.12.2021	**1,871**	**10,581,797**

FINANCIAL ASSETS MEASURED AT AMORTISED COST

	Stage 1		Stage 2		Stage 3	
in € thousand	Loss allowances	Gross carrying amount	Loss allowances	Gross carrying amount	Loss allowances	Gross carrying amount
Balance as at 01.01.2020	**24,463**	**63,416,851**	**48,661**	**3,869,098**	**91,722**	**630,891**
Additions/increase in credit utilisation	7,189	27,358,387	1,681	307,840	–	–
Change to financial assets due to stage transfer	56,842	-791,418	-46,654	643,040	-10,188	148,378
Transfer from Stage 1	-2,315	-1,757,084	2,185	1,614,420	130	142,664
Transfer from Stage 2	53,302	935,112	-61,473	-1,068,104	8,171	132,992
Transfer from Stage 3	5,855	30,554	12,634	96,724	-18,489	-127,278
Loss allowances utilised / directly recognised impairment losses on gross carrying amounts	–	–	–	-38	-3,030	-4,823
Reversals and repayments	-1,908	-23,426,201	-6,541	-752,981	-12,072	-139,055
Changes in risk parameters	-43,974	–	63,444	–	18,222	–
Additions	21,878	–	100,437	–	39,420	–
Reversals	-65,852	–	-36,993	–	-21,198	–
Changes due to contract modifications	–	-5,471	-1,425	-2,263	–	-166
Amortisation	–	-94,267	–	34,485	–	784
Currency translation differences and other changes	-226	-165,505	-13	-6,550	-592	-2,648
Balance as at 31.12.2020	**42,386**	**66,292,376**	**59,153**	**4,092,631**	**84,062**	**633,361**
Additions/increase in credit utilisation	10,836	24,307,341	1,556	104,335	–	–
Change to financial assets due to stage transfer	91,263	-201,929	-89,636	64,229	-1,627	137,700
Transfer from Stage 1	-5,672	-1,597,644	5,544	1,552,930	128	44,714
Transfer from Stage 2	93,808	1,354,829	-104,413	-1,611,143	10,605	256,314
Transfer from Stage 3	3,127	40,886	9,233	122,442	-12,360	-163,328
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	-7	-2,524	-4,149
Reversals and repayments	-6,357	-19,991,373	-15,736	-651,970	-11,582	-141,640
Changes in risk parameters	-83,647	–	107,963	–	11,437	–
Additions	33,754	–	159,370	–	51,225	–
Reversals	-117,401	–	-51,407	–	-39,788	–
Changes due to contract modifications	–	-67	–	-1,916	–	37
Amortisation	–	-109,312	–	11,929	–	1,089
Currency translation differences and other changes	-129	-25,760	-22	-1,647	378	-235
Balance as at 31.12.2021	**54,352**	**70,271,276**	**63,278**	**3,617,584**	**80,144**	**626,163**

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

	Stage 1		Stage 2		Stage 3	
in € thousand	**Loss allowances**	**Nominal amount**	**Loss allowances**	**Nominal amount**	**Loss allowances**	**Nominal amount**
Balance as at 01.01.2020	**6,054**	**5,807,293**	**–**	**–**	**2**	**231**
Additions/increase in credit utilisation	8,813	3,357,160	–	–	–	–
Change to financial assets due to stage transfer	-335	-32,342	332	32,017	3	325
Transfer from Stage 1	-336	-32,433	332	32,028	4	405
Transfer from Stage 2	–	11	–	-11	–	–
Transfer from Stage 3	1	80	–	–	-1	-80
Reversals and repayments	-6,810	-2,987,356	-332	-32,017	-8	-422
Changes in risk parameters	254	–	–	–	4	–
Additions	3,645	–	–	–	4	–
Reversals	-3,391	–	–	–	–	–
Currency translation differences and other changes	-29	-3,250	–	–	–	-22
Balance as at 31.12.2020	**7,947**	**6,141,505**	**–**	**–**	**1**	**112**
Additions/increase in credit utilisation	12,559	6,968,423	1	12	–	–
Change to financial assets due to stage transfer	178	-67,265	46	51,175	-224	16,090
Transfer from Stage 1	-83	-72,807	62	71,635	21	1,172
Transfer from Stage 2	35	1,255	-195	-30,619	160	29,364
Transfer from Stage 3	226	4,287	179	10,159	-405	-14,446
Reversals and repayments	-8,238	-6,898,634	-1,011	-7,689	-679	-5,510
Changes in risk parameters	-5,922	–	1,935	–	1,823	–
Additions	12,913	–	3,023	–	2,186	–
Reversals	-18,835	–	-1,088	–	-363	–
Currency translation differences and other changes	-3	-327	–	–	–	–
Balance as at 31.12.2021	**6,521**	**6,143,702**	**971**	**43,498**	**921**	**10,692**

CONTRACTUAL ADJUSTMENTS

The negotiation or adjustment of the contractually agreed cash flows of a financial asset leads to a modified asset. The contractual adjustments carried out in the Schwäbisch Hall Group are not considered to be substantial modifications of financial assets. The difference between the present value of the originally agreed cash flows and the modified cash flows discounted at the original effective interest rate is recognised as a modification gain or loss. A significant change in the credit quality of modified financial assets is determined by comparing the probability of default at the reporting date, based on the modified contractual terms, with the probability of default at initial recognition, based on the original, unmodified contractual terms.

The amortised cost of modified financial assets allocated to Stage 2 and Stage 3 of the credit loss model amounted to €279,523 thousand (previous year: €126,704 thousand) before contract adjustments. Modification losses on these assets amounted to €-1,843 thousand (previous year: €-2,429 thousand).

The gross carrying amount of financial assets for which cash flow adjustments were made that were allocated to Stage 2 and Stage 3 of the credit loss model since initial recognition, but which were transferred into Stage 1 of the credit loss model during the reporting period, amounts to €24,301 thousand (previous year: €0 thousand).

MAXIMUM EXPOSURE TO CREDIT RISK

The Schwäbisch Hall Group is exposed to credit risk arising from financial instruments. The maximum exposure to credit risk constitutes the fair values, amortised cost or nominal amounts of financial instruments. Collateral is not taken into account. The following collateral is held to hedge the maximum exposure to credit risk:

in € thousand	Maximum credit risk	of which secured by				
		Warranties, guarantees	Land charges, mortgages	Transfers of title, cession, pledge of receivables	Financial collateral	Other collateral
Balance as at 31.12.2021						
Financial assets measured at fair value	**10,584,339**	**–**	**170,918**	**286,308**	**–**	**870,440**
Financial assets measured at fair value through profit or loss	2,542	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	10,581,797	–	170,918	286,308	–	870,440
Financial assets measured at amortised cost	**74,317,249**	**129,743**	**49,487,274**	**891,729**	**8,839,363**	**2,643,024**
of which: credit-impaired	–	–	435,258	–	77,775	3,776
Financial guarantee contracts and loan commitments	**6,197,892**	**–**	**5,584,162**	**–**	**8,920**	**1,186**
of which: credit-impaired		–	6,942	–	103	–
Balance as at 31.12.2020						
Financial assets measured at fair value	**10,351,489**	**–**	**182,271**	**304,565**	**30,640**	**745,967**
Financial assets measured at fair value through profit or loss	30,869	–	–	–	30,640	–
Financial assets measured at fair value through other comprehensive income	10,320,620	–	182,271	304,565	–	745,967
Financial assets measured at amortised cost	**70,832,767**	**118,080**	**45,560,221**	**1,364,300**	**8,205,060**	**3,266,760**
of which: credit-impaired	–	–	789,379	–	147,846	6,196
Financial guarantee contracts and loan commitments	**6,141,617**	**–**	**5,672,557**	**–**	**974**	**–**
of which: credit-impaired		–	111	–	–	–

CREDIT CONCENTRATION RISK

The Bausparkasse Schwäbisch Hall Group’s credit risk exposure attributable to financial instruments is broken down by sector using the Bundesbank industrial sector codes and geographically using the annually updated International Monetary Fund (IMF) country group classification. The volume, measured using fair values and gross carrying amounts of financial assets or the credit risk arising from financial guarantee contracts and loan commitments, is classified based on the following rating classes:

- investment grade: equivalent to internal rating grades 1A–2A,
- non-investment grade: equivalent to internal rating grades 2B–3E,
- default: equivalent to internal rating grades 4A–4B,
- not rated: no rating necessary or not rated.

A detailed overview of internal rating grades can be found in the Opportunity and risk report in the Combined management report. The “not rated” category comprises counterparties for which no rating classification is required.

CREDIT RISK CONCENTRATIONS BY SECTOR

in € thousand		Financial sector	Public sector (administ-ration/government)	Corporates	Retail
Balance as at 31.12.2021					
Investment grade		**14,673,491**	**7,797,823**	**2,397,571**	**45,711,260**
Fair value	Stage 1	4,180,499	4,379,974	2,021,324	–
Gross carrying amount	Stage 1	10,488,955	3,417,849	321,094	41,275,724
	Stage 2	1,022	–	15,984	1,342,635
Nominal amount	Stage 1	3,015	–	39,169	3,090,085
	Stage 2	–	–	–	2,816
Non-investment grade		**50,034**	**–**	**695,643**	**19,331,995**
Gross carrying amount	Stage 1	15,721	–	555,228	14,190,745
	Stage 2	32,790	–	43,897	2,179,489
	Stage 3	–	–	71	7,224
Nominal amount	Stage 1	1,523	–	94,019	2,915,891
	Stage 2	–	–	2,428	38,254
	Stage 3	–	–	–	392
Default		**–**	**–**	**9,042**	**619,965**
Gross carrying amount	Stage 3	–	–	8,901	609,806
Nominal amount	Stage 3	–	–	141	10,159
Not rated		**6,047**	**–**	**2,237**	**713**
Gross carrying amount	Stage 1	5,913	–	572	584
	Stage 2	134	–	1,610	23
	Stage 3	–	–	55	106
Balance as at 31.12.2020					
Investment grade		**14,843,892**	**8,691,104**	**1,965,466**	**21,001,822**
Fair value	Stage 1	3,906,639	4,501,758	1,912,223	–
Gross carrying amount	Stage 1	10,936,039	4,186,806	38,046	14,595,627
	Stage 2	244	640	3,497	401,440
Nominal amount	Stage 1	970	1,900	11,700	6,004,755
Non-investment grade		**74,607**	**200**	**843,027**	**39,417,945**
Gross carrying amount	Stage 1	38,879	200	686,728	35,797,730
	Stage 2	35,180	–	51,326	3,598,615
	Stage 3	–	–	47	4,783
Nominal amount	Stage 1	548	–	104,926	16,705
	Stage 3	–	–	–	112
Default		**–**	**–**	**7,436**	**620,929**
Gross carrying amount	Stage 3	–	–	7,436	620,929
Not rated		**11,865**	**–**	**3,008**	**537**
Gross carrying amount	Stage 1	11,833	–	1,237	485
	Stage 2	32	–	1,646	12
	Stage 3	–	–	125	40

CREDIT RISK CONCENTRATIONS BY COUNTRY

in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets	Supranational institutions
Balance as at 31.12.2021						
Investment grade		**63,018,660**	**7,375,553**	**2,204**	**7,033**	**176,695**
Fair value	Stage 1	4,639,005	5,766,097	–	–	176,695
Gross carrying amount	Stage 1	54,044,843	1,450,302	2,204	6,273	–
	Stage 2	1,252,499	106,962	–	180	–
Nominal amount	Stage 1	3,079,520	52,169	–	580	–
	Stage 2	2,793	23	–	–	–
Non-investment grade		**19,437,689**	**635,787**	**1,993**	**2,203**	**–**
Gross carrying amount	Stage 1	14,401,045	356,927	1,810	1,912	–
	Stage 2	2,027,097	228,726	62	291	–
	Stage 3	–	7,295	–	–	–
Nominal amount	Stage 1	2,969,593	41,719	121	–	–
	Stage 2	39,954	728	–	–	–
	Stage 3	–	392	–	–	–
Default		**593,224**	**34,856**	**212**	**715**	**–**
Gross carrying amount	Stage 3	582,999	34,781	212	715	–
Nominal amount	Stage 3	10,225	75	–	–	–
Not rated		**–**	**8,997**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	7,069	–	–	–
	Stage 2	–	1,767	–	–	–
	Stage 3	–	161	–	–	–
Balance as at 31.12.2020						
Investment grade		**39,094,927**	**7,183,070**	**29**	**47**	**224,211**
Fair value	Stage 1	4,421,677	5,674,732	–	–	224,211
Gross carrying amount	Stage 1	28,288,541	1,467,900	29	47	–
	Stage 2	382,218	23,603	–	–	–
Nominal amount	Stage 1	6,002,491	16,835	–	–	–
Non-investment grade		**39,638,868**	**682,260**	**4,205**	**10,446**	**–**
Gross carrying amount	Stage 1	35,982,880	528,410	3,745	8,502	–
	Stage 2	3,573,642	109,899	348	1,231	–
	Stage 3	–	4,831	–	–	–
Nominal amount	Stage 1	82,346	39,008	112	713	–
	Stage 3	–	112	–	–	–
Default		**609,737**	**18,161**	**–**	**467**	**–**
Gross carrying amount	Stage 3	609,737	18,161	–	467	–
Not rated		**–**	**15,410**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	13,555	–	–	–
	Stage 2	–	1,690	–	–	–
	Stage 3	–	165	–	–	–

66 Maturity analysis

in € thousand	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Balance as at 31.12.2021							
Financial assets	**2,880,772**	**1,368,631**	**4,584,994**	**25,537,809**	**57,252,886**	**17,926**	**91,643,018**
Cash and cash equivalents	997,958	–	–	–	–	–	997,958
Loans and advances to banks	1,179,074	376,154	460,348	2,965,706	3,642,540	–	8,623,822
Loans and advances to customers	493,263	957,563	3,350,847	19,651,364	43,319,672	–	67,772,709
Positive fair values of hedging instruments [1]	435	–	1,475	1,788	-706	–	2,992
Investments	205,568	34,914	772,191	2,918,936	10,290,555	17,926	14,240,090
Other assets	4,474	–	133	15	825	–	5,447
Financial liabilities	**-700,795**	**-1,067,857**	**-1,767,807**	**-1,795,270**	**-4,688,145**	**-68,346,171**	**-78,366,045**
Deposits from banks	-219,809	-1,056,514	-1,765,213	-1,758,244	-3,139,132	-1,567,121	-9,506,033
Deposits from customers	-477,709	-21	-2,747	-29,074	-28,289	-66,779,050	-67,316,890
Issued bonds	–	–	-2,050	-9,200	-1,512,200	–	-1,523,450
Negative fair values of hedging instruments [1]	325	678	2,203	1,417	-8,524	–	-3,901
Other liabilities	-3,602	-12,000	–	-169	–	–	-15,771
Financial guarantee contracts and loan commitments	**-6,195,974**	**–**	**–**	**–**	**-1,918**	**–**	**-6,197,892**
Balance as at 31.12.2020							
Financial assets	**1,812,339**	**1,954,171**	**3,610,062**	**25,846,348**	**56,455,809**	**16,575**	**89,695,304**
Cash and cash equivalents	542,490	–	–	–	–	–	542,490
Loans and advances to banks	634,616	704,318	550,535	3,703,515	4,069,472	–	9,662,456
Loans and advances to customers	466,583	1,223,023	2,758,595	18,914,570	42,553,996	–	65,916,767
Positive fair values of hedging instruments [1]	595	538	3,681	18,583	8,393	–	31,790
Investments	160,515	26,292	297,159	3,209,648	9,823,142	16,575	13,533,331
Other assets	7,540	–	92	32	806	–	8,470
Financial liabilities	**-1,540,641**	**-509,131**	**-2,576,866**	**-1,068,595**	**-1,456,641**	**-66,336,814**	**-73,488,688**
Deposits from banks	-1,183,366	-501,112	-2,575,048	-1,044,157	-929,528	-1,575,773	-7,808,984
Deposits from customers	-350,909	-19	-241	-23,134	-26,798	-64,761,041	-65,162,142
Issued bonds	–	–	-50	-1,200	-500,250	–	-501,500
Other liabilities	-6,366	-8,000	-1,527	-104	-65	–	-16,062
Financial guarantee contracts and loan commitments	**-6,140,621**	**–**	**–**	**–**	**-996**	**–**	**-6,141,617**

[1] net values

The maturity analysis compares contractual cash inflows with a positive sign with contractual cash outflows with a negative sign. For financial guarantee contracts and loan commitments, the cash outflows are disclosed as at the earliest possible stage.

The contractual maturities do not correspond to the actually expected cash inflows and outflows, particularly in the case of financial guarantee contracts and loan commitments.

Other disclosures

67 Financial guarantee contracts and loan commitments

in € thousand	31.12.2021	31.12.2020
Loan commitments	**6,196,534**	**6,140,332**
Credit facilities to customers	6,196,534	6,140,332
Financial guarantee contracts	**1,358**	**1,285**
Loan guarantees	294	322
Other guarantees and warranties	1,064	963
Total	**6,197,892**	**6,141,617**

The information disclosed on financial guarantee contracts and loan commitments refers to the nominal amounts of the relevant obligations entered into.

68 Revenue from contracts with customers

The income statement does not contain any revenue from contracts with customers other than the revenue from contracts with customers in net fee and commission income presented in Note 30.

69 Employees

The average number of employees comprises the fully consolidated companies of the Schwäbisch Hall Group by employee group:

	31.12.2021	31.12.2020
Female employees	**1,975**	**1,997**
Full-time employees	1,081	1,083
Part-time employees	894	914
Male employees	**1,293**	**1,306**
Full-time employees	1,172	1,179
Part-time employees	121	127
Total employees	**3,268**	**3,303**
Female junior employees	66	74
Male junior employees	130	122
Total junior employees	**196**	**196**

70 Group auditors and consulting fees

The total fees charged by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, as the Group auditor, since financial year 2021 are as follows, classified by type of service:

in € thousand	31.12.2021
Audit services	662
Other assurance services	–
Other services	9
Total	**671**

The Group auditor up to and including financial year 2020 was Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The total fees charged are as follows, classified by type of service:

in € thousand	31.12.2020
Audit services	591
Other assurance services	65
Other services	19
Total	**675**

The audit fees comprise expenses for the audit of the consolidated financial statements and the Group management report of Bausparkasse Schwäbisch Hall as well as for the statutory audits of the annual financial statements and management report of Bausparkasse Schwäbisch Hall and the subsidiaries included in the consolidated financial statements and audited by the Group auditor.

71 Remuneration of the management board and supervisory board of Bausparkasse Schwäbisch Hall

The remuneration of the Management Board of Bausparkasse Schwäbisch Hall in the Group under IAS 24.17 amounted to €4,534 thousand in the reporting period (previous year: €6,319 thousand) under IFRSs. These are broken down into current benefits of €2,628 thousand (previous year: €2,623 thousand), termination benefits of €1,044 thousand (previous year: €2,873 thousand) and share-based payments of €862 thousand (previous year: €823 thousand). Remuneration of the Management Board in the reporting period and the previous year includes the total bonus awarded for each year. The remuneration of the Supervisory Board amounts to €292 thousand (previous year: €301 thousand) and consists of current benefits.

There are defined benefit obligations of €12,066 thousand (previous year: €11,332 thousand) for members of the Management Board. Provisions of €55,415 thousand (previous year: €62,280 thousand) were recognised under IFRSs for current pensions and pension entitlements for former members of the Management Board or their surviving dependants.

The total remuneration granted to the Management Board of Bausparkasse Schwäbisch Hall under section 314(1) no. 6(a) of the HGB for fulfilling its duties in Bausparkasse Schwäbisch Hall and its subsidiaries amounted to €3,490 thousand in the reporting period (previous year: €3,446 thousand), and €292 thousand (previous year: €301 thousand) for the Supervisory Board.

The total remuneration of former members of the Management Board and their surviving dependants under section 314(1) no. 6(b) of the HGB amounted to €3,061 thousand (previous year: €3,454 thousand). Provisions of €50,411 thousand (previous year: €51,693 thousand) were recognised under German GAAP for current pensions and pension entitlements for former members of the Management Board or their surviving dependants.

The members of the Management Board did not receive any loans on an arm’s length basis (previous year: €0 thousand) under section 314(1) no. 6(c) of the HGB, while members of the Supervisory Board were granted loans of €335 thousand on an arm’s length basis (previous year: €357 thousand).

72 Share-based payment transactions

Bausparkasse Schwäbisch Hall has entered into agreements with the members of its Management Board, the managing directors of Schwäbisch Hall Kreditservice GmbH, the divisional managers and selected executives (risk takers) on the payment of multi-year variable remuneration. Share-based payment is awarded if the variable remuneration reaches or exceeds €50,000.

The amount of the variable remuneration depends on the achievement of agreed targets. The targets of the members of the Management Board of Bausparkasse Schwäbisch Hall have a multi-year assessment basis and include the core goals of the corporate strategy; the targets of all other risk takers have a one-year assessment basis. The parameters considered in the remuneration are key performance indicators that are relevant to the management of a *Bausparkasse*.

If the variable remuneration reaches or exceeds €50,000, 20% of the bonus is paid immediately in the following year and 20% after a one-year retention period. 60% of the bonus payment is spread over a deferral period of up to five years and is subject to a subsequent retention period of one year in each case. All amounts designated for deferred payment during the deferral period and during the retention period are linked to the development of the enterprise value of the Bausparkasse.

The enterprise value is determined annually by means of an enterprise valuation. The reduction in the enterprise value results in a decrease in the retained bonus components within defined bandwidths. If the enterprise value grows, there is no increase in the retained shares.

Negative performance contributions are taken into account in the determination of the bonus as well as in the determination of the proportionate deferrals and at the end of the retention period. This can lead to a decrease in or loss of the variable remuneration. In addition, a bonus component already paid out can be clawed back and claims for payment of a bonus can be extinguished up to two years after the end of the respective retention period if the manager or risk taker was significantly involved in or responsible for conduct that led to significant losses or a significant regulatory sanction for the institution, or seriously violated relevant external or internal rules regarding suitability and conduct (claw-back arrangements).

The following overview shows changes in share-based remuneration components not yet paid out:

in € thousand	Management Board	Risk takers
Share-based remuneration not paid out as at 01.01.2020	**1,733**	**409**
Share-based remuneration granted in reporting period	695	101
Share-based remuneration paid out that was granted in financial year 2018	-171	-17
Share-based remuneration paid out that was granted in financial year 2017	-182	-71
Share-based remuneration paid out that was granted in earlier financial years	-335	-94
Share-based remuneration not paid out as at 31.12.2020	**1,740**	**328**
Share-based remuneration granted in reporting period	632	63
Share-based remuneration paid out that was granted in financial year 2019	-174	-25
Share-based remuneration paid out that was granted in financial year 2018	-103	-10
Share-based remuneration paid out that was granted in earlier financial years	-350	-106
Share-based remuneration not paid out as at 31.12.2021	**1,745**	**250**

73 Events after the reporting period

There were no events after the reporting period required to be reported under IAS 10.

74 Related party disclosures

Transactions are entered into with related parties at market prices or on an arm's length basis in the course of usual business activity. Related parties are subsidiaries, joint ventures, associates, including their subsidiaries, DZ BANK AG, as the parent company, the companies it controls and the companies over which it exercises significant influence. Related persons are key management personnel who are directly or indirectly responsible and accountable for the planning, management and supervision of the activities of Bausparkasse Schwäbisch Hall, as well as their close family members. In the Schwäbisch Hall Group, the members of the Management Board and Supervisory Board of Schwäbisch Hall AG are deemed to be key management personnel for the purposes of IAS 24.

Related party transactions involve typical *Bauspar* products and financial services that were concluded on an arm's length basis.

There were loans to related persons of €335 thousand at the end of the financial year (previous year: €357 thousand) in the Schwäbisch Hall Group. Note 71 contains detailed information on the remuneration of key management personnel.

The following table shows the relationships with the parent company, unconsolidated subsidiaries, other related parties, pension plans for employees and joint ventures:

in € thousand	31.12.2021	31.12.2020
Interest income and current income	**84,836**	**124,855**
DZ BANK AG (parent company)	51,444	84,673
Other related parties	33,392	40,182
Interest expenses	**17,254**	**11,511**
DZ BANK AG (parent company)	17,525	11,770
Other related parties	-271	-259
Fee and commission income	**25,193**	**18,333**
DZ BANK AG (parent company)	5,439	–
Subsidiaries	535	–
Other related parties	19,219	18,333
Fee and commission expenses	**-1,763**	**-1,395**
DZ BANK AG (parent company)	-258	-145
Subsidiaries	-195	–
Other related parties	-1,310	-1,250
Gains or losses on derecognition of financial assets measured at amortised cost	**836**	**8,623**
DZ BANK AG (parent company)	836	8,623
Loans and advances to banks	**4,573,044**	**4,787,131**
DZ BANK AG (parent company)	3,530,879	3,677,803
Other related parties	1,042,165	1,109,328
Positive fair values of hedging instruments	**2,435**	**30,869**
DZ BANK AG (parent company)	2,435	30,869
Investments	**2,013,370**	**2,101,810**
DZ BANK AG (parent company)	980,557	1,080,837
Other related parties	1,032,813	1,020,973
Other assets	**2,749**	**3,070**
DZ BANK AG (parent company)	386	1,086
Subsidiaries	826	786
Other related parties	1,430	1,198
Pension plans for employees	107	–
Deposits from banks	**7,732,529**	**6,049,216**
DZ BANK AG (parent company)	7,732,529	6,049,216
Deposits from customers	**58,762**	**50,251**
Subsidiaries	58,762	50,251
Negative fair values of hedging instruments	**5,196**	**–**
DZ BANK AG (parent company)	5,196	–
Other liabilities	**312**	**256**
Subsidiaries	312	256
Financial guarantee contracts	**680**	**413**
Subsidiaries	680	413
Loan commitments	**854**	**–**
Pension plans for employees	854	–

Loans and advances to banks result primarily from investments in registered securities, of which €941 million (previous year: €1,008 million) were registered *Pfandbriefe* and €513 million (previous year: €832 million) were covered bonds of DZ BANK AG. Interest rates received on financial investments range between 0.68% and 4.34%.

The balance due to other related companies presented in financial investments results entirely from bearer *Pfandbriefe*. The bearer bonds issued by the parent company are unsecured. Interest rates received on financial investments range between 0.38% and 1.5%.

Bausparkasse Schwäbisch Hall AG furnishes collateral to DZ BANK AG for further transfer under the terms of securities repurchase agreements. The liabilities resulting from these transactions amounted to €2,715 million (previous year: €1,856 million) as at the reporting date. The liabilities from the issue of promissory note loans amounted to €4,906 million (previous year: €2,079 million) as at 31 December 2021. Short-term refinancing via money market transactions resulted in liabilities of €100 million (previous year: €1,699 million).

75 Management Board

Reinhard Klein
– Chief Executive Officer –
Responsible for Communication, Human Resource, Internal Audit,
Marketing and Corporate Strategy, Board Staff/Policy/Non-domestic

Jürgen Gießler
Responsible for Financial Control (incl. Management of the Collective),
Risk Control, Financial Accounting and Reporting, Legal and Compliance, Lending Activities

Mike Kammann
Responsible for Product and Process Management, IT Operations, IT Solutions
and Projects, IT Control, Purchasing and Supplier Management, Savings Activities

Peter Magel
Responsible for Sales, Regional Offices, Trading

GENERAL EXECUTIVE MANAGERS

Claudia Klug

Kristin Seyboth

Dr Mario Thaten
(since 1 August 2021)

76 Supervisory bodies

SUPERVISORY BOARD

Dr Cornelius Riese
– Chairman of the Supervisory Board –
Co-Chief Executive Officer
DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Ninon Kiesler
– Deputy Chair of the Supervisory Board –
Employee
Bausparkasse Schwäbisch Hall AG

Ulrike Brouzi
Member of the Management Board
DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Martin Gross
Regional District Manager
ver.di – Regional district of Baden-Württemberg
(member of the Supervisory Board since 1 April 2021)

Oliver Frey
Member of the Management Board
Vereinigte Volksbank eG
(Member of the Supervisory Board since 5 May 2021)

Bernhard Hallermann
Former member of the Management Board
Volksbank Süd-Emsland eG
(Member of the Supervisory Board until 5 May 2021)

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Frank Hawel
Regional Head of Financial Services
ver.di – Regional district of Baden-Württemberg

Roland Herhoffer
Employee
Schwäbisch Hall Kreditservice GmbH

Katharina Kaupp
General Manager, Trade Union Secretary
ver.di – Vereinte Dienstleistungsgewerkschaft,
District of Heilbronn-Neckar-Franken

Manfred Klenk
Employee
Schwäbisch Hall Facility Management GmbH

Marija Kolak
President
National Association of German Cooperative Banks (BVR)

Dr Volker Kreuziger
Former member of the Management Board
Prvá stavebná sporiteľňa, a. s.
(Member of the Supervisory Board until 31 December 2021)

Wilhelm Oberhofer
Member of the Management Board
Raiffeisenbank Kempten-Oberallgäu eG

Silvia Ofori
Employee
Schwäbisch Hall Kreditservice GmbH

Frank Overkamp
Chief Executive Officer
Volksbank Gronau-Ahaus eG

Ingmar Rega
Chief Executive Officer
Genossenschaftsverband – Verband der Regionen e.V.

Heiko Schmidt
Employee
Bausparkasse Schwäbisch Hall AG

Jörg Stahl
Spokesman of the Management Board
Volksbank Herrenberg-Nagold-Rottenburg eG

Manfred Stang
Chief Executive Officer
Sparda-Bank Südwest eG
(Member of the Supervisory Board since 13 January 2021)

Werner Thomann
Chief Executive Officer
Volksbank Rhein-Wehra eG

Susanne Wenz
Deputy Regional District Manager
ver.di – Regional district of Baden-Württemberg
(member of the Supervisory Board until 31 March 2021)

OMBUDSMAN

In accordance with section 12 of the German *Bausparkassen* Act (BauSparkG)

Carsten Schneider
Member of the Bundestag,
Minister of State and Federal
Government Commissioner for Eastern Germany, Berlin

77 Supervisory body offices held by members of the Management Board and employees

WITHIN BAUSPARKASSE SCHWÄBISCH HALL AG

As at the reporting date, members of the Management Board and employees also held offices on the statutory supervisory bodies of large corporations. These and other significant offices are listed in the following. Offices at companies included in the consolidated financial statements are indicated with an asterisk (*).

MEMBERS OF THE MANAGEMENT BOARD

Reinhard Klein (Chief Executive Officer)	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*) Sino-German Bausparkasse Co. Ltd., Tianjin (*) V-Bank AG, München
Jürgen Gießler	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*) Sino-German Bausparkasse Co. Ltd., Tianjin (*)
Mike Kammann	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Peter Magel	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*) Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

EMPLOYEES

Claudia Klug (General Executive Manager)	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall
Dr. Rainer Eichwede	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*)
Christian Oestreich	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)

ALSO WITHIN THE GROUP

As at the reporting date, offices were also held on the statutory supervisory bodies of the following large corporations in Germany.

Andrea Hartmann	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

78 List of shareholdings

Name	Location of registered office	Country	Ownership interest (%)	Share of voting rights (%)	Equity in € thousand	Profit or loss in € thousand
Consolidated subsidiaries						
Schwäbisch Hall Kreditservice GmbH	Schwäbisch Hall	Germany	100.00	100.00	42,030	30,903
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.	Budapest	Hungary	51.25	51.25	156,136	15,071
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.	Budapest	Hungary	51.25	51.25	8,618	823
Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft.	Budapest	Hungary	51.25	51.25	-1,135	-445
Consolidated structured subsidiaries						
UIN Union Investment Institutional Fonds Nr. 817	Frankfurt / Main	Germany	–	–	3,282,176	-2,175
Equity-accounted joint ventures						
Prvá stavebná sporitel'ňa, a. s.	Bratislava	Slovakia	32.50	32.50	284,075	17,224
Sino-German Bausparkasse Co. Ltd.	Tianjin	China	24.90	24.90	403,665	12,589
Unconsolidated subsidiaries						
Schwäbisch Hall Facility Management GmbH	Schwäbisch Hall	Germany	100.00	100.00	5,248	-1,572
Schwäbisch Hall Wohnen GmbH	Schwäbisch Hall	Germany	100.00	100.00	3,303	-2,497
SHT Schwäbisch Hall Training GmbH	Schwäbisch Hall	Germany	100.00	100.00	3,971	349
BAUFINEX GmbH	Schwäbisch Hall	Germany	70.00	70.00	1,671	-185
BAUFINEX Service GmbH	Berlin	Germany	35.00	52.50	25	–
VR Kreditservice GmbH	Hamburg	Germany	100.00	100.00	25	–
Unconsolidated associates						
Impleco GmbH	Berlin	Germany	50.00	50.00	1,919	-1,820

79 Information on the *Bauspar* collective of Bausparkasse Schwäbisch Hall AG

The following table provides an overview of the development and movements of the *Bauspar* contract portfolio over the course of financial year 2021:

in € thousand	Not allocated		Allocated		Total	
	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand
A. Portfolio at end of previous year	**7,468,998**	**301,078,403**	**526,061**	**14,475,365**	**7,995,059**	**315,553,768**
B. Additions in financial year by	**615,142**	**24,900,761**	**438,196**	**11,781,318**	**1,053,338**	**36,682,079**
1. New business honoured (contracts)[1]	436,096	22,232,909	–	–	436,096	22,232,909
2. Transfer	18,156	613,179	419	13,067	18,575	626,246
3. Allocation waiver and revocation of allocation	6,372	281,107	–	–	6,372	281,107
4. Splitting	106,050	–	22	–	106,072	–
5. Allocation or acceptance of allocation	–	–	437,742	11,767,816	437,742	11,767,816
6. Other	48,468	1,773,566	13	435	48,481	1,774,001
C. Disposals in financial year by	**913,831**	**27,946,980**	**474,704**	**12,135,484**	**1,388,535**	**40,082,464**
1. Allocation or acceptance of allocation	437,742	11,767,816	–	–	437,742	11,767,816
2. Reduction	–	1,125,068	–	–	–	1,125,068
3. Dissolution	364,337	12,667,351	368,825	9,146,468	733,162	21,813,819
4. Transfer	18,156	613,179	419	13,067	18,575	626,246
5. Merging[1]	45,128	–	–	–	45,128	–
6. Contract expiration	–	–	99,075	2,694,407	99,075	2,694,407
7. Allocation waiver and revocation of allocation	–	–	6,372	281,107	6,372	281,107
8. Other	48,468	1,773,566	13	435	48,481	1,774,001
D. Net additions / disposals	**-298,689**	**-3,046,219**	**-36,508**	**-354,166**	**-335,197**	**-3,400,385**
E. Portfolio at end of financial year	**7,170,309**	**298,032,184**	**489,553**	**14,121,199**	**7,659,862**	**312,153,383**

[1] including increases

The development of the allocation fund of the *Bauspar* collective of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, was as follows in the financial year:

in €	Total
A. Additions	
I. Carried forward from the previous year (surplus)	**–**
Amounts not yet disbursed	**62,874,984,531.15**
II. Additions in financial year	
1. Savings amounts (including offset house-building premiums)	10,067,245,183.30
2. Repayment amounts[1] (including offset house-building premiums)	1,247,608,231.22
3. Interest on *Bauspar* deposits	755,065,657.33
4. Technical security reserve	–
Total	**74,944,903,603.00**
B. Withdrawals	
I. Withdrawals in financial year	
1. Allocated sums, where disbursed	
a) *Bauspar* deposits	7,168,709,321.69
b) Building loans	1,198,355,513.97
2. Repayment of *Bauspar* deposits on as yet unallocated *Bauspar* contracts	2,222,889,236.62
3. Technical security reserve	–
II. Surplus of additions	
(amounts not yet disbursed) at end of the financial year[2]	**64,354,949,530.72**
Total	**74,944,903,603.00**

Comments:
[1] Repayment amounts are the portion of repayment instalments attributable solely to repayment.
[2] Among other things, the surplus of additions includes

a) *Bauspar* deposits of allocated *Bauspar* contracts not yet disbursed	109,555,565.30
b) *Bauspar* loans from allocations not yet disbursed	2,818,694,814.46

Schwäbisch Hall, 21 February 2022

Bausparkasse Schwäbisch Hall Aktiengesellschaft
Bausparkasse der Volksbanken und Raiffeisenbanken

Management Board

Reinhard Klein **Jürgen Gießler** **Mike Kammann** **Peter Magel**

Independent Auditor's Report

To Bausparkasse Schwäbisch Hall Aktiengesellschaft
– Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2021, and of its financial performance for the financial year from 1 January to 31 December 2021, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:
I. Measurement of *Bauspar*-specific provisions (provisions relating to building society operations)
II. Loss allowances for the building loans business

Our presentation of these key audit matters has been structured in each case as follows:
1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

I. MEASUREMENT OF BAUSPAR-SPECIFIC PROVISIONS (PROVISIONS RELATING TO BUILDING SOCIETY OPERATIONS)

1. In the Company's consolidated financial statements *Bauspar*-specific provisions (provisions relating to building society operations) amounting to EUR 1,398 million are reported under the "Provisions" balance sheet item. These include *Bauspar*-specific provisions that relate to the Bausparkasse's obligations from interest bonuses (particularly loyalty bonuses) on *Bauspar* deposits. Under the Bausparkasse's tariff terms and conditions, bonuses are granted to *Bauspar* customers subject to the occurrence of various conditions, such as the *Bauspar* customer's election to exercise their option to receive the interest bonus, the observance of a waiting period, which, if the option is exercised, begins on the valuation date on which the target valuation figure and a certain minimum *Bauspar* deposit are reached, the attainment of a minimum term of the *Bauspar* contract, and the waiver of the right to draw down the allocated *Bauspar* loan. The bonuses represent obligations that are uncertain as to their amount and timing. They are measured at the best estimate of the expenses required to settle the present obligation at the reporting date. The estimate is made on the basis of the results of the *Bauspar*-specific simulation calculations (collective simulations). In the course of selecting the parameters for these simulation calculations, the executive directors make assumptions regarding new business, the future behavior of *Bauspar* customers on the basis of historical data and the forecast capital market rate of interest, and the forecast period. A bandwidth method is used to determine the simulation calculation, which forms the basis for recognizing the provision and which is thus regarded by the executive directors as the best possible estimate. The forecast quality of the models used for the *Bauspar*-specific simulation calculation is validated on an annual basis. The calculation of the *Bauspar*-specific provisions required the use of judgments and assumptions by the executive directors. Minor changes in these assumptions in the model used for the *Bauspar*-specific simulation calculations can have a material impact on the measurement of the *Bauspar*-specific provisions for interest bonuses.

   Due to the material significance of these provisions for the assets, liabilities and financial performance of the Company as well as the associated uncertainties in the estimations made and the scope for judgment on the part of the executive directors, the measurement of the *Bauspar*-specific provisions was of particular significance during our audit.

2. Given the significance of *Bauspar*-specific provisions for the Company's overall business, as part of our audit we assessed the methods used by the Company for the *Bauspar*-specific simulation calculations, and the assumptions made by the executive directors and those used by the Company, together with our internal specialists for *Bauspar*-specific mathematics. The assessment was based on our industry expertise and experience, among other things. We also evaluated the Company's process for determining and recognizing *Bauspar*-specific provisions. Furthermore, we assessed the forecast quality of the model used based on the accuracy of past forecasts. Therewith, we assessed the results of the Company's calculations of the amount of the provisions and evaluated the consistent application of the models.

   Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors for the purpose of measuring the *Bauspar*-specific provisions are substantiated and sufficiently documented.

3. The Company's disclosures relating to Bauspar-specific provisions are contained in sections 6, 26 and 55 of the notes to the consolidated financial statements.

II. LOSS ALLOWANCES FOR THE BUILDING LOANS BUSINESS

1. One of the primary focal points of the Group's business activities is the building loan business, which is reported in the Company's consolidated financial statements under the "Loans and advances to banks" and "Loans and advances to customers" balance sheet items. The measurement of the loss allowances for the building loans business is determined in particular by the structure and quality of the portfolio, general economic factors and the executive directors' estimates with respect to future loan defaults, including against the backdrop of the expected impact of the ongoing COVID-19 pandemic on the building loans business.

   Specific valuation allowances on receivables from building loans are determined on the basis of parameters using histories of losses, which are adjusted for forecast future losses, or individual estimates by experts as to the recoverable cash flows using probability-weighted scenarios at the individual transaction level. Existing collateral is taken into account. The amount of the specific valuation allowances reflects the difference between the outstanding loan amount and the present value of the returns expected from the exposure.

Statistical models for estimating the expected credit loss in accordance with IFRS 9 are used to determine the global valuation allowances on building loans. Building loans for which the credit risk has not increased significantly since initial recognition are measured at the amount equal to the 12-month expected credit losses. For building loans for which the credit risk has increased significantly since initial recognition or which have defaulted, the specific and global valuation allowances are measured at the amount equal to the lifetime expected credit losses. The calculation is based on the following parameters: probability of default; loss ratio; and expected loan amount at the time of default. On the one hand, the probability of default and loss ratio take into account historical information. On the other hand, current economic developments and forward-looking assumptions on macroeconomic development are incorporated in the form of shifts in the statistically determined probabilities of default and loss ratios (shift factors). In view of the macroeconomic changes that resulted from the COVID-19 pandemic and were not observed to this extent in the past, the executive directors have made an expert-based adjustment to the shift factors.

The loss allowances for the building loans business is, firstly, of great significance for the assets, liabilities, and financial performance of the Group in terms of amount and, secondly, involves considerable scope for judgment on the part of the executive directors with regard to forecasts of macroeconomic variables and scenarios as well as the expected cash flows from a building loan. Furthermore, the measurement parameters applied, which are subject to material uncertainties including the impacts of the COVID-19 pandemic, have a significant impact on the recognition and the amount of any loss allowances required. Against this background, this matter was of particular significance during our audit.

2. As part of our audit, we initially assessed the appropriateness of the relevant IT system and the Company's relevant internal control system and tested the effectiveness of the controls, particularly with regard to the collection of business data, the risk classification of borrowers, the determination of loss allowances, and the validation of the measurement models. Moreover, we evaluated the measurement of receivables from building loans, including the proper application of the accounting policies and the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the Company with respect to the economic circumstances as well as the recoverability of the related collateral. In addition, for the purpose of assessing the specific and global valuation allowances, we evaluated the measurement models used by the Company, the underlying inputs, macroeconomic assumptions and parameters results of the validation procedures. We involved our internal specialists in the field of mathematical finance for the purpose of auditing the measurement models. We assessed the executive directors' estimate as to the impact of the COVID-19 pandemic with respect to the borrower's financial circumstances and the appropriateness of the model parameters and assumptions. We examined the necessity of the expert-based adjustment of the shift factors and assessed how it was determined. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the impairment of the building loans portfolio are appropriate, and that the controls implemented by the Group are appropriate.

3. The Company's disclosures relating to loss allowances for the building loans business are contained in sections 23, 34, 50 and 65 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as an unaudited part of the group management report.

The other information comprises further all remaining parts of the Financial Report 2021 – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated

financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 5 May 2021. We were engaged by the supervisory board on 5 May 2021. We have been the group auditor of the Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, Schwäbisch Hall, without interruption since the financial year 2021.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to our audit of the financial statements, we also provided the audited company and/or companies controlled by it with the following services that are not disclosed in the consolidated financial statements or the group management report: we audited the annual financial statements of the Company and performed various audits of the financial statements of subsidiaries. We also performed reviews of other financial information, other assurance services on regulatory matters, audits conducted in connection with the reporting and other information of a special fund.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Peter Kleinschmidt.

Stuttgart, 21 February 2022

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Kleinschmidt	ppa. Robin Aigeldinger
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

SUPERVISORY BOARD AND COMMITTEES

In financial year 2021, the Supervisory Board of Bausparkasse Schwäbisch Hall AG performed the tasks assigned to it in accordance with the law, the Articles of Association and the Rules of Procedure. It advised the Management Board, monitored its management activities and decided on items of business presented to it that required approval. In 2021, the discussions of the Supervisory Board again focused on the strategic transformation of Bausparkasse Schwäbisch Hall AG into a leading private housing finance lender. In light of the necessary digital transformation of the business model, the Supervisory Board dealt with the formation of a new company and an investment in a joint venture. Considerable time was also spent discussing the effects of the coronavirus pandemic on new business growth, the traditional sales channels via *Bausparkasse's* own sales force and the cooperative banks, credit risk and the earnings development. It also discussed in detail the introduction of a new *Bauspar* tariff and increasing of the profitability of the *Bausparen* business segment.

In order to fulfil its duties and to comply with the statutory provisions, the Supervisory Board formed a joint Risk and Audit Committee, a Remuneration Committee, a Nomination Committee and a Mediation Committee under section 27(3) of the German Co-Determination Act (MitbestG).

In January 2021, the Supervisory Board performed a self-evaluation in accordance with the requirements of the German Banking Act (KWG).

It found that the structure, size, composition and performance of the Supervisory Board, and the knowledge, skills and experience of both the individual members of the Supervisory Board and the board as a whole met the legal requirements and the requirements of the Articles of Association. The simultaneous evaluation of the Management Board and the individual members of the Management Board by the Supervisory Board led to the same conclusion.

Insofar as there were indications of relevant conflicts of interest among members of the Supervisory Board in individual cases, those members of the Supervisory Board concerned abstained from voting.

Based on its own assessment, the Supervisory Board had adequate financial and human resources at its disposal in the reporting period to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. For example, Bausparkasse Schwäbisch Hall AG offers to cover the costs for participation by the members of the Supervisory Board in an external provider's modular advanced training programme tailored specifically to the needs of Supervisory Board members, which they can make use of on an individual basis as needed (including topics such as comprehensive bank management, corporate strategy, bank regulation and corporate governance). In addition, the Supervisory Board organised a specialist workshop in financial year 2021 that focused in *Bauspar*-specific and regulatory issues relating to the duties of the Supervisory Board (including the issues of IT security, the future of work, regulatory management framework, expanding product distribution through brokerage platforms and the strategic positioning in the Housing Financing business segment).

COOPERATION WITH THE MANAGEMENT BOARD

The Management Board reported regularly, promptly and comprehensively, both in writing and verbally, to the Supervisory Board about the position and development of the Bausparkasse and the Schwäbisch Hall Group, and the general course of business. Furthermore, the Management Board informed the Supervisory Board about strategic developments on an ongoing basis. Additionally, the Management Board reported in detail about the earnings position, operational and medium-term planning, the modernisation of the IT infrastructure and the performance of domestic and non-domestic investees. It also addressed the risk report, the audit report and the compliance report.

The Supervisory Board discussed the aforementioned issues with the Management Board, advised it and monitored its management activities. The Supervisory Board was at all times involved in decisions of fundamental importance.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board held three meetings in financial year 2021. The joint Risk and Audit Committee met twice. The Nomination Committee and the Remuneration Committee each held three meetings. It was not necessary for the Mediation Committee to meet during financial year 2021. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2021 and participated in the written resolution procedures of the relevant bodies.

In its meetings, the Supervisory Board primarily discussed the report by the Management Board on current business performance, the earnings and risk position, and the strategic outlook. The Supervisory Board examined the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG as well as the consolidated financial statements and the Group management report as at 31 December 2020, and approved them in accordance with the recommendation by the joint Risk and Audit Committee. The Supervisory Board also addressed the operational and strategic planning in detail and the implementation of the strategy, and took note of these matters. In line with the recommendations by the aforementioned committee, the Supervisory Board also resolved to approve the report of the Supervisory Board to the Annual General Meeting and the agenda for the Annual General Meeting on 5 May 2021, including the resolutions contained in the agenda.

The Supervisory Board's committees discharged their duties prescribed by law and the Articles of Association and – where necessary – adopted relevant recommendations for resolutions to the Supervisory Board.

The committee chairs reported regularly to the Supervisory Board on the work of the committees.

The Supervisory Board also adopted resolutions on two contract prolongations and a future new appointment to the Management Board, in each case in accordance with the recommendation by the Nomination Committee. The Supervisory Board additionally resolved to update the general guideline adopted in 2019 for the implementation of the EBA Suitability Guideline, including the annexes. In addition, the Supervisory Board addressed issues relating to remuneration in accordance with the German Remuneration Regulation for Institutions (IVV) and – where necessary – adopted resolutions in line with the recommendation by the Remuneration Committee. Further, the Supervisory Board addressed the structure of the employee remuneration systems, the Remuneration Report and the determination of the total amount of variable remuneration for financial year 2020. It also dealt with the nomination for the by-election of two shareholder representatives to the Supervisory Board of the *Bausparkasse* in accordance with section 25d of the KWG as well as the additional supervisory requirements to be observed. In each case in line with the recommendations of the Nomination Committee, it adopted the corresponding proposed resolution for the Annual General Meeting.

In addition, the targets for the proportion of women on the Supervisory Board and Management Board were updated as part of the strategy of promoting representation of the under-represented gender. In accordance with the recommendation by the Nomination Committee, the previous target for the Supervisory Board of at least 30% was confirmed until 2026. For the same period, the target for the proportion of women on the Management Board was raised permanently from "zero" to at least "1".

In the course of its duties, the joint Risk and Audit Committee also focused on the election of the auditor for financial year 2021, supervised the engagement for non-audit services and the rotation of the (Group-wide) auditor.

In urgent cases, the Supervisory Board approved significant transactions via the written resolution procedure. Furthermore, the Chairman of the Supervisory Board was also kept informed about significant developments and decisions outside of the meetings. Additionally, the Chairman of the Supervisory Board and the Chief Executive Officer of Bausparkasse Schwäbisch Hall AG, as well as the chairs of the Supervisory Board's committees and the responsible members of the Management Board, had regular discussions ahead of key decisions and significant transactions.

COOPERATION WITH THE AUDITORS

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart audited the annual financial statements and consolidated financial statements prepared by the Management Board for financial year 2020 as well as the management report and Group management report, including the accounting, and issued an unqualified auditor's opinion in each case. The audit reports were submitted to the members of the Supervisory Board in a timely manner and discussed in detail. The Supervisory Board concurred with the findings of the audit. Due to regulatory requirements, the Group-wide auditor rotated to PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, effective financial year 2021, which was preceded by a procedure to select the auditor.

ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS

During their meetings, the Supervisory Board and the joint Risk and Audit Committee established from among its members examined in detail the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements and the Group management report for the period ended 31 December 2021. The Chair of the joint Risk and Audit Committee comprehensively informed the Supervisory Board about the extensive deliberations of the committee regarding the aforementioned annual financial statements and management reports. The representatives of the auditor took part in the meeting of the Supervisory Board to adopt the annual financial statements and in the preparatory meeting of the joint Risk and Audit Committee, in order to report in detail on the material findings of the audit. They were also available to members of the Supervisory Board to provide information. The Supervisory Board did not raise any objections to the financial reporting.

It is not necessary to prepare a report on relationships with affiliated companies (dependent company report) due to the profit and loss transfer agreement between DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, which was extended for at least a further five years in March 2021.

In the course of its audit of the 2021 annual financial statements, the auditor did not find any indications that transactions were carried out with affiliated companies that were not at arm's length during the reporting period.

At its meeting on 3 March 2022, the Supervisory Board approved the annual financial statements of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements as of 31 December 2021 prepared by the Management Board. The annual financial statements are therefore adopted.

CHANGES IN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Bernhard Hallermann stepped down from the Supervisory Board at the end of the Annual General Meeting on 5 May 2021. Olaf Klose had already resigned his seat as at 31 July 2020 and Susanne Wenz as at 31 March 2021. The Supervisory Board thanked the former members for their positive collaboration and many years of commitment. Manfred Stang was nominated by the shareholders as the successor to Mr Klose and appointed by the court effective 13 January 2021. Martin Gross was appointed by the court effective 1 April 2021 as the successor to Susanne Wenz. Effective the end of the Annual General Meeting on 5 May 2021, Oliver Frey was elected to the Supervisory Board as the successor for Mr Hallermann and Manfred Stang was confirmed in office.

Effective 1 May 2022, the Supervisory Board appointed Kristin Seyboth as a new member of the Management Board of the *Bausparkasse* on the recommendation of the Nomination Committee. Jürgen Gießler will leave the Board of Management on 30 April 2022. The Supervisory Board wishes to thank him for the good cooperation and his many years of successful work for the *Bausparkasse*.

The Supervisory Board would like to thank the Management Board and all of the employees of the Schwäbisch Hall Group for their work in 2021.

Schwäbisch Hall, March 2022

Bausparkasse Schwäbisch Hall AG
– Bausparkasse der Volksbanken und Raiffeisenbanken –

Dr Cornelius Riese
Chairman of the Supervisory Board

Advisory Board of Bausparkasse Schwäbisch Hall AG

The task of the Advisory Board is to advise the Management Board as part of an active exchange of views.

Bausparkasse Schwäbisch Hall's Advisory Board consists of up to 40 members, at least 75% of whom are full-time members of the management boards of cooperative banks. The remaining members may be representatives of cooperative associations, central banks and other network companies or customer groups:

Jochen Kerschbaumer
– Chairman of the Advisory Board –
Member of the Management Board
Wiesbadener Volksbank eG,
Wiesbaden

Martin Schöner
– Deputy Chairman of the Advisory Board –
Member of the Management Board
Volksbank Karlsruhe Baden-Baden eG,
Karlsruhe

Uwe Abel
Chief Executive Officer
Mainzer Volksbank eG,
Mainz

Kurt Abele
Chief Executive Officer
VR-Bank Ostalb eG,
Aalen

Uwe Arendt
Former member of the Management Board
Bank 1 Saar eG,
Saarbrücken
(member of the Advisory Board until 31 July 2021)

Jürgen Beerkircher
Chief Executive Officer
Volksbank Backnang eG,
Backnang

Friedhelm Beuse
Member of the Management Board
Volksbank Münsterland Nord eG,
Rheine
(member of the Advisory Board since 5 May 2021)

Matthias Frentzen
Member of the Management Board
Dortmunder Volksbank eG,
Dortmund

Albert Griebl
Spokesman of the Management Board
VR-Bank Rottal-Inn eG,
Pfarrkirchen

Dr Hauke Haensel
Chief Executive Officer
Volksbank Pirna eG,
Pirna

Gerd Haselbach
Spokesman of the Management Board
Raiffeisenbank im Kreis Calw eG,
Neubulach

Joachim Hausner
Deputy Chief Executive Officer
VR Bank Bamberg-Forchheim eG,
Bamberg

Stephan Heinisch
Member of the Management Board
Volksbank Freiburg eG,
Freiburg

Jörg Horstkötter
Chief Executive Officer
Volksbank Delbrück-Hövelhof eG,
Delbrück

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Member of the Management Board
Volksbank Vorpommern eG,
Greifswald
(member of the Advisory Board until 5 May 2021)

Thomas Krießler
Member of the Management Board
VR Bank Hohenneuffen-Teck eG,
Frickenhausen
(member of the Advisory Board since 5 May 2021)

Birger Kriwet
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Vereinigte Volksbank eG,
Brakel

Rouven Lewandowski
Member of the Management Board
Raiffeisenbank Mainschleife-Steigerwald eG,
Volkach

Stephan Liesegang
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Sparda-Bank Hamburg eG,
Hamburg

Rainer Lukas
Member of the Management Board
Volksbank Raiffeisenbank Nordoberpfalz eG,
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Dr Veit Luxem
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Volksbank Mönchengladbach eG,
Mönchengladbach

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Spokesman of the Management Board
Volksbank Darmstadt – Südhessen eG,
Darmstadt
(member of the Advisory Board since 5 May 2021)

Willi Obitz
Member of the Management Board
Volksbank eG Gera • Jena • Rudolstadt,
Rudolstadt

Christoph Ochs
Chief Executive Officer
VR Bank Südpfalz eG,
Landau
(member of the Advisory Board until 5 May 2021)

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Harzer Volksbank eG,
Wernigerode

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Member of the Management Board
Brandenburger Bank Volksbank Raiffeisenbank eG,
Brandenburg

Hubert Overesch
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Volksbank Münsterland Nord eG,
Rheine
(member of the Advisory Board until 5 May 2021)

Martina Palte
Member of the Management Board
Berliner Volksbank eG,
Berlin

Martin Rudolph
Member of the Management Board
VR Bank Westküste eG,
Husum

Thomas Ruff
Member of the Management Board
Volksbank eG Bad Laer-Borgloh-Hilter-Melle,
Hilter

Ekkehard Saueressig
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Volksbank Neckartal eG,
Eberbach
(member of the Advisory Board until 30 June 2021)

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Volksbank Bielefeld-Gütersloh eG,
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Peter Scherf
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Volksbank Herford-Mindener Land eG,
Minden

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meine Volksbank Raiffeisenbank
Rosenheim-Chiemsee eG,
Rosenheim

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PSD Bank Karlsruhe-Neustadt eG,
Karlsruhe

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Volksbank Nienburg eG,
Nienburg

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Volksbank Lindenberg eG,
Lindenberg

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Volksbank Raiffeisenbank eG,
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VR-Bank Mittelfranken West eG,
Ansbach

Martin Wangemann
Member of the Management Board
Pommersche Volksbank eG,
Stralsund
(member of the Advisory Board since 5 May 2021)

Dr. Lars Witteck
Member of the Management Board
Volksbank Mittelhessen eG,
Gießen
(member of the Advisory Board since 5 May 2021)

Service

Service

Memberships

BAUSPARKASSE SCHWÄBISCH HALL IS A MEMBER OF THE FOLLOWING PROFESSIONAL ASSOCIATIONS AND INSTITUTIONS OF THE HOUSING AND BANKING SECTORS:

National Association of German Cooperative Banks (BVR), Berlin

German Cooperative and *Raiffeisen* Confederation – reg. assoc. (DGRV), Berlin

German *Raiffeisen* Confederation – reg. assoc. (DRV), Berlin

German Association for Housing, Urban and Spatial Development – reg. assoc. (DV), Berlin

Association of Private Bausparkassen – reg. assoc., Berlin

vhw – Bundesverband für Wohnen und Stadtentwicklung – reg. assoc. (Federal association for housing and urban development), Berlin

Association of German *Pfandbrief* Banks – reg. assoc. (vdp), Berlin

Arbeitsgemeinschaft Baden-Württembergischer Bausparkassen (Working Group of Baden-Württemberg *Bausparkassen*), Stuttgart

European Federation of Building Societies, Brussels

IUHF International Union for Housing Finance, Brussels

The Institute of International Finance (IIF), Washington DC

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Regional offices

Division	Address	Telephone	Fax
North-East Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg-West Pomerania, Lower Saxony, Saxony, Saxony Anhalt, Schleswig-Holstein, Thuringia	Überseering 32 22297 Hamburg	040 82222-1600	
South Bavaria and Baden-Württemberg	Crailsheimer Straße 52 74523 Schwäbisch Hall	0791 46-2276	0791 46-5680
West Hesse, North Rhine-Westphalia, Rhineland-Palatinate, Saarland	Lyoner Straße 15 60528 Frankfurt / Main	069 669097-60	069 669097-70
Specialised banks Cooperative institutions (throughout Germany)	Lyoner Straße 15 60528 Frankfurt / Main	069 669097-0	069 669097-77

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Slovakia	**Prvá stavebná sporiteľňa, a. s.** Bajkalská 30 829 48 Bratislava 25 SLOVAKIA	+ 421 2 58231-111	+ 421 2 43422-919	www.pss.sk
Hungary	**Fundamenta-Lakáskassza** Lakás-takarékpénztár Zrt. Alkotás utca 55-61 1123 Budapest HUNGARY	+ 36 1 411-8000	+ 36 1 411-8001	www.fundamenta.hu

DZ BANK Group

The DZ BANK Group forms part of the German Cooperative Banking Group, which comprises around 800 local cooperative banks and is one of Germany's largest private-sector financial services organisations measured by total assets. Within the German Cooperative Banking Group, DZ BANK AG functions as a central institution. Its task is to support the work of the local cooperative banks and to boost their competitiveness. It is also active as a commercial bank and is the holding company for the DZ BANK Group.

The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, Union Investment Group, VR Smart Finanz and various other specialised institutions. With their strong brands, the companies of the DZ BANK Group constitute key pillars in the range of financial products and services offered by the German Cooperative Banking Group. The DZ BANK Group deploys its strategy and range of services for the cooperative banks and their customers through its four business lines – Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

This combination of banking, insurance, *Bausparen* and investment services offerings has a long and successful tradition in the German Cooperative Banking Group. The specialised institutions in the DZ BANK Group provide highly competitive products at reasonable prices within their specific areas of expertise. This ensures that the cooperative banks in Germany are able to offer their customers a comprehensive range of outstanding financial services.

LEGAL NOTICE AND ACKNOWLEDGEMENTS

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