Schwäbisch Hall

2023

Bausparkasse Schwäbisch Hall AG

Financial Report

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

At a glance

Bausparkasse Schwäbisch Hall AG	2023	2022
New business		
Bausparen (presented, in € billion)	31.00	34.10
Housing financing (total, in € billion)	9.20	16.30
Contracted business		
Bauspar sum (honoured, in € billion)	321.57	313.02
Contracts (in millions)	7.00	7.20
Loans and loan commitments (total, in € billion)	67.10	65.85
Number of customers (in millions)	6.30	6.50

Schwäbisch Hall Group Non-Domestic, excluding joint ventures	2023	2022
New business		
Bausparen (presented, in € billion)	1.21	1.16
Housing financing (total, in € billion)	0.13	0.26
Contracted business		
Bauspar sum (honoured, in € billion)	9.06	8.71
Contracts (in millions)	0.58	0.64
Loans and loan commitments (total, in € billion)	1.36	1.30
Number of customers (in millions)	0.41	0.48

Schwäbisch Hall Group IFRS key financial indicators in € million[1]	2023	2022
Profit/loss before taxes	20	143
Total assets	84,369	85,599
Equity	4,454	4,215

Schwäbisch Hall Group regulatory ratios in %	2023	2022
Common Equity Tier 1 capital ratio	24.1	24.8
Total capital ratio	24.3	25.0
Leverage ratio	5.7	5.7

Moody's ratings	2023	2022
Bank rating	AA2	AA2
Hypothekenpfandbriefe (German mortgage covered bonds)	AAA	AAA

Human Resources	2023	2022
Employees (full-time equivalents in the Group)	3,922	3,934
Trainees and apprentices	228	217

[1] Management approach

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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.

Kristin Seyboth

Dr Mario Thaten

Mike Kammann
Chief Executive Officer

Peter Magel

The Management Board

Dear readers,

2023 was shaped by difficult overall conditions for the real estate sector: inflation, high construction costs and volatile interest rates affected the market. Yet despite these challenges, together with our partners in the German Cooperative Banking Group, we held our own very well and enjoyed considerable success.

With a volume of €31 billion, our new *Bauspar* business again performed strongly. Although it was nine per cent below the previous year's record result, which was however very much influenced by the rapid, strong interest rate reversal and the associated comeback experienced by *Bausparen*, we further extended our market leadership by growing our market share by 2.3 percentage points to 31.2 per cent. This success demonstrates that our customers value *Bausparen* as a reliable instrument for hedging interest rates, as well as for accumulating equity, which has regained importance in the debate about "How much house can I afford?". Many customers also use their *Bauspar* contract to modernise or renovate their own four walls at a later date.

We recorded a result of €13.4 billion in new housing financing business. It includes both classic annuity and building loans as well as bridging loans and *Bauspar* loan payments. At 29.5 per cent, the year-on-year drop was less severe than in the housing finance market as a whole, which fell by 37.4 per cent. This development reflects the challenging environment: high interest, construction and energy costs could not be offset by what was no more than a moderate decline in real estate prices. The consequence is that building and buying real estate have become more expensive.

Another factor is the refurbishment backlog for existing properties: many homeowners want to refurbish their property, but are unsure because of the complicated and constantly changing subsidy rules and postpone their projects. We have responded to the growing demand for advice and guidance in the area of energy-efficient refurbishment by training around 1,800 of our sales force experts as modernisation and subsidy advisors.

With an overall sales performance of €40.7 billion, we delivered a good result despite the continuing challenging environment in financial year 2023.

> **"We extended our market leadership in *Bausparen* in 2023."**

The tough conditions in the real estate market also impacted our profit before taxes. At €20 million, it is slightly higher than forecast, but still below the previous year (€143 million in accordance with IFRS). Operating income is still affected by the rapid, sharp rise in interest rates in 2022. However, this is a temporary effect. The higher interest rates will already have a positive effect over the next few years.

We are confident that the housing financing market has bottomed out and will grow in the medium to long term. Relatively stable interest rates, combined with a moderate decline in real estate prices and a sharp rise in rents, will once again motivate more people to buy their own home. This is being driven on the one hand by the lack of new buildings, which is causing supply to lag behind demand. On the other, there is no let-up in demand for home ownership. Demand for energy-efficient refurbishments, with a financing volume of around €80 billion a year, is also substantial and offers good market opportunities.

Schwäbisch Hall will stick to its successful strategy in the coming years with the two core business segments of *Bausparen* and Housing Financing and will continue to expand them. We are concentrating on strategic action areas with a focus on "shaping growth" and "increasing profitability". We want to drive growth by using state-of-the-art omnichannel sales channels and leveraging new sources of income in the "building and living" ecosystem – thus continuing our journey from a pure product provider to a solutions provider. We will also increase our profitability by expanding our refinancing on favourable terms using *Pfandbriefe*. In addition, we want to improve our adaptability, drive sustainability and turn customers, partners and employees into fans. That's because customer satisfaction along with well-qualified and motivated colleagues are, and will remain, key elements for the sustainable success of our company.

Together with our dedicated office staff, our field sales advisors and our partners in the German Cooperative Banking Group, we are looking forward to a promising and successful 2024.

Sincerely,

Mike Kammann
(Chief Executive Officer)

Peter Magel

Kristin Seyboth

Dr Mario Thaten

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 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 Schwäbisch Hall Group as a whole and to the 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 AG 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, Bausparkasse Schwäbisch Hall AG is represented in China, Slovakia and Hungary.

Business model and strategic focus

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 society operations". 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, Frankfurt am Main (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 700 cooperative banks, their more than 7,000 bank branches and 30 million customers, it is one of the leading integrated financial services partners in Germany.

Bausparkasse Schwäbisch Hall AG's "HORIZONT 2025" strategy provides the framework and sets the guardrails for its growth ambitions in the two core business segments of Housing Financing and *Bausparen*. It aims to sustainably strengthen both core business segments in order to support the German Cooperative Banking Group in expanding its market position as a reliable product and solutions provider in the long term. This strategy is being operationalised through quantitative ambitions in the areas of "Finance", "Markets & Customers", "Processes" and "Employees".

As a leading product and solutions provider in the cooperative building and housing ecosystem, Bausparkasse Schwäbisch Hall AG accepts its responsibility for helping to shape the climate transition in private home ownership. Bausparkasse Schwäbisch Hall AG derives its understanding of sustainability from the United Nations Sustainable Development Goals, the Paris Climate Agreement and the United Nations Global Compact Code of Conduct. With the Paris Green Deal, the European Commission is addressing a large number of challenges on an unprecedented scale. The package includes initiatives that affect a number of closely intertwined policy fields: climate, environment, energy, transport, industry, agriculture and sustainable finance, and thus also directly affect Bausparkasse Schwäbisch Hall AG's core business. The aim of the Green Deal is to deliver a green transformation to become climate neutral by 2050 and thus meet the commitments under the Paris Agreement. The EU is specifically leveraging the financial sector for the climateneutral transformation of the real economy in the EU economic area and is hence creating pressure to act. An example of this is the introduction of the CSR reporting obligation for companies, the Corporate Sustainability Reporting Directive (CSRD), which will take effect in 2024. The issue of sustainability affects Bausparkasse Schwäbisch Hall AG in all its aspects, from risk management through the focus of its core business segments and its business operations, down to its social commitment. Sustainability is therefore firmly anchored as a cross-cutting issue in our business strategy. ESG risks are integrated into the risk inventory, portfolio analyses and stress tests. Bausparkasse Schwäbisch Hall AG offers its customers a comprehensive portfolio of services and products to drive forward the climate transition in the residential proerty sector. This ranges from a wide array of information and educational offerings on its website down to advisory services provided by certified subsidy advisor. The *FuchsEco* building *Bauspar* tariff and the *FuchsKonstant Energie* financing offer provide the right financing options for energy-efficient modernisation measures. By promoting ecological and energy-efficient building and living, Bausparkasse Schwäbisch Hall AG has a lever for reducing carbon dioxide emissions. Incorporating ESG aspects not only makes a positive contribution to our sustainability goals, but also serves to avoid ESG risks in business operations and to support the sustainable transformation of our business portfolio. In addition to these sector-specific topics, Bausparkasse Schwäbisch Hall places particular emphasis on strong corporate governance, on social issues and on its employees.

LONGER-TERM STRATEGIC MEASURES

The growing role of intermediaries in the value chain is changing the balance of power between platform and product providers. Moreover, industry boundaries are becoming increasingly fluid and solutions are emerging across industries along customer demand areas. Financial service providers are often only one part of larger ecosystem offerings. This trend, which is already evident today in payment transactions and consumer finance, can also be expected in the medium term to apply to more complex financial products such as housing financing. This results in the following implications for Bausparkasse Schwäbisch Hall AG:

- Participate in the platform market through its own solutions (BAUFINEX GmbH), with an opportunity to share in the growth market.
- Create daily relevance for end customers on the topic of “building society operations” (Wohnglueck.de service and content platform).
- Develop new business models centred around the core Housing Financing product.

REFINANCING

With its *Pfandbrief* issuances, Bausparkasse Schwäbisch Hall AG has created another 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 AG already placed its sixth issue on the capital market in January 2023 with a benchmark volume of €500 million. Another planned benchmark issue had to be postponed at short notice due to adverse conditions. The issue that took place in January 2024 was also a première: Bausparkasse Schwäbisch Hall AG issued its first green *Pfandbrief*. The benchmark issue with a volume of €500 million met with strong demand and was 4.4 times over-subscribed, with an order volume of around €2.2 billion. This green benchmark issue is a further step towards reinforcing this strategically important refinancing channel. Since 2022, they have been supplemented by private placement issues. In this case, the maturity and interest rate structure can be negotiated individually. In keeping with the lending business, *Pfandbriefe* are issued exclusively in euros. 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 AG’s *Pfandbriefe* its top rating of AAA (“Triple A”). As a member of the GFG liquidity network, uncovered refinancing funds also cover part of SHG’s non-collective funding requirements.

The Schwäbisch Hall Group

The Schwäbisch Hall Group consists of Bausparkasse Schwäbisch Hall AG as the parent company, the consolidated subsidiaries in the Schwäbisch Hall Group that Bausparkasse Schwäbisch Hall AG controls, directly or indirectly, as well as other unconsolidated equity investments.

CHANGE IN THE BASIS OF CONSOLIDATION

Bausparkasse Schwäbisch Hall AG is selling its stake in its consolidated subsidiary Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. (FLK), Budapest, the market leader in *Bausparen* in Hungary. The sale agreement was signed on 10 November 2023. The sale to MBH Bank Nyrt, Budapest (MBH), the second largest bank in Hungary, offers FLK the best opportunities for development in an increasingly challenging market, not least thanks to MBH’s large branch network. In future, Bausparkasse Schwäbisch Hall AG will focus more strongly on its home market of Germany, where it will drive forward its equity investments with a focus on innovation and the development of the building and living ecosystem. The FLK transaction is expected to close in the first half of 2024, subject to the outstanding approval of the responsible supervisory authorities. The sale of the stake in FLK resulted its classification as a discontinued operation in accordance with IFRS 5 in the 2023 consolidated financial statements. In the reporting in the combined management report in accordance with the management approach, FLK is still included in the *Bausparen* non-domestic segment in 2023, in line with the reporting to the Management Board.

BAUSPARKASSE SCHWÄBISCH HALL AG

With its strategic target vision “HORIZONT 2025”, Bausparkasse Schwäbisch Hall AG 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 core business segments of *Bausparen* and Housing Finance, Bausparkasse Schwäbisch Hall AG positions itself as a partner of the cooperative banks. In its Housing Financing core business segment, it concentrates on traditional *Bauspar* loans, its own *Bauspar*-backed immediate financing products, including *Riester*-subsidised financing (*Wohn-Riester* home ownership pensions), other 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, Bausparkasse Schwäbisch Hall AG offers its customers a *Bauspar* contract, a financing component that combines a plannable, government-subsidised savings phase with an optional loan with a guaranteed interest rate that supports them when they build up equity and protects them from rising interest rates.

The customer service employees at Schwäbisch Hall and the more than 3,100 sales force experts ensure that around 6.3 million customers receive advice and customer service.

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

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

DOMESTIC SUBSIDIARIES AND EQUITY INVESTMENTS

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

The largest subsidiary is Schwäbisch Hall Kreditservice GmbH (SHK), which handles new and existing business on behalf of Bausparkasse Schwäbisch Hall AG. With a portfolio of about 9 million contracts and approximately 1,100 employees, together with its subsidiary VR KreditService GmbH, Hamburg, SHK is a market leader in the field of standardised processing of *Bauspar* products. The subsidised lending business provided by SHK for DZ BANK AG was reintegrated into DZ BANK AG as at 1 January 2023.

Schwäbisch Hall Facility Management GmbH (SHF) is responsible for building management and operation of the Schwäbisch Hall 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 Transformation GmbH (SHT) offers the cooperative partner banks advice on digital transformation and its technical practicability in addition to the training offerings.

With BAUFINEX GmbH (BAUFINEX) and Schwäbisch Hall Wohnen GmbH (SHW), the Schwäbisch Hall Group complements the conventional sales channels of banks and 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, the Schwäbisch Hall Group is responding to the changing needs of its customers.

Together with its strategic partner Hypoport SE, BAUFINEX 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 Bank and the local sales force. SHW advises customers digitally if they wish or if no advisor is available on site.

Impleco GmbH (Impleco) is a joint venture whose venturers are PSD Banken Rhein Ruhr eG, Berlin-Brandenburg eG and Nord eG as well as VR Bank Westfalen-Lippe eG, in addition to Bausparkasse Schwäbisch Hall AG. Impleco's goal is to develop a fintech that aims to serve as the nucleus for a cooperative ecosystem offering for construction and housing.

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.

The basis for determining the segments is the internal financial reporting to the Management Board. This means that the Schwäbisch Hall Group is divided into the three segments of *Bausparen* and Housing Financing Domestic, *Bausparen* and Housing Financing Non-Domestic, and the Other Domestic segment. These segments form the basis for the Group's segment reporting under IFRS 8. Their development is presented separately in this management report.

SEGMENTS OF THE SCHWÄBISCH HALL GROUP
THE FOLLOWING COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS:

Segments of the Schwäbisch Hall Group

Bausparen and Housing Financing Domestic

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (parent company)

and the core business segments:

- Bausparen
- Housing Financing

and the business segment:

- Cross-Selling

Schwäbisch Hall Kreditservice GmbH (SHK), Schwäbisch Hall

BAUFINEX GmbH (BAUFINEX), Schwäbisch Hall

Schwäbisch Hall Wohnen GmbH (SHW), Schwäbisch Hall

Specialised fund:
UIN Union Investment Institutional, Frankfurt am Main, Fund No. 817 (UIN 817)

Bausparen and Housing Financing Non-Domestic

Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. (FLK), Budapest, Hungary (as subgroup)[1]

Joint venture *Bausparkassen*

- Prvá stavebná sporitel'ňa, a.s., Bratislava, Slowakei (PSS)
- Sino-German *Bausparkasse* Co. Ltd., Tianjin, China (SGB)

Other Domestic

Schwäbisch Hall Facility Management GmbH (SHF) – buildings and more –, Schwäbisch Hall

[1] in accordance with the management approach (discontinued operation in accordance with IFRS 5)

Bausparen and Housing Financing Domestic segment

This segment contains the *Bausparen* core business segment and comprises Bausparkasse Schwäbisch Hall AG's traditional *Bauspar* business in Germany.

Housing Financing, which is the second core business segment, comprises Bausparkasse Schwäbisch Hall AG'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 AG helps the local cooperative banks to safeguard and expand their market position in the field of housing financing.

In the Cross-Selling business segment, Bausparkasse Schwäbisch Hall AG 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.

SHK focuses solely on processing the building loans of Bausparkasse Schwäbisch Hall AG.

Because of their function of supporting the sale of building loans, SHW and BAUFINEX are also allocated to the segment. The *Bausparen* and Housing Financing Domestic segment also includes the specialised fund UIN Fund No. 817, established for Bausparkasse Schwäbisch Hall AG's own investments.

Bausparen and Housing Financing Non-Domestic segment

This segment contains the *Bausparen* business segment and comprises FLK's traditional *Bauspar* business in Hungary. The Housing Financing business segment combines FLK's business with building loans (immediate financing and *Bauspar* loans). The joint venture *Bausparkassen* PSS and SGB are included in the consolidated financial statements using the equity method and are included in the segment at the Group's share of their profit or loss for the year.

Other Domestic segment

This business segment consists of facility management for Bausparkasse Schwäbisch Hall AG and customers in the Schwäbisch Hall region as well as other GFG customers.

HOW THE *BAUSPAR* SYSTEM FUNCTIONS

Bausparen is the core of the Schwäbisch Hall Group's product range. It is based on a system in which the customer accumulates savings earmarked for a specific purpose 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 invested freely 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 control approach represents a combination of centralised and decentralised control tools. It is aligned with Bausparkasse Schwäbisch Hall AG's business model and its integration into the DZ BANK Group. As a product specialist in the GFG, the Schwäbisch Hall Group's mission is to provide these financial services for all aspects of residential property.

Control is based on an annual strategic planning process. The Schwäbisch Hall Group companies prepare their business strategy (goals, strategic directions and measures) and strategic financial and capital planning. Regular plan/actual comparisons with corresponding analyses reveal the causes of variances in the key performance indicators to the Management Board. In addition to strategic comprehensive bank planning, regular mediumterm projections and (stress) scenario calculations provide the Management Board with a detailed view of future business development.

The following committees are key to the management of the Schwäbisch Hall Group and Bausparkasse Schwäbisch Hall AG:

- The **Asset Liability Committee (ALCO)** is responsible for asset-liability management. This means that the ALCO is responsible for managing the balance sheet structure, for defining long-term financing strategies, for capital management, for liquidity management, for managing regulatory capital ratios and for market risk management.
- The **Credit Committee (KreCo)** is responsible for credit risk management and serves as a committee for strategic management and monitoring in the Housing Financing segment.
- The **Product Development Committee (PECO)** is responsible for the *Bausparen* and Housing Financing product range. It manages and monitors the product portfolio in line with a defined product development process.
- The **Sustainability Board** ensures the cross-functional flow of information on all requirements and projects related to sustainability.

The key performance indicators for earnings, volume and productivity, and the sales-related key performance indicators for reported new *Bauspar* business and housing financing for both the Schwäbisch Hall Group and Bausparkasse Schwäbisch Hall AG 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 Bausparkasse Schwäbisch Hall AG is described in the "Financial performance of the Group and the segments" chapter in this Group management report.

Reported new *Bauspar* business

Reported new *Bauspar* business contains the *Bauspar* sum of the new *Bauspar* contracts entered into with customers 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 business

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 (annuity loans) that are carried in the books of Bausparkasse Schwäbisch Hall AG. This indicator also contains the financing schemes brokered for GFG institutions.

There are currently no non-financial key performance indicators within the meaning of GAS 20.105. Bausparkasse Schwäbisch Hall fundamentally revised its sustainability strategy in 2023 under the title “Creating a sustainable home”. All ESG activities have been enhanced in this strategy and non-financial key performance indicators are expected to be defined in future. The Sustainable Finance focus area, where the issue of green bonds has already been prepared, centres on the green asset ratio in addition to other ESG indicators. Due to the high level of complexity involved in calculating these indicators and the many uncertainties surrounding the interpretation of the legal requirements, no non-financial key performance indicators were used for internal management purposes in 2023.

A projection for the Schwäbisch Hall Group’s key performance indicators is provided in the Report on expected developments.

Report on economic position

Changes in the operating environment

MACROECONOMIC ENVIRONMENT

At the beginning of 2023, the global economy was marked by the impact of the Russian invasion of Ukraine, high inflation and, to a lesser extent, the Covid-19 pandemic. The global economy expanded at no more than a very moderate pace over the course of the year. However, the recession feared in many quarters due to the massive tightening of monetary policy did not materialise. The US economy in particular proved to be robust. By contrast, economic momentum in China fell short of expectations due to structural challenges in its heavily investment-driven growth model. At 3%, global growth remained well below the historical average in 2023, according to the International Monetary Fund (IMF).

After only moderate growth in the first half of the year, economic momentum in the eurozone remained muted in the second half of the year. The energy crisis in 2022 and the rapid tightening of monetary policy in 2023 brought the economic recovery in the eurozone after the Covid-19 pandemic to a standstill. Persistently high inflation rates and the deteriorating competitive conditions caused by the energy price shocks in manufacturing depressed economic growth. Nevertheless, unemployment remained comparatively low.

The German economy suffered from a shock-laden environment in 2023. In addition to the geoeconomic crises, persistent cost shocks and weak global demand strained the German economy. The German economy struggled particularly badly in this environment. With its high proportion of manufacturing by international standards and the importance of energy-intensive sectors, it also felt the existing supply risks and cost shocks more acutely. The loss of purchasing power and ongoing consumer uncertainty depressed private consumption. The rise in interest rates kept investments below their crisis level. Foreign trade suffered from the continuing weakness of the global economy and contracted, as did value added in construction and trade. Business service sectors performed more favourably. The economic weakness was also felt on the labour market, where employment growth came to a standstill and unemployment rose slightly. Real GDP fell by 0.3 per cent year-on-year, as the Federal Statistical Office announced on the basis of a preliminary estimate, a decrease of 2.2 percentage points compared with the previous year's figure.

Although the Hungarian economy coped relatively well with the consequences of the Covid-19 pandemic, economic output shrank significantly as a result of the Russian attack on Ukraine. The war stalled the economies of key trading partners in the EU and impaired the sales opportunities of Hungary's export-driven industry. After four consecutive quarters of declining economic output, GDP grew again for the first time in the third quarter of 2023, by 0.9% compared with the previous quarter. Whereas companies in the construction and retail sectors in particular remained stuck in crisis mode, consumer confidence slowly improved in the second half of the year. The labour market remained stable, with only a mar-ginal increase in the unemployment rate from 3.5% to 3.9%. Inflation fell from over 25% in January to 9.9% in October, due mainly to falling energy and food prices. The European Commission forecast a 0.7% decline in GDP for 2023 as a whole.

FINANCIAL MARKETS AND INTEREST RATES

Despite the economic recovery and continuously rising inflation, the European Central Bank held back from raising interest rates until the middle of 2022. In light of the undiminished surge in inflation, the ECB then initiated its interest rate reversal in July 2022. The ECB raised the most important key interest rate in the eurozone to 4.5% in ten multiple rate hikes by September 2023. Never before has monetary policy been tightened to such an extent and at such a pace. The trend in interest rates for housing loans was different. They had already become dramatically higher in 2022. Since October 2022, they then moved sideways in waves, fluctuating between 3.5% and 4.5%.

In September 2022, the Hungarian central bank (MNB) raised its key interest rate sharply by 125 basis points to 13.0% and at the same time announced the end of its interest rate hike cycle. In the weeks that followed, the forint reached a historic low of 435 forints against the euro. The MNB then declared the deposit rate for overnight deposits, which it had raised to 18%, to be its key interest rate. The MNB was only able to reduce the deposit rate by 100 basis points per month starting in May 2023, in line with decreasing inflationary pressures. Both interest rates were back at the same level in September. The MNB launched its interest rate reduction cycle in October and reduced its key lending rate to 12.25%. The key interest rate at the end of the year was 10.75%, while one euro cost 382.39 forints.

Whereas inflation in Germany was still 6.9% in 2022, it remained at a high 5.9% in 2023. At the same time, the fall in residential property prices accelerated over the course of 2023. After falling by 6.8% at the start of the year, the year-on-year decline was 9.6%, and 10.2% in the third quarter. Bond market yields, which are a benchmark for the market rate of interest for real estate loans, moved sideways, while prices were stable. Whereas the yield on ten-year German Bunds was still 2.56% at the beginning of the year, it topped the 3.0% mark on 4 October 2023 for the first time in twelve years, at 3.02%, and reached 2.03% at the end of 2023.

HOUSING CONSTRUCTION ACTIVITY

Housing construction, which was an important driver of the German economy in recent years, has been in a deep crisis since 2022, while there is a lack of affordable housing. The reason for this is the significant rise in financing and construction costs. The effective interest rates for residential construction loans to private households with a fixed interest rate over five to ten years have almost quadrupled since the bottom of the low interestrate phase. Construction costs for residential buildings have risen by more than 40% since the start of the Covid-19 pandemic. At the same time, the federal government reduced subsidies for new construction to a minimum. In addition, the standards for new buildings were tightened again at the beginning of 2023. New residential construction orders have fallen continuously since the beginning of 2022. In the first three quarters, 195,100 building permits were issued for homes, representing a year-on-year decline of 26.7%. Following 280,000 completions in 2022, the Federal Government's target of 400,000 homes built annually was also clearly missed in 2023, at around 245,000 completions (Central Association of German Construction Companies (ZDB)).

The environment for the Hungarian construction industry deteriorated significantly in 2023. The government discontinued most of its subsidy and investment activities. In addition, important housing construction programmes were not renewed. Residential construction was the industry's main concern in 2023. In the new construction segment, falling real wages, rising construction interest rates and costs, coupled with stagnating sales prices, put a brake on demand. In a year-on-year comparison up to 30 September, the number of newly completed homes dropped by around 21%, from 13,617 to 10,808 residential units. According to a forecast by the EUROCONSTRUCT construction market research network, the value of construction output in the residential segment is expected to fall by 13.5% in 2023, from €5.6 billion to €4.9 billion.

Course of business of the Group and the segments

GROUP

In an economic environment characterised by the sharp rise in interest rates, inflation and considerable uncertainty, the Schwäbisch Hall Group achieved a sales performance in 2023 that the Management Board rates as satisfactory overall. The strong demand for *Bauspar* contracts and *Baupar* loans cushioned the decline in demand for housing financing. This shows that Bausparkasse Schwäbisch Hall AG's business model, with its core business segments of *Bausparen* and Housing Financing, can function in a variety of interest rate situations.

BAUSPAREN AND HOUSING FINANCING DOMESTIC SEGMENT

With a total sales performance of €40.7 billion, Bausparkasse Schwäbisch Hall AG fell well short of the record set in the previous year (€51.1 billion). The decline is attributable mostly to Housing Financing, which moved in lockstep with the decline in the overall market.

At €31.0 billion, new *Bauspar* business in Germany declined by 9.0% year-on-year (2022: €34.1 billion). With 458,463 contracts concluded, this corresponds to a 0.9% decrease over the 2022 comparative figure (462,835). The average *Bauspar* sum for new contracts was €67,632 (2022: €73,591), and hence significantly lower than the prioryear amount.

Bausparkasse Schwäbisch Hall AG reinforced its position as the number one *Bausparkasse* in Germany. Its market share for new *Bauspar* business honoured reached 31.2% and was thus significantly above the 30% mark (2022: 28.9%). As at the end of 2023, Bausparkasse Schwäbisch Hall AG had 6.3 million customers (2022: 6.5 million), with a stock of 7.0 million contracts honoured (2022: 7.2 million).

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

	in %
under 20 years old	8.2
20 to under 25 years old	7.8
25 to under 30 years old	9.2
30 to under 40 years old	20.1
40 to under 50 years old	18.3
50 to under 60 years old	19.5
60 years old or more	16.9

In financial year 2023, over 12,400 *Wohn-Riester* (home ownership pension) subsidised oldage provision contracts were concluded with Bausparkasse Schwäbisch Hall AG. Bausparkasse Schwäbisch Hall AG has just on 580,000 *Wohn-Riester* (home ownership pension) contracts in its portfolio.

The volume of *Bauspar* deposits at year-end 2023 reached €64.2 billion (2022: €66.3 billion).

The *Bauspar* sum of the stock of contracts rose by 2.7%, from €313.0 billion in 2022 to €321.6 billion in 2023. The average *Bauspar* sum for the stock of contracts increased from €43,178 (in 2022) to €45,883 (in 2023), corresponding to 6.3% growth. Additions to the allocation fund decreased by €116 million to €11.9 billion.

544,654 *Bauspar* contracts (2022: 470,558) were allocated in 2023. At €18.2 billion, the allocated *Bauspar* volume was up 31.9% on the previous year's level of €13.8 billion. The volume of loans provided, net of allocation cancellations and loan waivers was €14.4 billion (2022: €10.2 billion).

Consumer uncertainty and higher interest, construction and energy costs led to a sharp drop in new residential construction, in some areas up by to 43%. This is reflected across the entire housing finance market and in Bausparkasse Schwäbisch Hall AG's Housing Financing business. By contrast, the significant increase in demand for *Bauspar* loans only partially offset this decrease. Brokerage of its own suspended repayment financing (interest-only loans) accounted for €1.3 billion (2022: €3.8 billion) of the total volume of €9.2 billion (2022: €16.3 billion), with brokerage of *Fuchs* building loans accounting for €1.6 billion (2022: €3.0 billion). In addition, financing schemes with a volume of €6.3 billion (2022: €9.5 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 €3.5 billion (2022: €5.9 billion). Bausparkasse Schwäbisch Hall AG *Bauspar* loans and bridging loans accounted for a further €4.2 billion (2022: €2.7 billion). The total portfolio of building loans was €64.1 billion, approximately 4.0% higher than in 2022 (€61.5 billion). €4.9 billion of this amount related to *Bauspar* loans (+64.4%), €44.8 billion to advance payment and bridging loans (-2.8%) and €15.0 billion (+14.2%) to other building loans.

With a total volume of €0.5 billion (2022: €0.7 billion), Cross-Selling product sales recorded a decrease of 28.9% in 2023. The total volume does not include the volume of term life insurance policies brokered in connection with building loans, which rose by 46.6% to approximately €1.8 billion.

As part of a sales partnership, Bausparkasse Schwäbisch Hall AG's sales force brokered almost 87,000 financing and investment products for its cooperative partner institutions (-8.7% compared with 2022).

BAUSPAREN AND HOUSING FINANCING NON-DOMESTIC SEGMENT

The FLK subsidiary was allocated to this segment using the management approach. In accordance with IFRS 5, FLK is reported as a discontinued operation in the consolidated financial statements since the signing date of 10 November 2023. The PSS and SGB joint ventures are accounted for using the equity method.

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 end of the Covid-19 pandemic had a positive impact on new *Bauspar* business in Hungary in 2023. Despite difficult overall conditions, with a high inflation rate and a decline in net incomes, FLK was able to stabilise its new *Bauspar* business. Although the number of new *Bauspar* contracts fell significantly below the previous year's level to 54,000 (2022: 65,000 contracts), the volume of new business remained unchanged at €1.2 billion). The average *Bauspar* sum rose significantly year-on-year (2023: €22,100; 2022: €17,800). At €284 million, savings funds received (payments received for *Bauspar* contracts) significantly lower than the previous year's figure of €318 million. Thanks to the stronger exchange rate, *Bauspar* deposits remained stable, at €1.5 billion (2022: €1.5 billion). The volume of *Bauspar* loans granted rose sharply to €170 million (2022: €142 million). The volume of new housing financing business fell to €102 million, following €264 million in 2022. The decline was primarily the result of the sharp increase in credit interest rates on the housing financing market.

Slovakia

PSS successfully increased its core business, with 70,256 *Bauspar* contracts concluded (2022: 54,587) and an overall *Bauspar* sum of €2.1 billion (2022: €1.5 billion). In the housing financing business, PSS recorded new business of €436 million, following €532 million in 2022.

China

Despite the difficult market environment, SGB was able to increase the volume of new business, 155,408 *Bauspar* contracts concluded (2022: 158,092) and an overall *Bauspar* sum of €6.7 billion (2022: €5.7 billion). In the housing financing business, SGB recorded new business of €940 million, following €790 million in 2022.

OTHER DOMESTIC SEGMENT

SHF consists of the following three divisions: BSH, Document Services and Market. Revenue in the BSH division is generated exclusively from facility management services for Bausparkasse Schwäbisch Hall AG. Revenue in the Document Services division is the result of print and shipping services, scanning and indexing, as well as mail handling both for Bausparkasse Schwäbisch Hall AG and for other customers. Revenue in the Market division consists of facility management services for customers outside Bausparkasse Schwäbisch Hall AG. In financial year 2023, SHF recorded a revenue decrease of almost 10%. This change relates exclusively to the provision of services to Bausparkasse Schwäbisch Hall AG and is mainly the result of lower transfer prices. By contrast, SHF was able to significantly increase its revenue in the Market division (+8%). The average number of employees declined to 520 in financial year 2023 (2022: 528). SHF was certified to the FSC® CoC standard and thus meets its ecological sustainability commitment to the responsible use of natural resources.

Financial performance of the Group and the segments

GROUP

The Schwäbisch Hall Group's results were significantly lower year-on-year. Following €143 million in 2022, the Schwäbisch Hall Group generated profit before taxes of €20 million in the reporting period. In terms of interest income, the Schwäbisch Hall Group is only slowly reaping the benefits of the rise in interest rates, while the extremely rapid increase in capital market interest rates led to further significant pressure on interest expenses. In the year-on-year comparison, it should be noted that interest expenses in 2022 were reduced by a non-recurring effect from the reversal of provisions for home savings and loan business (€+185 million).

Net profit was also shaped by a sharp decline in new business in the Housing Financing core business segment, reflecting the housing financing market, and a strong increase in *Bauspar* loans with new *Bauspar* business at a high level.

In light of the extraordinary and persistent economic uncertainty and high inflation and energy prices, the Management Board believes that the results can still be considered to be satisfactory, including in light of the extremely rapid rise in capital market interest rates.

Interest income increased substantially year-on-year. Interest income from *Bauspar* loans rose sharply (€+28 million), accompanied by a significant growth in the total portfolio.

Income decreased for advance and bridge financing loans (€-26 million), in particular relating to volumes. By contrast, income from other building loans increased (€+57 million) due to the expansion of the *SofortBaugeld* business in recent years. Investment interest increased significantly (€+74 million).

FINANCIAL PERFORMANCE OF THE SCHWÄBISCH HALL GROUP

			Change	
in € million	**2023**	**2022**	**absolute**	**in %**
Net interest income	550	744	-194	-26.1
Interest income	1,434	1,303	131	10.1
Interest expenses	-893	-564	-329	-58.3
Income from investments in joint ventures using the equity method	9	5	4	80.0
Loss allowances	-18	-16	-2	-12.5
Net fee and commission income	-13	11	-24	>-100
Fee and commission income	100	132	-32	-24.2
Fee and commission expenses	-113	-121	8	6.6
Gains and losses on investments	0	-90	90	100.0
Other gains or losses on valuation of financial instruments	1	3	-2	-66.7
Gains or losses on derecognition of financial assets measured at amortised cost	-2	3	-5	>-100
Administrative expenses	-536	-528	-8	-1.5
of which personnel expenses	-283	-274	-9	-3.3
of which other administrative expenses	-195	-191	-4	-2.1
of which depreciation/amortisation	-58	-63	5	7.9
Other net operating income	38	16	22	>100
Profit/loss before taxes	**20**	**143**	**-123**	**-86.0**
Income taxes	14	-53	67	>100
Net profit	**34**	**90**	**-56**	**-62.2**

Figures including FLK (discontinued operation in accordance with IFRS 5)

The negative effect of the amortisation of fee and commission expenses and transaction costs included in effective interest on *Bauspar* deposits and building loans decreased (€+10 million).

Interest expenses are attributable mainly to *Bauspar* deposits (2023: €709 million; 2022: €407 million). The increase relates primarily to provisions for home savings and loan business (€296 million), of which €185 million relates to a special reversal contained in the figure for the previous year. The discontinuation of legacy tariffs with higher interest rates decreases current interest paid on *Bauspar* deposits €48 million.

A €95 million increase in other interest expenses, reduced by net disposal gains of €55 million, is attributable to refinancing funds and is mainly related to the level of interest rates.

The income from investments in joint ventures using the equity method contains the earnings contribution by PSS amounting to €7 million (2022: €2 million) and the earnings contribution by SGB amounting to €3 million (2022: €3 million).

Of the expenses for loss allowances of €18 million, €20 million is attributable to Bausparkasse Schwäbisch Hall AG, €2 million to UIN 817 and €+4 million to FLK.

The expected effects of the uncertain macroeconomic situation, resulting in particular from the effects of the Ukraine war and the delayed consequences of the Covid-19 pandemic, were reflected in the loss allowances and have a €11 million impact on Bausparkasse Schwäbisch Hall in 2023. The other expenses are mainly attributable to the new building loans granted by Bausparkasse Schwäbisch Hall AG (€2.5 billion). FLK's loss allowances decreased by €4 million due to the expiry of the credit moratorium in Hungary.

Net fee and commission income of €-13 million was significantly lower than the previous year (2022: €11 million). This primarily reflected the decrease in new business in the two core business segments *Bausparen* and Housing Financing. The discontinuation of the annual fee for the *Fuchs 03* tariff further depressed net fee and commission income (€-8 million).

Gains on investments in the prior-year period resulted mainly from sales of listed bearer bonds. Measurement of the joint ventures resulted in an expense of €30 million in the prior-year period (SGB €16 million; PSS €14 million).

Other measurement gains or losses on financial instruments are attributable to Bausparkasse Schwäbisch Hall AG. A gain of €0.1 million (2022: loss of €7 million) is attributable to measurement gains on interest rate swaps prior to their designation in the hedging relations. Hedge ineffectiveness resulted in a gain of €0.7 million (2022: €10 million).

Gains or losses on the derecognition of financial assets measured at amortised cost include sales of bearer bonds measured at amortised cost by Bausparkasse Schwäbisch Hall AG (2023: €0 million; 2022 €6 million) and FLK (2023: €-2 million; 2022: €-3 million).

There was a slight year-on-year increase in administrative expenses.

FLK's personnel expenses rose by €5 million, reflecting in particular the high level of inflation in Hungary. By contrast, the personnel expenses of the other companies remained almost unchanged, rising by a mere €2 million.

Other administrative expenses increased slightly. This was partly offset by other administrative expenses at FLK, which decreased by €2 million.

The decrease in depreciation and amortisation is primarily the result of measures in connection with implementing the new core banking software in the "NEXT" project contained in the previous year's figure.

The increase in other net operating income is primarily the result of a provision that was recognised as an expense in the previous year.

Due to a change in its legal opinion, the tax audit no longer recognises the – previously recognised – provision for customer loyalty bonus and interest rate bonuses for tax purposes from the 2015 assessment period onwards. We have not yet received the final audit report and the changed tax assessments for the audit period. The resulting additional tax payment of around €200 million is reported as an allocation liability. A deferred tax asset is recognised in the same amount. We intend to challenge the legal opinion of the tax audit in out-of-court and, if necessary, court proceedings.

The cost/income ratio, which is the ratio of administrative expenses to total operating income, was 93.4% in the Schwäbisch Hall Group in the reporting period, compared with 76.9% in 2022. Economic RORAC was 0.7% (2022: 4.7%).

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* AND HOUSING FINANCING 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.

			Change	
in € million	**2023**	**2022**	**absolute**	**in %**
Net interest income	464	671	-207	-30.8
Interest income and current income	1,336	1,218	118	9.7
Interest expenses	-873	-548	-325	-59.3
Current income from investments in subsidiaries and joint ventures, and dividend income	1	1	–	–
Loss allowances	-22	-13	-9	-69.2
Net fee and commission income	-19	6	-25	>-100
Fee and commission income	94	126	-32	-25.4
Fee and commission expenses	-113	-120	7	5.8
Gains and losses on investments	–	-76	76	100.0
Other gains or losses on valuation of financial instruments	1	3	-2	-66.7
Gains or losses on derecognition of financial assets measured at amortised cost	–	6	-6	-100.0
Administrative expenses	-487	-491	4	0.8
of which personnel expenses	-237	-234	-3	-1.3
of which other administrative expenses	-201	-202	1	0.5
of which depreciation/amortisation	-49	-55	6	10.9
Other net operating income	43	25	18	72.0
Segment profit before taxes	**-20**	**131**	**-151**	**>-100**

The significant decrease in segment profit is attributable largely to net interest income and is explained in the disclosure on changes in consolidated net interest income.

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* AND HOUSING FINANCING NON-DOMESTIC SEGMENT

The *Bausparen* and Housing Financing 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 the Schwäbisch Hall Group is reported in income from investments in joint ventures using the equity method.

FLK doubled its profit before taxes and recorded the best result in the company's history (2023: €33.2 million; 2022: €16.5 million). This good result was attributable in particular to the high interest rates on investments in Hungary. Two non-recurring effects also positively impacted net profit for the financial year. Firstly, funds returned by the deposit guarantee fund (€2.0 million), following payment of a special contribution in the previous year. Secondly, the necessary reversal of loss allowances (€7.0 million), largely because of the expiry of the credit moratorium in Hungary.

In Slovakia, PSS significantly improved its profit before taxes (2023: €25.3 million; 2022: €11.6 million).

The decline in net interest income due to higher refinancing costs was more than offset by lower administrative expenses and the reversal of loss allowances.

In China, SGB's profit before taxes remained largely stable (2023: €12.3 million; 2022: €12.7 million). Whereas a sharp drop in interest rates in China led to a decline in net interest income at SGB, loss allowances were significantly reduced.

FINANCIAL PERFORMANCE OF THE *BAUSPAREN* AND HOUSING FINANCING NON-DOMESTIC SEGMENT

in € million	2023	2022	Change absolute	Change in %
Net interest income	77	68	9	13.2
Interest income	97	84	13	15.5
Interest expenses	-20	-16	-4	-25.0
Income from investments in joint ventures using the equity method	9	5	4	80.0
Loss allowances	4	-3	7	>100
Net fee and commission income	6	5	1	20.0
Fee and commission income	10	9	1	11.1
Fee and commission expenses	-4	-4	–	–
Gains and losses on investments	–	–	–	–
Other gains or losses on measurement of financial instruments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	-2	-3	1	33.3
Administrative expenses	-46	-42	-4	-9.5
of which personnel expenses	-21	-16	-5	-31.3
of which other administrative expenses	-18	-19	1	5.3
of which depreciation/amortisation	-7	-7	–	–
Other net operating income	-6	-9	3	33.3
Profit before taxes	**42**	**21**	**21**	**100.0**

Figures including FLK (discontinued operation in accordance with IFRS 5)

FINANCIAL PERFORMANCE OF THE OTHER DOMESTIC SEGMENT

Segment profit before taxes decreased by €8 million to €-2 million. SHF's revenue reported in other comprehensive income decreased by 9.8% to €50.0 million in financial year 2023. Revenue in the BSH division amounted to 18.8 million (2022: €23.2 million), revenue in the Document Services division amounted to €15.9 million (2022: €18.1 million) and revenue in the Market division amounted to €15.2 million (2022: €14.1 million). The cost of materials reported in other comprehensive income increased by 4.0% to €20.6 million largely because of inflation.

Other administrative expenses increased by 8.2% to €5.3 million.

These primarily include rental expenses and service costs, IT costs and flat-rate service fees paid to Bausparkasse Schwäbisch Hall AG.

FINANCIAL PERFORMANCE OF THE OTHER DOMESTIC SEGMENT

			Change	
in € million	**2023**	**2022**	**absolute**	**in %**
Net interest income	–	–	–	–
Interest income	–	–	–	–
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 measurement of financial instruments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	–	–	–	–
Administrative expenses	-32	-30	-2	-6.7
of which personnel expenses	-26	-24	-2	-8.3
of which other administrative expenses	-5	-5	–	–
of which depreciation/amortisation	-1	-1	–	–
Other net operating income	30	36	-6	-16.7
Segment profit before taxes	**-2**	**6**	**-8**	**>-100**

Group financial position and net assets

CHANGES IN THE SCHWÄBISCH HALL GROUP'S BALANCE SHEET

The Schwäbisch Hall Group's total assets decreased by €1.2 billion (1.4%) as at 31 December 2023 to €84.4 billion. On the assets side, the decrease in total assets is primarily attributable to loans and advances to banks. It was partly offset by the increase in building loans and the reallocation of investments to listed bearer bonds. On the equity and liabilities side, the significantly increased demand for *Bauspar* loans led to a decrease in *Bauspar* deposits.

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.

In loans and advances to customers, the volume of non-collective housing financing in the group rose only slightly to €61.0 billion (2022: €60.9 billion), whereas *Bauspar* loans jumped by 62.1% to €5.1 billion.

Bausparkasse Schwäbisch Hall AG's loan-deposit ratio I, i.e. the ratio of *Bauspar* loans to *Bauspar* deposits, was 7.7% at the end of 2023 (2022: 4.5%). Its loan-deposit ratio II – i.e. the ratio of *Bauspar* loans plus suspended repayment and bridging loans to *Bauspar* deposits – increased from 73.5% to 76.9% at the end of 2023.

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

Due to statutory requirements, FLK's cash funds of €193.6 million (2022: €207.1 million) are mainly invested in Hungarian government bonds.

NET ASSETS

in € million	31.12.2023	31.12.2022	Change	
			absolute	in %
Assets				
Loans and advances to banks	4,471	8,796	-4,325	-49.2
Loans and advances to customers	68,136	66,163	1,973	3.0
Positive fair values of hedging instruments	15	32	-17	-53.1
Investments	10,507	9,564	943	9.9
Other assets	1,240	1,044	196	18.8
Total assets	**84,369**	**85,599**	**-1,230**	**-1.4**
Equity and liabilities				
Deposits from banks	9,511	10,459	-948	-9.1
Deposits from customers	65,615	66,851	-1,236	-1.8
Fair value changes of hedged items in portfolio hedges of interest rate risk	-138	-223	85	-38.1
Issued bonds	3,031	2,510	521	20.8
Negative fair values of hedging instruments	176	220	-44	-20.0
Provisions	1,214	1,355	-141	-10.4
Other liabilities	506	212	294	>100
Equity	4,454	4,215	239	5.7
Total assets	**84,369**	**85,599**	**-1,230**	**-1.4**

Figures including FLK (discontinued operation in accordance with IFRS 5)

The derivative financial instruments entered into with DZ BANK (interest rate swaps) with a notional amount of €2,747 million (2022: €2,685 million) serve exclusively to manage Bausparkasse Schwäbisch Hall AG'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. For the first time, bearer bonds (classified as debt instruments at fair value through other comprehensive income) were hedged against interest rate risk using PFVHA in 2022. The fair value of the interest rate swaps was €-161.0 million as at 31 December 2023 (2022: €-187.9 million).

Deposits from banks exclusively relate to German credit institutions, including €8.9 billion (2022: €9.2 billion) relating to DZ BANK. They include *Bauspar* deposits of €0.4 billion (2022: €1.3 billion).

Deposits from customers primarily comprise *Bauspar* deposits of €65.2 billion (2022: €66.3 billion). The sharp rise in demand for *Bauspar* loans at Bausparkasse Schwäbisch Hall AG led to a decrease in *Bauspar* deposits by customers.

The increase in the Schwäbisch Hall Group's equity was due primarily to the reversal of impairment losses on debt instruments recognised at fair value through other comprehensive income. The technical security reserve contained in equity was released as at 31 December 2022 (€226 million).

CRR regulatory ratios

The Group's regulatory capital calculated under the Capital Requirements Regulation (CRR) totalled €4,169.1 million as at 31 December 2023 (2022: €4,112.3 million). Bausparkasse Schwäbisch Hall AG does not have any Additional Tier 1 capital. It has Tier 2 capital of €30.7 million (2022: €26.1 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 €1,374.6 million as at 31 December 2023 (2022: €1,318.2 million). The increase is mainly due to the revision of the "VR Rating Banken" rating procedure and higher net deferred taxes.

The Group's Tier 1 capital ratio and Common Equity Tier 1 capital ratio declined from 24.8% as at 31 December 2022 to 24.1% as at the reporting date. The total capital ratio at the reporting date was 24.3%. 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 statutory minimum regulatory ratio of 3% as from 30 June 2021 was complied with.

CRR REGULATORY RATIOS

in € million	31.12.2023[1]	31.12.2022
Capital		
Common Equity Tier 1 capital	4,138.4	4,086.2
Additional Tier 1 capital	0	0
Tier 1 capital	4,138.4	4,086.2
Tier 2 capital	30.7	26.1
Total capital	**4,169.1**	**4,112.3**
Capital requirements		
Credit risk (including equity investments)	1,277.2	1,230.9
Market risk	0	0
Operational risk	97.4	87.3
Total	1,374.6	1,318.2
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	24.1%	24.8%
Tier 1 capital ratio (minimum value: 6.0%)	24.1%	24.8%
Total capital ratio (minimum value: 8.0%)	24.3%	25.0%
Leverage ratio (minimum ratio 3.0%)	**5.7%**	**5.7%**

[1] Provisional figures

Target/actual comparison of the previous year's forecast

The goals and expectations for financial year 2023 described in the Report on expected developments in the Group's 2022 Annual Report are compared with the actual trends and any discrepancies are accounted for.

The comparison is dominated in all areas by the effects of the Russian war of aggression and the rise in interest rates, which was unprecedented in this magnitude and at this pace.

Expected developments (FR 2022)	Actual performance	Comparison
Business development		
***Bausparen* and Housing Financing Domestic segment:**		
New *Bauspar* business is projected to remain slightly below this figure following the record year 2022.	New *Bauspar* business €31.0 billion (2022: €34.1 billion)	Forecast not reached
After the sharp drop in the second half of 2022, the housing financing business is likely to again significantly remain behind the 2022 volume in 2023.	New housing financing business €9.2 billion (2022: €16.3 billion)	In line with forecast
***Bausparen* and Housing Financing Non-Domestic segment:**		
High interest rates and shrinking real incomes will lead to a significant decline in FLK's new *Bauspar* business.	New *Bauspar* business €1.2 billion (2022: €1.2 billion)	Forecast exceeded
High interest rates and shrinking real incomes will lead to a significant decline in the volume of new housing financing business.	New housing financing business €0.1 billion (2022: €0.26 billion)	In line with forecast
Financial performance		
Group:		
Net interest income is expected to decline significantly year-on-year in 2023. The reasons are the discontinuation of a nonrecurring factor from the reversal of *Bauspar*-specific provisions in 2022 and necessary refinancing measures in 2023.	Net interest income €550 million (2022: €744 million)	In line with forecast
Loss allowances will probably remain largely unchanged. The expected stable development of loss allowances reflects the government's measures to contain the rise in energy prices as well as the anticipated continued positive situation on the labour market.	Loss allowances €-18 million (2022: €-16 million)	In line with forecast
The Schwäbisch Hall Group expects profit before taxes for financial year 2023 to be sharply lower.	Profit before taxes €20 million (€143 million)	In line with forecast
***Bausparen* and Housing Financing Domestic segment:**		
Net interest income is projected to decrease sharply in 2023. This is due to the discontinuation of the non-recurring factor from the reversal of provisions for home savings and loan business in interest expense. The other factor driving the decrease is the expected rise in refinancing costs.	Net interest income €464 million (€671 million)	In line with forecast
Even if all sales and cost targets are achieved, Bausparkasse Schwäbisch Hall AG is therefore expecting a strong decline in profit before taxes in the *Bausparen* and Housing Finance Domestic segment in 2023.	Profit/loss before taxes €-20 million (€131 million)	In line with forecast
***Bausparen* and Housing Financing Non-Domestic segment:**		
FLK's 2023 net interest income will probably be down significantly year-on-year. Significantly higher refinancing costs will have a negative impact. Net fee and commission income is expected to remain stable.	Net interest income €77 million (2022: €68 million), Net fee and commission income €6 million (2022: €5 million)	Forecast net interest income and net fee and commission income both exceeded
FLK's profit before taxes is therefore expected to decrease.	Profit before taxes €33 million (2022: €16 million)	Forecast exceeded

Non-financial statement

Bausparkasse Schwäbisch Hall AG 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 Group's sustainability report and can be downloaded from the following website: www.dzbank.com/reports

Report on expected developments for 2024

Changes in macroeconomic conditions

According to a forecast by the Organisation for Economic Cooperation and Development (OECD), global economic growth will again persist at a historically weak level in 2024. At the same time, the risks to the global outlook remain on a downward trend. Heightened geopolitical tensions, growing trade restrictions and the restructuring of global value chains are all contributory factors. The OECD is also forecasting that the world's two largest economies, the US and China, will record slower growth in 2024. Growth of just 1.5% is predicted for the US economy in 2024. There is an assumption that the interest rate hikes by the US Federal Reserve – eleven since March 2022 – will continue to put the brakes on growth. The Chinese economy, which is experiencing a property crisis, rising unemployment and slowing exports, is forecast to grow by 4.7% in 2024. For the global economy, the OECD is forecasting GDP growth of no more than 2.7% in the coming year, while the IMF is predicting growth of 2.9%. However, growth could be weaker if geopolitical tensions persist or escalate further, or if persistent cost pressures, a renewed rise in energy and food prices or signs of an upward trend in inflation expectations force central banks to keep key interest rates higher for longer than expected.

For Germany, the leading economic research institutes lowered the forecast they made in spring 2023 for GDP growth in 2024 from 1.5% to 1.3% in their joint diagnosis in autumn 2023. The outlook is subject to considerable uncertainty. In the opinion of economic experts, the significant decline in inflation towards the end of 2023 is likely to open up room for interest rate cuts in the second half of the year. The significant rise in labour costs is likely to slow down the process of further disinflation. The faster rise in incomes and a halt to rising interest rates will stabilise private construction demand, albeit at a low level. The weak economic growth is also likely to be reflected in the lower pace of demand for labour on the part of companies. Nevertheless, the number of unemployed is likely to rise in 2024 solely due to the growing labour force, as companies will try to retain their skilled workers. Due to the expected low pace of economic growth, there is a high risk that unforeseen events could lead again to recessionary trends. On top of this, there are the risks arising from the ruling by the Federal Constitutional Court on the 2023 federal budget. The new draft budget for 2024 that became necessary as a result of the ruling threatens to further slow down the economy, particularly due to the mix of cost-cutting measures, subsidy reductions and higher energy prices, and could rekindle the recent fall in inflation.

Changes in private housing construction and building refurbishment in Germany

Record low interest rates for housing loans and strong surplus demand were the major drivers of new housing construction in the past ten years. The interest rate reversal, rising prices accompanied by supply shortages and high energy costs put a stop to this trend. While the adverse factors of recent years, such as the Covid-19 pandemic, high inflation and supply difficulties, faded into the background at the turn of 2023/2024, the sharp rise in interest rates and high costs are expected to continue slowing down residential construction in 2024. Against this background, the Central Association of the German Construction Companies (ZDB) is expecting only approximately 235,000 homes to be completed in 2024, representing a 4.1% drop. However, this forecast is subject to many uncertainties, and geopolitical challenges could drive up inflation and interest rates again. This would have an additional negative impact on loan-financed new housing construction. The budget crisis resulting from the ruling on the “debt brake” by the Federal Constitutional Court in Karlsruhe saw uncertainty on the rise again.

In contrast to new housing construction, the market for renovations and energy-efficient refurbishments is likely to remain an anchor of stability in the current construction crisis in 2024. Stricter energy efficiency requirements for buildings will have to be met in future if climate protection targets are to be achieved. The revised version of the European Performance of Buildings Directive (EPBD), which was agreed by the European Council, Parliament and Commission in December, obliges EU member states to draw up national building renovation plans, establish national programmes for building renovation passports and create central points of contact for homeowners and all players in the renovation value chain. Under the EPBD, primary energy consumption will be reduced by 16% by 2030 and by 22% by 2035. 55% of the planned reduction will be achieved by improving the energy efficiency of the most inefficient residential buildings. How the remaining 45% will be achieved is up to the member states. The negotiated trialogue result still has to be adopted by the European Parliament and the Council. It must then be transposed into national law – in Germany, a new version of the Buildings Energy Act would be necessary. From 2024, the Wohn-Riester home ownership pension can also be used to implement the building renovation plans.

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

DEVELOPMENT OF THE GROUP

Expectations for the Schwäbisch Hall Group's business development in financial year 2024 are dominated by the sharp rise in interest rates in 2023 as well as the simultaneous significant inflation-driven increase in construction costs and property prices, which will probably continue to dampen demand for the *SofortBaugeld* product. The increasing climate protection requirements could have a positive effect. Starting in 2024, the credit balance from the home ownership pension agreement (*"Wohn-Riester"*) can then be used to finance energy-efficient renovations, another advantage for the government-subsidised instrument for purchasing residential property. An increase in real wages is also expected to bolster purchasing power. Following the significant slowdown in the Housing Financing core business segment because of the crisis, a consolidation at 2023 levels is projected for 2024. Based on the high level of new business in 2023, a slight decline in new *Bauspar* business is expected for the *Bausparen* core business segment. The increase in income limits for the employee savings allowance for *Bausparen* is likely to have a positive effect starting in 2024. Whereas only just under eight million employees were eligible in 2023, according to a study by empirica ag, this figure will grow by almost 14 million in future. By contrast, the ongoing difficult economic conditions are curbing this trend.

The familiar factors will continue to impact financial performance in 2024: the rising interest rates for refinancing; 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 Housing Financing core business segment, with the modernisation of IT platforms at Bausparkasse Schwäbisch Hall AG. FLK is no longer included in the forecast, as it will probably be deconsolidated in the first half of 2024.

Provided this is the case, the Schwäbisch Hall Group continues to expect profit before taxes for financial year 2024 to be low, but increasing.

Net interest income is likely to rise significantly year-on-year in 2024. The expected further portfolio growth for non-collective loans and *Bauspar* loans 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 2024.

Loss allowances will probably remain largely unchanged. The expected stable development of loss allowances reflects the probably continued good situation on the labour market.

Significant decreases in new housing financing business and a slight decline in the new *Bauspar* business are leading to expectations of sharply declining but still slightly positive net fee and commission income.

Administrative expenses are set to decrease slightly in 2024. While the strategic projects and measures implemented for the ongoing development of the *Bausparen* and the Housing Financing core business segments will require increased capital spending, implementation of the SOKS cost management programme at Bausparkasse Schwäbisch Hall AG will lead to a slight decrease in administrative expenses.

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. We expect the cost/income ratio to decline year-on-year in financial year 2024, mainly due to a significant increase in net interest income and a slight decline in administrative expenses.

Economic RORAC is likely to be significantly higher than the prior-year figure in financial year 2024 due to the improved earnings expectations.

LIQUIDITY POSITION AND NET ASSETS

For financial year 2024, Bausparkasse Schwäbisch Hall AG 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 AG. Additionally, further benchmark issues in the *Pfandbrief* (German covered bonds) segment are expected for 2024.

From today's perspective, Bausparkasse Schwäbisch Hall AG will continue meeting the economic and regulatory capital adequacy requirements in financial year 2024.

SUSTAINABILITY

When upgrading its sustainability management, the Schwäbisch Hall Group has prioritised the rising ecological challenges as well as the growing demands of its customers. The Schwäbisch Hall Group has therefore launched projects aimed in particular at deepening understanding for sustainability issues at the Bausparkasse Schwäbisch Hall Group, consolidating management processes and further anchoring sustainability in the Schwäbisch Hall Group's strategy. In accordance with the expectations of the European Central Bank (ECB) and the European Banking Authority (EBA), the Schwäbisch Hall Group will integrate sustainability aspects, in particular environmental and climate risks, more strongly in risk management in 2024. The focus for 2024 is on preparatory work related to meeting reporting obligations and disclosure requirements, as well as the implementation of regulatory requirements to take ESG aspects into account. As key drivers of long-term business success, climate protection and CO_2 reduction are fundamental components of the Schwäbisch Hall Group's corporate strategy.

Segment development

DEVELOPMENT OF THE *BAUSPAREN* AND HOUSING FINANCING DOMESTIC SEGMENT

In Germany, Bausparkasse Schwäbisch Hall AG will continue to navigate a challenging environment in 2024, which is likely to be dominated by the interest rate trend reversal, high construction costs as well as numerous regulatory requirements relating to sustainability. Slowly falling inflation and an improvement in government subsidies for *Bausparen* are expected to lead to a new business volume in the core business segment of Housing Financing at the previous year's level. Despite the improvement in government subsidies, we expect the ongoing economic uncertainty to lead to a slight decline in new *Bauspar* business.

For 2024, Bausparkasse Schwäbisch Hall AG is anticipating a significant improvement in profit before taxes due to structural improvements and an economic upturn, particularly in the second half of the year.

Net interest income is projected to rise significantly in 2024. This will be the result of the general rise in interest rates and a decline in the volume of refinancing. Loss allowances are likely to remain largely stable year-on-year.

Sales performance in Housing Financing at the prior-year level is expected to lead to declining, slightly negative net fee and commission income.

Administrative expenses are likely to decrease slightly. The results of the SOKS cost management programme will offset continued high investments to strengthen the *Bausparen* and Housing Financing core business segments.

Bausparkasse Schwäbisch Hall AG is therefore expecting segment profit to be well above the prior-year level, mainly as a result of a significant increase in net interest income and a slight decrease in administrative expenses.

DEVELOPMENT OF THE *BAUSPAREN* AND HOUSING FINANCING NON-DOMESTIC SEGMENT

No forecast is being provided for FLK, as FLK will no longer be included in Group management in financial year 2024.

PSS is expecting a slight increase in new business in 2024 in the *Bausparen* segment. The expected stable net interest income and the slight increase in net fee and commission income are likely to be more than offset by a special tax introduced in Slovakia in 2024. This is expected to lead to slightly lower profit before taxes.

Despite the economic challenges in China, SGB is planning further growth in the *Bausparen* and Housing Financing segments in 2024. Profit before taxes is likely to be higher than in financial year 2023.

DEVELOPMENT OF THE OTHER DOMESTIC SEGMENT

Growth in the labour-intensive facility management sector is expected to remain subdued in 2024. As a result, increases in services and acquisitions will continue to remain moderate for SHF.

For financial year 2024, SHF is anticipating a slight decline in revenue in all divisions. Revenue in the BSH division is also expected to decline slightly due to lower output and price adjustments. Higher costs due to rising personnel expenses, ongoing supply chain disruption and material prices are expected to negatively impact profit. Profit before tax is therefore expected to decrease slightly.

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

Financial performance

EARNINGS POSITION

Operating profit after loss allowances is dominated by the significant rise in interest rates. Whereas net interest income was still down slightly year-on-year due to a non-recurring factor in the previous year, reversals of impairment losses on plan assets invested in specialised funds as part of a CTA led to a sharp rise in profit.

Interest income rose significantly despite a crisis-related decline in new business in the Housing Financing core business segment. This was due to both higher portfolio volumes and the rise in interest rates. The increase in interest expenses is primarily the result of a non-recurring factor recognised in the previous year. Changes in 2022 in the expected behaviour of *Bauspar* customers affected by the rise in interest rates led to the special reversal of *Bauspar*-specific provisions. The rest of the increase is attributable to higher refinancing costs.

Bausparkasse Schwäbisch Hall AG's interest income, including current income from specialised funds and equity investments, increased by €213 million in 2023 to €1,495 million. Interest income from other building loans and *Bauspar* loans led to a volume-driven increase in income (€+86 million) due to the significant business expansion in recent years. Interest income from bridging loans and suspended repayment loans declined significantly (€-32 million), mainly because of lower income from prepayment penalties and the discontinuation of legacy tariffs with higher interest rates. Interest income from the investment of available funds in registered bonds and bearer bonds, including specialised funds, and from income from investees improved strongly (€+159 million).

Bausparkasse Schwäbisch Hall AG's interest expenses increased by €233 million to €761 million and are attributable predominantly to *Bauspar* deposits (€599 million). The previous year's figure included the special reversal of *Bauspar*-specific provisions amounting to €185 million. The €116 million increase in other interest expenses is attributable on the one hand to the expansion of the volume of refinancing funds (*Pfandbriefe* and promissory note loans), and on the other to the rise in market interest rates. This amount includes disposal gains of €55 million.

INCOME STATEMENT

			Change	
in € million	**2023**	**2022**	**absolute**	**in %**
Net interest income	734	754	-20	-2.7
Net fee and commission income	-11	-41	30	73.2
Administrative expenses	-448	-670	222	33.1
Partial operating result	**275**	**43**	**232**	**>100**
Other net operating income	23	-70	93	>100
Loss allowances	-21	-41	20	48.8
Operating profit after loss allowances	**277**	**-68**	**345**	**>100**
Reversal of technical security reserve	–	226	-226	-100
Allocation to fund for general banking risks	50	-138	188	>-100
Income taxes	-257	-5	-252	>-100
Profit transfer	-70	-15	-55	>-100
Net profit for the financial year	**–**	**–**	**–**	**–**

Negative net fee and commission income improved significantly from €-41 million to €-11 million. The earnings improvement is primarily attributable to lower fee and commission expenses in the housing financing business. This more than made up for the significant decline in fee and commission income.

At €448 million, administrative expenses were €222 million lower than the previous year.

€130 million (2022: €316 million) of the administrative expenses is attributable to personnel expenses. Expenses for wages and salaries rose by €7 million to €130 million, mainly as a result of a collective pay increase and a slight increase in headcount. In the expenses for pension obligations and other post-employment benefits, reversals of impairment losses on plan assets invested in specialised funds as part of a CTA led to a gain of €+25 million (2022: €-105 million). A further gain of €15 million is attributable to the reversal of pension provisions (2022: €-50 million).

Other administrative expenses fell noticeably to €269 million (2022: €300 million), a decrease of 10.3%, that is due mainly to lower expenses for processing services and other purchased services.

Depreciation and amortisation of fixed assets decreased by €5 million. In the previous year, this figure included write-downs of €4 million.

Loss allowances changed as follows:

Net measurement losses from lending business of €-20 million were €8 million lower than the prior-period figure. The expected effects of the uncertain macroeconomic situation, resulting in particular from the effects of the Ukraine war and the delayed consequences of the Covid-19 pandemic, were reflected in the loss allowances and have a €-11 million impact in 2023 (2022: €-16 million). The other expense is attributable to newly granted building loans of €2.5 billion.

Net measurement losses on the securities portfolio amounted to €0 million in the reporting period, compared with €-13 million in the previous year. The prior-year losses were attributable to the disposal of bearer and registered bonds.

Net measurement losses of €1 million relate to a grant paid to Domus Beteiligungsgesellschaft der privaten Bausparkassen mbH, which is in liquidation.

Due to a change in its legal opinion, the tax audit no longer recognises the – previously recognised – provision for customer loyalty bonus and interest rate bonuses for tax purposes from the 2015 assessment period onwards. We have not yet received the final audit report and the changed tax assessments for the audit period. The resulting additional tax payment of around €200 million is reported as an allocation liability. We intend to challenge the legal opinion of the tax audit in out-of-court and, if necessary, court proceedings.

The profit to be transferred to DZ BANK on the basis of a profit and loss transfer agreement amounts to €70 million (2022: €15 million). The cost/income ratio was 60.0% (2022: 104.2%).

Bausparkasse Schwäbisch Hall AG's earnings position is satisfactory.

NET ASSETS

Bausparkasse Schwäbisch Hall AG's total assets as at 31 December 2023 decreased by €1.8 billion to €82.7 billion.

The business volume amounted to €85.3 billion (2022: €89.2 billion). This figure includes both the total assets and the other commitments of the Bausparkasse Schwäbisch Hall AG amounting to €2.6 billion.

Bausparkasse Schwäbisch Hall AG expanded the lending volume in both core business segments in 2023. Building loans rose by €2.5 billion to a new record high of €64.1 billion at year-end 2023. The increase is attributable in almost equal parts of non-collective housing financing and *Bauspar* loans.

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 (€3.4 billion; 2022: €5.0 billion) and promissory note loans (€2.2 billion; 2022: €2.4 billion). Securities are listed bearer bonds (€8.4 billion; 2022: €7.9 billion) and shares in UIN Fund No. 817 (€3.25 billion; 2022: €3.25 billion).

The slight decline in *Bauspar* deposits is due mainly to the interest rate reversal and the sharp pickup in demand for *Bauspar* loans that ensued.

Borrowings include funds raised from the issuance of *Pfandbriefe*, mainly listed (€3.0 billion), and promissory note loans (DZ BANK €7.9 billion, nominal value) to refinance the non-collective housing financing business.

The Bausparkasse Schwäbisch Hall AG 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 €2,747 million (2022: 2,685 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 €-161.0 million as at 31 December 2023 (2022: €-187.9 million).

NET ASSETS

in € million	2023	2022	Change absolute	Change in %
Building loans	64,052	61,599	2,453	4.0
of which: *Bauspar* loans	4,936	3,003	1,933	64.4
Suspended repayment and bridging loans	44,446	45,745	-1,299	-2.8
Other	14,670	12,851	1,819	14.2
Financial investments	18,250	22,544	-4,294	-19.0
Loans and advances	6,644	11,419	-4,775	-41.8
Securities	11,606	11,125	481	4.3
Fixed assets	361	363	-2	-0.6
Other assets	64	37	27	73.0
Bauspar deposits	64,219	66,349	-2,130	-3.2
Other liabilities	13,120	12,538	582	4.6
of which: borrowings	12,127	11,835	292	2.5
Provisions	1,290	1,508	-218	-14.5
Fund for general banking risks	2,286	2,336	-50	-2.1
Equity	1,812	1,812	–	–
Total assets	**82,727**	**84,543**	**-1,816**	**-2.1**

€50 million was withdrawn from the fund for general banking risks in accordance with section 340g of the HGB (2022: appropriation of €138 million).

Bausparkasse Schwäbisch Hall AG's net assets are satisfactory.

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. The LCR is defined as the ratio of liquid assets to net cash outflows under stress conditions. This ratio reveals whether an institution has sufficient liquid assets on hand to withstand any potential imbalance between cash inflows and cash outflows for a period of 30 calendar days in a financial crisis. 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 2023. As at 31 December 2023, the LCR was 254.80% (2022: 317.21%). The reduction in the LCR is due to the fact that net cash outflows have increased. Management of Bausparkasse Schwäbisch Hall AG's longer-term liquidity incorporates any of Bausparkasse Schwäbisch Hall AG'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 AG exercises this option and has prepared its regulatory reports on the basis of IFRSs since 30 June 2017.

Bausparkasse Schwäbisch Hall AG's regulatory capital calculated in compliance with the CRR amounted to a total of €3,881.7 million as at 31 December 2023 (2022: €3,870.7 million). Bausparkasse Schwäbisch Hall AG does not have any Additional Tier 1 capital. It has Tier 2 capital of €30.7 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 €1,264.7 million as at 31 December 2023 (2022: €1,198.0 million). The increase is mainly due to the revision of the "VR Rating Banken" rating procedure and higher net deferred taxes. Bausparkasse Schwäbisch Hall AG's Tier 1 capital ratio and Common Equity Tier 1 capital ratio decreased from 25.7% as at 31 December 2022 to 24.4% as at the reporting date.

The total capital ratio at the reporting date was 24.6%. 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.

The EU Bank Recovery and Resolution Directive has been in force since mid-2014. Responsibility for the preparation of resolution plans and the resolution of troubled institutions supervised by the ECB was transferred to the Single Resolution Board (SRB) in Brussels effective 1 January 2016. On the same date, the banks in the eurozone began financing the Single Resolution Fund. The SRB determines the formal "Minimum Requirement for Own Funds and Eligible Liabilities (MREL)" for the banks under its responsibility on a consolidated and solo basis. The statutory basis for determining the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and Total Loss-Absorbing Capacity (TLAC) was revised at European level and published on 7 June 2019 as part of the risk reduction package in the form of the Single Resolution Mechanism Regulation (SRMR II), the Bank Recovery and Resolution Directive II (BRRD II) and CRR II. As a European directive, BRRD II must be transposed into national law within 18 months.

The amendments included adjustments to the calculation logic and, for certain banks, a statutory subordination requirement for parts of the MREL. Most of the new requirements came into force in December 2020.

Bausparkasse Schwäbisch Hall AG has been required to comply with an MREL requirement since 1 January 2022. Measured against the total risk exposure amount (TREA) of 18.36%, and a leverage ratio exposure (LRE) of 5.85%. The MREL requirement is calculated as the ratio of total regulatory capital and liabilities calculated internally that are eligible for bailin to Bausparkasse Schwäbisch Hall AG's TREA or LRE.

CRR REGULATORY RATIOS

in € million	2023[1]	2022
Capital		
Common Equity Tier 1 capital	3,851.0	3,844.6
Additional Tier 1 capital	0	0
Tier 1 capital	3,851.0	3,844.6
Tier 2 capital	30.7	26.1
Total capital	**3,881.7**	**3,870.7**
Capital requirements		
Credit risk (including equity investments)	1,185.3	1,128.0
Market risk	0	0
Operational risk	79.4	70.0
Total	1,264.7	1,198.0
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	24.4%	25.7%
Tier 1 capital ratio (minimum value: 6.0%)	24.4%	25.7%
Total capital ratio (minimum value: 8.0%)	24.6%	25.8%
Liquidity coverage ratio (LCR)	**254.8%**	**317.2%**
Leverage ratio (minimum ratio 3.0%)	**5.5%**	**5.6%**

[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 AG defined targets for the proportion of women on the Supervisory Board, the Management Board and in the top two management levels (M1 and M2) below the Management Board that must be reached.

ATTAINMENT OF THE TARGETS TO BE ATTAINED BY 31 DECEMBER 2023

Management level	31.12.2023	Target 31.12.2023
M1	17.4	15.0
M2	14.1	20.0

Despite actively approaching women and initiating support measures, the target figure at the second management level was not achieved. To attain the targets, Bausparkasse Schwäbisch Hall AG wants to encourage and support women in assuming management responsibility and has implemented and expanded various measures, for example to improve the work-life balance, such as the expansion of childcare facilities, sabbaticals, mobile working, the launch of a women's network and support for part-time work for managers.

TARGETS DEFINED UP TO 31 DECEMBER 2027

The targets up to 31 December 2027 were defined as 15.0% at the first management level and 20.0% for the second management level.

Management level	Target 31.12.2027
M1	15.0
M2	20.0

TARGETS DEFINED UP TO 31 OCTOBER 2026

A proportion of women of 30.0% was defined for the Supervisory Board and 25.0% for the Management Board, in each case until 31 October 2026.

in %	31.12.2023	Target 31.10.2026
Supervisory Board	30.0	30.0
Management Board	20.0	25.0

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 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 committees.

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) comprises Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall Kreditservice GmbH and Schwäbisch Hall Facility Management GmbH. The composition of the Schwäbisch Hall Group 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 2024 financial year. These factors represent key indicators for determining strategic positioning and the resulting potential for increasing earnings and reducing costs.

With regard to the framework conditions, the Schwäbisch Hall Group is anticipating the following business opportunities over the coming years.

- The public and social groups, as well as politicians and financial regulators, are becoming increasingly sensitive to the issue of sustainability. The EU is specifically leveraging the financial sector for the climate-neutral transformation of the real economy in the EU economic area. 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. The building sector is responsible for around 30% of CO_2 emissions, and without energy-efficient refurbishments of existing buildings and increased standards for new buildings, the ambitious climate protection goals cannot be achieved. This will result in further growth stimuli for the Schwäbisch Hall Group in future as an enabler of the turnaround in energy policy, for example by providing an opportunity to set itself apart from the competition in support for customers relating to new buildings as well as refurbishments of existing buildings. Within the DZ BANK Group, the Schwäbisch Hall Group has committed to being climate-neutral by no later than 2045.
- Demand for new homes will continue to be high in Germany over the next few years. The main reason: increasing immigration combined with a slow pace of construction. Although demand is lower than in the previous years when there was significant immigration, at 400,000 homes it is still significantly higher than construction activity, which is flat at around 245,000 homes. The Central Association of the German Construction Industry (ZDB) is expecting only approximately 235,000 homes to be completed in 2024, which represents a year-on-year drop of approximately 4.1%.
- Demand for housing is increasing: one reason is the rising number of one-person 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 German Cooperative Banking Group, under the leadership of the Schwäbisch Hall Group and in close cooperation with the cooperative banks and Atruvia, is driving forward the development of a digital “building society operations” 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 society operations”.

In addition, the Schwäbisch Hall Group expects business opportunities to further increase by using *Pfandbrief* (German covered bonds) for refinancing. This refinancing option is to be used even more in the future, among other things by expanding it to include the issuance of green *Pfandbriefe*.

In light of the challenges facing the entire housing finance sector, particularly in financial year 2024, the Management Board of Bausparkasse Schwäbisch Hall AG expects that the risks described for the SHG will outweigh the opportunities.

Risk management system

RISK MANAGEMENT PRINCIPLES

The Schwäbisch Hall Group 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 comprehensive 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 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 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 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, reputational risk and equity investment risk – ALCO).

The Schwäbisch Hall Group 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. 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.

RISK CULTURE

The risk culture of the Schwäbisch Hall Group 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 employees.

GOVERNANCE

The Schwäbisch Hall Group’s risk management 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:

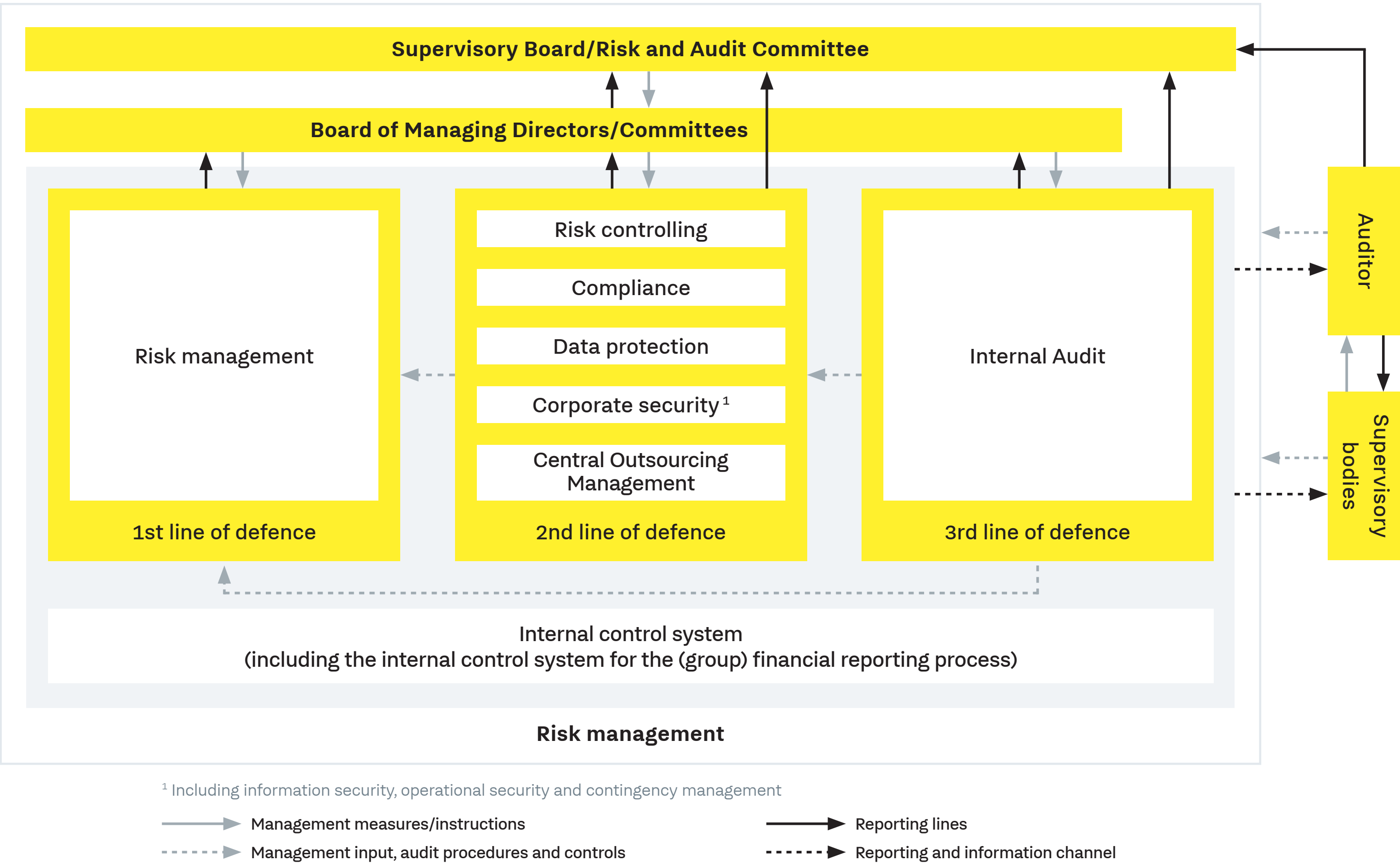
1st line of defence:
Operational assumption of risks and their management.

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 corporate security (including information security and operational security) and outsourcing management. Functions in the 2nd line of defence are performed in particular by the Risk Controlling and Central Outsourcing Management divisions, and the Corporate Security Office, Compliance and Data Protection departments.

3rd line of defence:
Process-independent review and assessment of risk management and control processes in the first and second lines of defence; reporting to the Management Board, the responsible committees, as well as the Supervisory Board and the Risk and Audit Committee. Communication with external control bodies. Functions in the 3rd line of defence are performed by 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.



[1] Including information security, operational security and contingency management

COMPLIANCE

At the Schwäbisch Hall Group, the duties of the compliance function are performed by the Compliance unit.

The Compliance function is required to ensure the implementation of effective procedures for complying with the legal requirements and standards, and the corresponding controls, that are essential for Bausparkasse Schwäbisch Hall AG'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, Bausparkasse Schwäbisch Hall AG and other Schwäbisch Hall Group companies and their employees from violations of legal provisions 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

In the Schwäbisch Hall Group, the duties of the risk controlling function are performed by the Risk Controlling unit.

Risk Controlling at Bausparkasse Schwäbisch Hall AG is responsible for identifying, measuring and assessing risks at the Schwäbisch Hall Group. 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.

Bausparkasse Schwäbisch Hall AG's Risk Controlling, in cooperation with other Schwäbisch Hall Group 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 Bausparkasse Schwäbisch Hall AG, 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 Bausparkasse Schwäbisch Hall AG'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 the Schwäbisch Hall Group'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 the Schwäbisch Hall Group are operationalised in Group guidelines and also include monitoring the Group companies.

CENTRAL OUTSOURCING MANAGEMENT

At Bausparkasse Schwäbisch Hall AG, Central Outsourcing Management (COM), together with the Outsourcing Officer, acts as a central point of contact for all questions relating to the management of services purchased from third parties. These comprise outsourced services and other 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 purchased from third parties by Bausparkasse Schwäbisch Hall AG in terms of the 2nd line of defence (non-financial risk). It also ensures regular management reporting with a direct reporting channel to the Management Board regarding all significant outsourcing arrangements.

DATA PROTECTION

The Schwäbisch Hall Group 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 the Schwäbisch Hall Group 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 a Schwäbisch Hall Group company.

INTERNAL AUDIT

Bausparkasse Schwäbisch Hall AG's Internal Audit department performs process-independent monitoring and control tasks, including as the Schwäbisch Hall Group's 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.

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 & Reporting and Risk Controlling divisions of Bausparkasse Schwäbisch Hall AG. 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 written rules of procedure of the Bausparkasse Schwäbisch Hall Group 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 the Schwäbisch Hall Group 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. In the Schwäbisch Hall Group, relevant controls and tests are conducted with regard to data quality and compliance with consistent requirements.

Financial reporting processes for individual transactions are performed by the organisational units. Consolidation processes are primarily performed by the Consolidated Financial Statements unit in the Accounting & Reporting 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 Consolidated Financial Statements unit 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 statements 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.

MACROECONOMIC RISK FACTORS

The biggest threats to macroeconomic development are geopolitical tensions and the resulting trade frictions.

At present, the Ukraine war is casting a shadow over the global economic outlook. However, the effects of the sanctions are not only hitting Russia. The entire global economy is suffering from a sharp rise in the prices of raw materials and energy. The unpredictable further course of the hostilities in Ukraine also poses a risk that the conflict will escalate further. If this were to happen, a further increase in gas prices would have a serious impact on growth and inflation as well as supply shortages, especially for industry, and an increase in business insolvencies.

UNEXPECTED DEVELOPMENT ON THE INTEREST RATE MARKET

Following the key interest rate hikes by the Federal Reserve and the ECB, market interest rates have returned to pre-financial crisis levels. Inflation could fall faster than expected in the following year due to the weak economy and baseline effects for energy prices. The 2% inflation target might be achievable again, which could lead to faster interest rate cuts. However, lowering interest rates too quickly carries the risk of renewed inflation. Lower interest rates could negatively impact the banking sector. As a rule, a significant drop in interest rates is detrimental or disadvantageous in the mid-term for the business model of a *Bausparkasse*. This negatively impacts our net interest income in the medium term. However, adjustments were already made to BSH's product range in recent years, with the result that a moderate decline in interest rates does not represent an extreme risk. By contrast, the price gains for unhedged fixed-income securities resulting from the decline in interest rates on the capital market would have a positive effect on the reserve for fair value OCI debt instruments and hence on equity.

INFLATION – STAGFLATION

Stagnating economic output in the preceding quarters points to a sustained phase of economic weakness. Rising interest rates have depressed economic growth. Potential risks include a return to rising inflation due to structural problems such as labour shortages and high energy prices, which could cause stagflation (higher inflation and stagnating production) and would lead to a wage-price spiral. The higher level of government debt in some eurozone countries could limit the ECB's room for manoeuvre in combating inflation, which could impact credit risk in the banking sector, although there are no recognisable signs so far of increased risks due to stagflation.

CORRECTION ON THE REAL ESTATE MARKETS

The long-running property cycle in Germany came to an end for the time being last year. The rise in interest rates for housing construction mortgages and in inflation are increasing the risk of a market correction. Rising interest rates put a financial strain on property buyers, while inflation reduces the income available for repayments. Nevertheless, demand for property remains high while construction activity is low, which means that existing properties are retaining their value. BSH is currently assuming that the collateralisation situation will remain good.

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 can actually or potentially adversely affect the net assets, financial position and results of operations of the Schwäbisch Hall Group and its reputation.

In principle, all risk types relevant to the 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 7th MaRisk amendment now sets out requirements for incorporating sustainability risks into risk management. To assess the sustainability of its lending business, the Schwäbisch Hall Group uses a classification tool based on the Sustainable Development Goals (SDGs). Additionally, a top-down method based on statistical averages was established to identify physical and transitory risks in the customer lending business. The energy efficiency of the property is also incorporated into the credit process.

REGULATORY ENVIRONMENT

BaFin decided to introduce the sectoral systemic risk buffer of 2.0% of risk-weighted assets on domestic loans collateralised by residential property, and to increase the countercyclical capital buffer ratio for Germany from 0.0% to 0.75%. Since 1 February 2023, both capital buffers must be met in full by Common Equity Tier 1 capital and lead to increased minimum requirements for the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the total capital ratio.

There is a fundamental risk that, if minimum requirements increase, the additional own funds required to comply with the stricter requirements cannot be obtained or can only be obtained at increased cost, or that existing risk assets must be reduced. This could lead to lower profitability and restrictions on the business-related scope for manoeuvre. However, the effects described above would only materialise if the measured capital ratios were to fall significantly below the current level in the future. No such development is foreseeable at present.

In addition to the issues already mentioned, there are other areas in the regulatory environment that will affect the Schwäbisch Hall Group in 2024 and beyond. Examples include the increasing development of the sustainability regulatory regime.

SIGNIFICANT RISKS AND ASSOCIATED RISK FACTORS

In general, risks are defined as unfavourable future developments that may adversely impact the net assets, financial position and results of operations 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 the changes 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 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).

Bausparkasse Schwäbisch Hall's business risk 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 due to changes in significant general conditions (e.g. economic and product environment, customer behaviour, competitive situation) and/or because of inadequate strategic positioning.

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 the Schwäbisch Hall Group 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, damage in 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 or in its products and services, especially in relation to customers, shareholders, employees, sales partners, supervisors 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 ("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 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 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 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.

ESG RISKS

ESG risk management

ESG risk management primarily focuses on climate and environmental risks resulting from climate change. Climate and environmental risks include both acute and chronic physical risks as well as transitory risks.

In the Schwäbisch Hall Group, ESG risks are not seen as a standalone risk type, but rather as a driver of the traditional financial and non-financial material risk types in line with the regulatory definitions. Examples of risk drivers include economic, social or (geo)political events and conditions.

A qualitative analysis of the ESG risk drivers within the material risk types is performed as part of the risk inventory. The relevance of potentially material ESG risks from the areas of climate and environment, social and governance for the Schwäbisch Hall Group's material risk types and how they are currently taken into account, and will be taken into account in the future, is assessed each year. Potentially material ESG risk factors affect credit risk and operational risk in particular.

The analysis will be expanded to include quantitative data in financial year 2024.

Climate and environmental risks

Climate and environmental risks comprise both physical climate and environmental risks and transitory risks.

Physical climate and environmental risks
A distinction is made between physical climate- and environmental risks. On the one hand acute risks, such as floods, on the other hand chronic risks that are due to permanent climate change.

Transitory risks
Transitory risks may arise in connection with the transition to a lower-carbon and environmentally more sustainable economy. Causes of transitory risks include general political conditions and transformation objectives, changes in legislation, changes in consumer preferences and the associated technological change. The transformation to a low-emission economy leads to changing underlying conditions that pose risks for players in the real economy and can have negative consequences for the financial system and credit institutions. Consequently, transitory climate risks may have a considerable impact on the Schwäbisch Hall Group's customers and thus indirectly on the Schwäbisch Hall Group itself.

Physical climate and environmental risks and transitory risks play a significant role in the Schwäbisch Hall Group, particularly when it comes to credit risk. The management of climate and environmental risks in credit risk is described on page 43.

Social and governance risks

Social risks may arise due to inadequate standards for protecting the fundamental rights of Schwäbisch Hall Group employees and to inappropriate customer practices. If social risks materialise, this can lead to financial claims by employees against the companies of the Schwäbisch Hall Group as well as to the loss of employees who are particularly important for business success. Ineffective or disruptive business processes can also result in the loss of key employees. Social risks are also caused by unfair, opaque or abusive business practices in relation to customers, especially if this leads to a change in customer and demand behaviour in the long term.

Inadequate or untransparent governance structures, for example, are a potential source of corporate governance risks. Absent or weak codes of conduct also fall into this category. Both deficiencies can weaken employees' trust in the effectiveness of corporate governance and lead to ineffective operating processes. The lack of or inadequate measures to combat money laundering and all forms of corruption are also potential forms of governance risk.

Governance that is focused on sustainability has always been both an opportunity and an obligation for the Schwäbisch Hall Group. It additionally derives its sustainability strategy from the overarching sustainability goals of the United Nations, such as the Sustainable Development Goals (SDGs), the Paris climate goals and the Global Compact code of conduct. The Schwäbisch Hall Group acts as a responsible employer. It has embedded sustainability in its business processes and structures and uses various bodies and committees to ensure that it coordinates and manages its sustainability activities consistently across all levels and hierarchies.

Risk management within comprehensive bank management

RISK MONITORING AND RISK MANAGEMENT SYSTEMS

Within the framework of integrated comprehensive 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 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.

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 2023:

- 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, 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 2023, the risk capital requirement under the economic perspective was well within the limit based on internal capital.

Economic capital adequacy amounted to 140% as at the 31 December 2023 reporting date (2022: 159%). In the course of the financial year, it was above the internal minimum target of 120% at all times. Internal capital at year-end amounted to €3,848 million (2022: €4,195 million), and the risk capital requirement for all material risk types (after diversification), including risk buffers for other risks, amounted to €2,742 million (2022: €2,638 million). Total limit utilisation is 77% (2022: 73%).

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. As part of annual capital planning, changes in regulatory ratios are analysed over several years, taking into account the expected business development (including new business assumptions) using a baseline and risk scenario. 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 2023, the internal limits were 15.5% for the total capital ratio, 4.0% for the leverage ratio and 6.15% for MREL (based on the leverage ratio exposure).

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 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 is the quarterly risk report, which provides a detailed overview of the quantified risks of the Schwäbisch Hall Group 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.

The risk manual of the Schwäbisch Hall Group, which is available to all employees, presents information on the methods, processes and responsibilities within the Schwäbisch Hall Group 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 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 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 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.

CLIMATE AND ENVIRONMENTAL RISKS IN THE CREDIT PORTFOLIO

As part of credit risk, both physical climate and environmental risks (acute and chronic physical risks) and transitory risks are considered in the context of climate and environment.

Since 2022, ESG key performance indicators have been determined for the loan portfolio using a top-down method, which is essentially based on statistical averages for the energy consumption and CO_2 emissions of real estate.

Bausparkasse Schwäbisch Hall AG's customer credit portfolio was assessed with regard to physical risks for the three infrastructure risks of flooding, windstorm and forest fire, among others, both for the current analysis and for one climate change scenario. When considering both the current conditions and the climate change scenario, which is projected to 2030 and 2050, the average physical risk is and remains relatively low.

In terms of transitory risks, the customer credit portfolio is highly dependent on the constant development of European and national legislation in the context of the energy efficiency of buildings. Information from energy certificates is a key factor in determining transitory risks in the Schwäbisch Hall Group's customer loan portfolio. For this reason, energy certificates have been required from borrowers when granting loans for certain purposes since financial year 2024.

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, 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 that are inherent in the business model, which would otherwise require a limit on the issuance of new loans based on certain size criteria. Nevertheless, for risk management purposes there is a limit for new business above loan-to-value ratio of 80% equal to 14% of committed new business.

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 €58,274.5 million (2022: €58,466.9 million), €53,742.2 million (2022: €54,728.8 million) is secured by real property and €358.0 million (2022: €218.0 million) by other collateral.

LENDING VOLUMES AS DEFINED BY INTERNAL MANAGEMENT

	Lending volumes as defined by internal management		Reconciliation				Lending volumes in the consolidated financial statements		
			Allocation of lending volume		Basis of consolidation				
in € million	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	
Traditional lending business	58,274.5	58,466.9	9,278.3	8,673.1	0.9	1,369.7	102.8	–	Loans and advances to banks
							64,869.7	63,882.8	Loans and advances to customers
							2,581.2	4,626.9	Loan commitments
Own investments	16,917.5	20,643.0	268.5	623.4	-481.9	-478.2	2,119.7	2,490.1	Loans and advances to customers
							4,356.8	8,797.6	Loans and advances to banks
							14.9	31.9	Positive fair values of hedging instruments
							10,212.7	9,468.6	Bonds and other fixed-income securities
Total	**75,192.0**	**79,109.9**	**9,546.8**	**9,296.5**	**-481.0**	**891.5**	**84,257.8**	**89,297.9**	**Total**

COLLATERALISED LENDING VOLUME BY COLLATERAL TYPE

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**
Guarantees/warranties/ risk sub-participations	355.6	187.3	–	–	–	–	355.6	187.3
Land charges/mortgages/ registered liens	53,742.2	54,728.8	2,213.2	2,149.8	–	–	55,955.4	56,878.6
Chattel mortgages/assignments/ pledging of receivables	–	–	1,036.5	1,041.7	–	–	1,036.5	1,041.7
Financial collateral	–	–	–	–	–	–	–	–
Other collateral	2.4	30.7	2,000.1	2,737.8	–	–	2,002.5	2,768.5
Total	**54,100.2**	**54,946.8**	**5,249.8**	**5,929.3**	**–**	**–**	**59,350.0**	**60,876.1**

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 2023 reporting date, 62% 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 €395 million (2022: €393 million) as at the end of the financial year. The limit from an economic perspective was €480 million (2022: €530 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 decreased slightly compared with 2022 to €11.5 billion. The lending volume in corporates increased by 6% to €291.3 million. The lending volume to the Public sector (administration/government) declined by 17% year-on-year to €5.2 billion. The lending volume in the core Retail business was almost unchanged (€57.5 billion).

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 2023, the loans in the customer lending business and securities investments were concentrated in Germany, with a share of 94% (2022: 95%) 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 96% at year end (2022: 96%).

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 0.8% of the customer lending business as at 31 December 2023 and were therefore slightly above the level of the previous year.

LENDING VOLUME BY SECTOR

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Financial sector	626.1	779.7	10,805.9	10,711.3	668.0	3,416.9	12,100.0	14,907.9
Public sector (administration / state)	22.3	23.4	5,152.3	6,240.4	–	–	5,174.6	6,263.8
Corporates	–	–	291.3	274.4	–	–	291.3	274.4
Retail	57,475.2	57,504.6	–	–	–	–	57,475.2	57,504.6
Commercial	261.2	280.3	–	–	–	–	261.2	280.3
Retail customers	57,214.0	57,224.3	–	–	–	–	57,214.0	57,224.3
Miscellaneous	150.9	159.2	–	–	–	–	150.9	159.2
Total	**58,274.5**	**58,466.9**	**16,249.5**	**17,226.1**	**668.0**	**3,416.9**	**75,192.0**	**79,109.9**

LENDING VOLUME BY COUNTRY GROUP

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Germany	57,976.8	58,180.0	12,142.8	13,558.4	624.9	3,373.8	70,744.5	75,112.2
Industrialised countries	289.9	277.1	4,106.7	3,667.7	43.1	43.1	4,439.7	3,987.9
Advanced economies	3.0	3.0	–	–	–	–	3.0	3.0
Emerging markets	4.8	6.8	–	–	–	–	4.8	6.8
Total	**58,274.5**	**58,466.9**	**16,249.5**	**17,226.1**	**668.0**	**3,416.9**	**75,192.0**	**79,109.9**

LENDING VOLUME BY RESIDUAL MATURITY

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
≤ 1 year	281.2	431.9	1,534.2	2,220.3	–	0.1	1,815.4	2,652.3
> 1 year to ≤ 5 years	2,329.0	1,896.9	4,849.0	4,532.9	6.4	6.3	7,184.4	6,436.1
> 5 years	55,664.3	56,138.1	9,866.3	10,472.9	661.6	3,410.5	66,192.2	70,021.5
Total	**58,274.5**	**58,466.9**	**16,249.5**	**17,226.1**	**668.0**	**3,416.9**	**75,192.0**	**79,109.9**

LENDING VOLUME BY CREDIT RATING (BVR II)

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022	31.12.2023	31.12.2022
0a	1.4	1.1	5,133.1	6,842.9	–	–	5,134.5	6,844.0
0b	–	–	704.1	92.5	–	–	704.1	92.5
0c	178.8	209.7	3,966.3	4,403.4	624.9	3,273.4	4,770.0	7,886.5
0d	–	–	142.0	175.2	–	–	142.0	175.2
0e	–	–	187.3	551.4	–	–	187.3	551.4
1a	–	0.3	1,630.7	1,505.9	5.0	105.4	1,635.7	1,611.6
1b	106.2	63.8	3,638.9	2,762.9	–	–	3,745.1	2,826.7
1c	4,846.8	4,637.9	314.1	378.5	–	–	5,160.9	5,016.4
1d	11,748.6	11,293.0	522.0	72.2	38.1	–	12,308.7	11,365.2
1e	15,177.1	15,176.2	2.6	141.5	–	38.1	15,179.7	15,355.8
2a	10,979.3	11,258.5	–	99.9	–	–	10,979.3	11,358.4
2b	5,493.5	5,681.0	–	–	–	–	5,493.5	5,681.0
2c	2,926.6	3,204.3	–	–	–	–	2,926.6	3,204.3
2d	1,656.1	1,849.2	–	–	–	–	1,656.1	1,849.2
2e	1,582.8	1,556.7	–	28.6	–	–	1,582.8	1,585.3
3a	804.0	773.7	–	–	–	–	804.0	773.7
3b	493.9	476.8	–	–	–	–	493.9	476.8
3c	278.8	290.0	–	–	–	–	278.8	290.0
3d	150.5	151.1	–	–	–	–	150.5	151.1
3e	645.5	641.6	–	–	–	–	645.5	641.6
4a	246.7	252.0	–	–	–	–	246.7	252.0
4b	191.0	182.8	–	–	–	–	191.0	182.8
Miscellaneous	766.9	767.2	8.4	171.2	–	–	775.3	938.4
Total	**58,274.5**	**58,466.9**	**16,249.5**	**17,226.1**	**668.0**	**3,416.9**	**75,192.0**	**79,109.9**

STRUCTURE OF CREDIT PORTFOLIO WITH IMPECCABLE CREDITWORTHINESS

Own investments were not overdue in 2023 and appropriate loss allowances were recognised 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 (2022: 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 effects of the uncertain macroeconomic situation resulting in particular from the impact of the Ukraine war and the delayed 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 the Schwäbisch Hall Group 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 Bausparkasse Schwäbisch Hall AG 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 AG. 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 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 Schwäbisch Hall AG 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. Operating VaR is quantified daily using a historical simulation with the following parameters:

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

Since 30 June 2023, the regulatory standard test limit (ad hoc interest rate shift of +2.0%/-2.0%) has been 15% of regulatory own funds (20% until 30 June 2023). The applicable limits were complied with at all times in 2023. The trigger for the early warning indicators of 15% of Tier 1 capital was temporarily exceeded in 2023 due to the volatile interest rate trend in the first quarter. 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%.

Bausparkasse Schwäbisch Hall AG's portfolio contains interest rate swaps amounting to €2,747 million (receiver swaps of €1,965 million and payer swaps of €782 million) in order to reduce interest rate risk in the overall interest book (2022: €2,685 million). Swaps are entered into exclusively for hedging purposes within the framework of risk management in the Schwäbisch Hall Group.

LIMITING

The market risk classified by the Schwäbisch Hall Group 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 subtypes.

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 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. 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 2023, the capital requirements for original market risks of the Schwäbisch Hall Group amounted to €1,056 million (2022: €936 million) under the economic perspective (VaR, 99.9% confidence level, one-year holding period), with a limit of €1,671 million (2022: €1,467 million). Operating VaR (99% confidence level, ten-day holding period) amounted to €166 million (2022: €123 million) as at 31 December 2023. 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 €446 million as at 31 December 2023 (2022: €440 million) with a limit of €500 million (2022: €650 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 partners. 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 €783 million and €2,537 million in 2023.

ANALYSIS OF LIQUIDITY RISK

The liquidity risk limits were adhered to at all times in 2023. The LCR fluctuated between 175% and 571% and was therefore clearly above the 100% regulatory minimum value in force for 2023.

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 Bausparkasse Schwäbisch Hall AG's 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 2023 amounted to €730 million, with a limit of €820 million (2022: €698 million; limit: €785 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 the Schwäbisch Hall Group 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 2023, the economic capital requirement for equity investment risk amounted to €218 million (2022: €213 million). This includes a capital buffer requirement of €15 million for foreign currency risks and a capital buffer requirement of €8 million for real estate risk. The limit set as at 31 December 2023 was €260 million (2022: €260 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 €342 million (2022: €306 million) as at 31 December 2023.

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 controlling 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;
- 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, 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.

Sustainability risks in the form of environmental, social and governance risks can be causal risk factors for operational risk. The risk factors are described in the context of the corresponding component of operational risk.

In addition, there are pre-litigation risks in connection with the lending and *Bauspar* business.

The following methods are used at the Schwäbisch Hall Group 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 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, authenticity and/or availability of information. 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. This also includes cyber risks.

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 denotes the risk of losses from outsourced services due to a violation of the strategic principles or operational policies.

Potential outsourcing risks can arise, for example, from noncompliance with supervisory requirements by the responsible service provider, from a lack of transparency or ability to enforce in the case of outsourcing outside the domestic market, from increasing complexity in the case of outsourcing of processes that are not classified as standard services (commodity services), from the outsourcing of core responsibilities or knowledge processes due to a potential loss of expertise, from service disruptions (in particular the failure or poor performance of the service provider) or from 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 RISK SUBTYPES

The effects on the individual risk subtypes 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 risk subtypes 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.

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 2023, a capital requirement of €136 million (2022: €150 million) was calculated under the economic perspective to cover the operational risks of the Schwäbisch Hall Group. At no time has the value exceeded the applicable limit. On 31 December 2023, the limit for operational risks amounted to €160 million (2022: €185 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 or in its products and services, especially in relation to customers, shareholders, employees, sales partners, supervisors 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 (“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 Schwäbisch Hall Group 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 Schwäbisch Hall AG 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 Schwäbisch Hall AG 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 Schwäbisch Hall AG is informed about how the Bausparkasse Schwäbisch Hall AG 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 2023 the Schwäbisch Hall Group 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 13f.

No risks have been identified that could jeopardise the continuation of the Schwäbisch Hall Group as a going concern.

Consolidated financial statements

Consolidated financial statements as at 31 December 2023

FINANCIAL INSTRUMENTS DISCLOSURES

OTHER DISCLOSURES

Income statement and statement of comprehensive income

Income statement

in € thousand	(Notes)	01.01.-31.12.2023	01.01.-31.12.2022
Net interest income	(30)	472,997	675,889
Interest income calculated using the effective interest method		1,336,091	1,217,713
Current income		572	899
Interest expenses		-872,976	-547,425
Income from investments in joint ventures using the equity method		9,310	4,702
Net fee and commission income	(31)	-18,426	5,762
Fee and commission income		90,327	123,523
Fee and commission expenses		-108,753	-117,761
Gains and losses on investments	(32)	-100	-90,257
Other gains or losses on measurement of financial instruments	(33)	821	3,576
Gains or losses on derecognition of financial assets measured at amortised cost	(34)	–	5,824
Loss allowances	(35)	-21,816	-12,637
Administrative expenses	(36)	-490,518	-486,562
Other net operating income	(37)	43,822	25,397
Profit or loss before tax from continuing operations		**-13,220**	**126,992**
Income taxes	(38)	18,896	-50,347
Profit or loss after tax from discontinued operations	**(28)**	**28,256**	**13,855**
Net profit		**33,932**	**90,500**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		20,956	84,012
Non-controlling interest shareholders		12,976	6,488

Statement of comprehensive income

in € thousand	(Notes)	01.01.-31.12.2023	01.01.-31.12.2022
Net profit		**33,932**	**90,500**
Other comprehensive income/loss		**277,882**	**-1,578,770**
Items that may be reclassified to the income statement		**296,324**	**-1,593,661**
Gains and losses on debt instruments at fair value through other comprehensive income		427,056	-2,296,763
Gains (+)/losses (-) arising during the reporting period		426,956	-2,356,210
Gains (+)/losses (-) reclassified to the income statement on disposal		100	59,447
Exchange differences on currency translation of foreign operations		-6,424	-2,468
Change tax from discontinued operations[1]		8,705	-12,398
Income taxes	(39)	-133,013	717,968
Items that will not be reclassified to the income statement		**-18,442**	**14,891**
Gains and losses on equity instruments for which the fair value OCI option has been exercised		-1,324	4,400
Gains and losses arising from remeasurements of defined benefit plans		-25,729	15,891
Share of other comprehensive income/loss of equity-accounted joint ventures		-48	175
Income taxes	(39)	8,659	-5,575
Total comprehensive income		**311,814**	**-1,488,270**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		294,340	-1,488,761
Non-controlling interest shareholders		17,474	491

[1] The change from discontinued operations relates exclusively to exchange differences on currency translation of foreign operations.

Balance sheet

Assets

in € thousand	(Notes)	31.12.2023	31.12.2022
Cash and cash equivalents	(12, 40)	27	79,754
Loans and advances to banks	(13, 41)	4,459,577	8,797,591
Loans and advances to customers	(13, 42)	66,989,485	66,372,898
Fair value changes of hedged assets in portfolio hedges of interest rate risk	(8)	41	–
Positive fair values of hedging instruments	(14, 43)	14,896	31,855
Investments	(16, 44)	10,226,059	9,478,855
Investments accounted for using the equity method	(17, 44)	87,938	85,100
Intangible assets	(18, 45)	153,867	187,424
Property, plant and equipment and right-of-use assets	(19, 46-48)	95,238	109,729
Current income tax assets	(20, 49)	563	4,041
Deferred tax assets	(20, 49)	765,783	613,537
Other assets	(21, 50)	47,473	49,636
Loss allowances	(22, 51)	-204,333	-211,682
Assets held for sale	(23, 28)	1,732,684	–
Total assets		**84,369,298**	**85,598,738**

Equity and liabilities

in € thousand	(Notes)	31.12.2023	31.12.2022
Deposits from banks	(24, 52)	9,470,470	10,458,624
Deposits from customers	(24, 53)	64,151,766	66,851,313
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	(8)	-138,105	-222,938
Issued bonds	(25, 54)	3,030,620	2,509,594
Negative fair values of hedging instruments	(14, 55)	175,945	219,761
Provisions	(26, 56)	1,210,145	1,354,844
Current income tax liabilities	(20, 49)	264,596	14,618
Other liabilities	(21, 57)	217,550	198,084
Liabilities included in disposal groups	(23, 28)	1,532,536	–
Equity	(58)	4,453,775	4,214,838
Subscribed capital		310,000	310,000
Capital reserves		1,486,964	1,486,964
Earned equity		3,532,310	3,600,144
Retained earnings		3,581,355	3,531,132
Net profit		-49,045	69,012
Reserve from other comprehensive income		-973,338	-1,263,817
Non-controlling interest shareholders		97,839	81,547
Total equity and liabilities		**84,369,298**	**85,598,738**

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-controlling interests	Total equity
Equity as at 01.01.2022	**310,000**	**1,486,964**	**3,520,627**	**-6,733**	**332,596**	**-6,460**	**5,636,994**	**80,538**	**5,717,532**
Net profit	**–**	**–**	**84,012**	**–**	**–**	**–**	**84,012**	**6,488**	**90,500**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	-1,578,795	–	-1,578,795	–	-1,578,795
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	4,400	–	–	4,400	–	4,400
Remeasurements of defined benefit plans	–	–	10,268	–	–	–	10,268	48	10,316
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	178	-3	–	-2,468	-2,293	–	-2,293
Changes in operations held for sale	–	–	–	–	–	-6,354	-6,354	-6,044	-12,398
Total comprehensive income	**–**	**–**	**94,458**	**4,397**	**-1,578,795**	**-8,822**	**-1,488,762**	**492**	**-1,488,270**
Changes in the basis of consolidation	–	–	59	–	–	–	59	517	576
Profit transferred due to profit and loss transfer agreement	–	–	-15,000	–	–	–	-15,000	–	-15,000
Equity as at 31.12.2022	**310,000**	**1,486,964**	**3,600,144**	**-2,336**	**-1,246,199**	**-15,282**	**4,133,291**	**81,547**	**4,214,838**
Net profit	**–**	**–**	**20,955**	**–**	**–**	**–**	**20,955**	**12,977**	**33,932**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	294,043	–	294,043	–	294,043
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	22	-1,346	–	–	-1,324	–	-1,324
Remeasurements of defined benefit plans	–	–	-17,060	–	–	–	-17,060	-10	-17,070
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	-56	8	–	-6,424	-6,472	–	-6,472
Changes in operations held for sale	–	–	–	–	–	4,198	4,198	4,507	8,705
Total comprehensive income	**–**	**–**	**3,861**	**-1,338**	**294,043**	**-2,226**	**294,340**	**17,474**	**311,814**
Increase in capital reserves attributable to non-controlling interests	–	–	–	–	–	–	–	600	600
Acquisition of non-controlling interests	–	–	-1,695	–	–	–	-1,695	-1,782	-3,477
Profit transferred due to profit and loss transfer agreement	–	–	-70,000	–	–	–	-70,000	–	-70,000
Equity as at 31.12.2023	**310,000**	**1,486,964**	**3,532,310**	**-3,674**	**-952,156**	**-17,508**	**4,355,936**	**97,839**	**4,453,775**

The composition of equity is explained in Note 58. The changes from operations held for sale relate to exchange differences on currency translation of foreign operations.

Cash flow statement

in € thousand	2023	2022
Net profit	**33,932**	**90,500**
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	75,691	112,976
Non-cash changes in provisions	233,790	-45,528
Other non-cash income and expenses	397,952	506,511
Gains and losses on the disposal of assets and liabilities	-4,914	52,004
Other adjustments (net)	-561,157	-715,089
Subtotal	**175,294**	**1,374**
Cash changes in assets and liabilities from operating activities		
Loans and advances to banks	4,312,981	-705,464
Loans and advances to customers	-2,026,737	-3,205,677
Other assets from operating activities	-3,618	-9,374
Positive and negative fair values of derivative hedging instruments	46,895	-24,715
Deposits from banks	-943,327	964,263
Deposits from customers	-1,406,560	-58,750
Issued bonds	513,371	993,582
Other liabilities from operating activities	-388,125	-318,943
Interest, dividends and income received from equity-accounted joint ventures	1,245,386	1,200,803
Interest paid	-967,201	-660,195
Income taxes paid	-387	-5,115
Cash flows from operating activities	**557,972**	**-1,828,211**
Proceeds from disposals of investments	174,236	3,266,544
Proceeds from disposals of property, plant and equipment	2,898	9,394
Proceeds from disposal of intangible assets	3,013	2,037
Payments to acquire investments	-626,732	-2,289,803
Payments to acquire property, plant and equipment	-23,410	-29,801
Payments to acquire intangible assets	-27,144	-31,193
Changes in the basis of consolidation	–	13
Cash flows from investing activities	**-497,139**	**927,191**

in € thousand	2023	2022
Profit transfer	-15,000	-12,000
Net change in cash and cash equivalents from other financing activities	-1,161	-5,194
Cash flows from financing activities	**-16,161**	**-17,194**
Cash and cash equivalents as at 01.01	**79,754**	**997,968**
Cash flows from operating activities	557,972	-1,828,211
Cash flows from investing activities	-497,139	927,191
Cash flows from financing activities	-16,161	-17,194
Cash and cash equivalents as at 31.12	**124,426**	**79,754**

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

OF WHICH CASH FLOW FROM DISCONTINUED OPERATIONS

in € thousand	2023	2022
Cash and cash equivalents as at 01.01	**79,711**	**194,963**
Cash flows from operating activities	28,737	-154,493
Cash flows from investing activities	19,428	41,471
Cash flows from financing activities	-3,477	-2,230
Cash and cash equivalents as at 31.12	**124,399**	**79,711**

Due to the limited informative value of the cash flow statement for credit institutions, it is considered to be of minor importance for the Bausparkasse Schwäbisch Hall Group. The cash flow statement is not used to manage the Bausparkasse Schwäbisch Hall Group's liquidity and financial planning, or as a management tool.

The cash flow statement presents the changes in cash and cash equivalents in the reporting period. Cash and cash equivalents consist of cash on hand and balances with central banks, as well as cash held by non-current assets classified as held for sale and disposal groups. 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 €0 thousand (previous year: €2,230 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 2023 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 2023 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 1 March 2024.

02 Accounting policies and estimates

CHANGES IN ACCOUNTING POLICIES

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

The consolidated financial statements as at 31 December 2023 were prepared in accordance with IFRSs effective as at 31 December 2023 and required to be applied in the EU to the IFRS consolidated financial statements as at 31 December 2023.

AMENDMENTS TO IFRSs APPLIED FOR THE FIRST TIME IN FINANCIAL YEAR 2023

The consolidated financial statements of Bausparkasse Schwäbisch Hall for financial year 2023 apply the following amendments to IFRSs for the first time:

- IFRS 17 – *Insurance Contracts;*
- Amendments to IFRS 17 – *Insurance Contracts;*
- Amendments to IAS 1 *Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;*
- Amendments to IAS 12 – *Income Taxes – Deferred tax related to assets and liabilities arising from a single transaction;*
- Amendments to IAS 12 *International Tax Reform – Pillar 2 – Model Rules.*

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.

The IASB issued amendments to IFRS 17 on the accounting for insurance contracts on 25 June 2020. At the same time, it also issued a related amendment to IFRS 4, extending the existing option to delay initial application of IFRS 9 to the new time of the effective date of IFRS 17.

The amendments to IAS 1 require entities to disclose their "material" accounting policies, instead of their "significant" accounting policies, as before.

The amendments to IAS 8 relate to clarifications of the definitions of changes in accounting policies and changes in accounting estimates.

The amendment to IAS 12 Income Taxes – Deferred taxes related to assets and liabilities arising from a single transaction provides for an exemption under certain conditions, under which no deferred tax assets or liabilities are recognised at the time of addition of an asset or liability. This exemption may not be applied to the recognition of deferred taxes in connection with leases or decommissioning or restoration obligations.

The amendments to IAS 12 Income Taxes – International Tax Reform – Pillar 2 Model Rules are related to Directive (EU) 2022/2523 adopted on 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union. As the ultimate parent company, DZ BANK AG is a taxpayer as defined by the Directive. Bausparkasse Schwäbisch Hall AG is part of the DZ BANK Group. Laws on global minimum taxation (BEPS 2.0 Pillar 2) have been enacted or transposed in certain jurisdictions in which the DZ BANK Group operates. Germany is transposing the requirement as part of the Act Implementing Council Directive (EU) 2022/2523 on ensuring a global minimum level of taxation and other accompanying measures, which was published in the Federal Law Gazette on 27 December 2023. The law comes into force for the Group's financial year beginning on 1 January 2024. The Group falls within the scope of the legislation enacted or implemented under substantive law and has undertaken an assessment of the Group's potential exposure to global minimum taxation.

Bausparkasse Schwäbisch Hall AG is part of the minimum tax group in accordance with section 3(1) of the German Minimum Tax Directive Implementation Act (MinStG) with DZ BANK AG as the ultimate parent company and tax group parent. The tax group parent is liable for the minimum tax under the MinStG and must submit the minimum tax report and the corresponding tax return in Germany. The DZ BANK Group expects the income tax risk from global minimum taxation to be insignificant from a Group perspective.

IAS 12 was supplemented by requirements regarding the recognition and presentation of expenses in connection with the levying of top-up taxes on the basis of the Directive. Accordingly, no deferred taxes on top-up taxes will be recognised or disclosed, notwithstanding the requirements of the Standard.

All the amendments to IFRS standards described above are effective for financial years beginning on or after 1 January 2023.

The amendments to IFRS standards described above have no significant impact on the consolidated financial statements of Bausparkasse Schwäbisch Hall.

CHANGES IN IFRSs ENDORSED BY THE EU BUT NOT YET ADOPTED PRIOR TO THE EFFECTIVE DATE

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

- Amendments to IFRS 16 Leases – *Lease Liability in a Sale and Leaseback;*
- Amendments to IAS 1 *Presentation of Financial Statements – Classification of liabilities as current or non-current and Non-current liabilities with covenants.*

The amendments to IFRS 16 clarify that the leaseback liability from a sale and leaseback transaction with variable payments that do not depend on an index or rate is a lease liability under IFRS 16, that the initial measurement requirements in IFRS 16.100(a) apply to the recognition of the right-of-use asset and the gain or loss on the sale and leaseback, and that the seller/lessee subsequently measures the right-of-use asset from the leaseback by applying IFRS 16.29-35.

These amendments to IFRS 16 do not affect the consolidated financial statements of Bausparkasse Schwäbisch Hall as there are no sale and leaseback transactions.

The amendments to IAS 1 specify how an entity should recognise liabilities and other obligations whose settlement date is uncertain in its balance sheet. Accordingly, such liabilities or other obligations are classified as either current (if they will be or are expected to be settled within one year) or non-current. The amendments also improve the disclosures that an entity should make when its right to defer settlement of a liability for at least twelve months is subject to covenants.

These amendments to IAS 1 do not affect the consolidated financial statements of Bausparkasse Schwäbisch Hall, as it does not distinguish between current and non-current liabilities.

The amendments to IFRS 16 and IAS 1 are effective for financial years beginning on or after 1 January 2024, although earlier application is permitted.

AMENDMENTS TO IFRS STANDARDS THAT HAVE NOT YET BEEN ENDORSED BY THE EU

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

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments-Disclosures: *Supplier Finance Arrangements;*
- Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates: *Lack of Exchangeability.*

Bausparkasse Schwäbisch Hall is currently also 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 some cases 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. Determining the fair values of financial assets and financial liabilities is associated with estimation uncertainties if no prices are available on active markets for the financial instruments in question. Estimation uncertainties arise primarily when fair values are determined using valuation techniques that incorporate significant inputs that are not observable in the market. This relates to financial instruments measured at fair value as well as financial instruments measured at amortised cost whose fair values are disclosed in the notes. The assumptions about inputs and valuation techniques used to determine fair values are presented in the disclosures on financial instruments (Note 59).

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 provided, as factors affecting the amount of loss allowances (Notes 7 and 22).

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 20 are measured on the basis of estimates of future taxable income of the taxable entities and estimates of tax-relevant matters.

No additional sources of estimation uncertainty arise as a consequence of the Ukraine war in determining the carrying amounts of assets and liabilities and income and expenses. The Ukraine war affects in particular the known assumptions and estimates used to determine loss allowances and provisions (Note 64).

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 (Note 64).

DISCLOSURE OF PRIOR PERIOD ERRORS

Cash flow statement for the period 1 January to 31 December 2022

The 2022 cash flow statement was adjusted due to the correction of an error. Essentially, as part of the correction to cash flow from operating activities, cash changes that were previously allocated to individual assets and liabilities have been reclassified to “Other non-cash income and expense”.

In cash flow from investing activities, “Proceeds from disposals of financial assets” were adjusted for the changes in the measurement of equity reserves recognised in other comprehensive income. The changes from equity reserves are recognised in “Other adjustments (net)” in cash flow from operating activities.

The adjustments made for financial year 2022 did not have any impact on the consolidated balance sheet, net profit or the statement of comprehensive income.

in € thousand	2022 before adjustment	Adjustment	2022 after adjustment
Net profit	**90,500**	**–**	**90,500**
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	172,444	-59,468	112,976
Non-cash changes in provisions	-34,427	-11,101	-45,528
Other non-cash income and expenses	-495,147	1,001,658	506,511
Gains and losses on the disposal of assets and liabilities	-15,383	67,387	52,004
Other adjustments (net)	-2,347,434	1,632,345	-715,089
Subtotal	**-2,629,447**	**2,630,821**	**1,374**

in € thousand	2022 before adjustment	Adjustment	2022 after adjustment
Cash changes in assets and liabilities from operating activities			
Loans and advances to banks	-705,556	92	-705,464
Loans and advances to customers	-3,308,035	102,358	-3,205,677
Other assets from operating activities	186,839	-196,213	-9,374
Positive and negative fair values of derivative hedging instruments	-220,922	196,207	-24,715
Deposits from banks	973,807	-9,544	964,263
Deposits from customers	-167,421	108,671	-58,750
Issued bonds	994,000	-418	993,582
Other liabilities from operating activities	-318,964	21	-318,943
Interest, dividends and income received from equity-accounted joint ventures	1,445,855	-245,052	1,200,803
Interest paid	-414,075	-246,120	-660,195
(...)			
Cash flows from operating activities	**-4,169,034**	**2,340,823**	**-1,828,211**
Proceeds from disposals of investments	5,604,440	-2,337,896	3,266,544
(...)			
Cash flows from investing activities	**3,265,087**	**-2,337,896**	**927,191**
(...)			
Net change in cash and cash equivalents from other financing activities	-2,267	-2,927	-5,194
Cash flows from financing activities	**-14,267**	**-2,927**	**-17,194**
Cash and cash equivalents as at 01.01	**997,968**	**–**	**997,968**
Cash flows from operating activities	-4,169,034	2,340,823	-1,828,211
Cash flows from investing activities	3,265,087	-2,337,896	927,191
Cash flows from financing activities	-14,267	-2,927	-17,194
Cash and cash equivalents as at 31.12	**79,754**	**–**	**79,754**

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 2023 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 comprises Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (referred to in the following as FLK), as a subgroup and a further five subsidiaries (previous year: five). In the reporting period, Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (referred to in the following as SHK), Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall (referred to in the following as SHF), Schwäbisch Hall Wohnen GmbH, Schwäbisch Hall (referred to in the following as SHW) and BAUFINEX GmbH, Schwäbisch Hall (referred to in the following as BAUFINEX), as well as the specialised fund UIN Union Investment Institutional Fund No. 817, Frankfurt am Main (referred to in the following as UIN Fund No. 817) were included as subsidiaries.

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 disposal of the investment in Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, to MBH Bank Nyrt., Budapest, was contractually agreed. The sale is subject to the approval of the Hungarian banking supervision and anti-trust authorities.

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 77.

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 in profit or loss.

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 in profit or loss.

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 preconditions 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 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. The exercise price of the options generally corresponds to the cost of the host contract, to the extent that the embedded derivatives are not separated and accounted for separately. Additionally, 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.

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 preconditions for allocation are met. The *Bauspar* 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 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’s estimates 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 *Bausparkasse*n 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 using 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 as defined by IFRS 13.

The fair values for the collective *Bauspar* business are not disclosed. However, in order to provide decision-useful information, the balance of the carrying amounts of *Bauspar* deposits and *Bauspar* loans is compared with the present value of the collective, derived from the Bauspar-specific simulation model.

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 present value is determined using a risk-free interest rate (swap curve against 6 month Euribor) and taking risk costs into account. 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.

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 58) are subject to restrictions in the form of earmarking. Restrictions also exist due to earmarking of non-collective refinancing funds, assignments of assets as collateral and the pledging of assets.

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 not designated as hedging instruments in effective hedging relationships.

All changes in the fair value of financial assets in this category are recognised in profit or loss.

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.

All changes in the fair value of "Financial liabilities mandatorily measured at fair value through profit or loss" are recognised in profit or loss.

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 and IAS 39. The recognition and measurement of these hedging instruments is presented in Notes 8 and 14.

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 solely 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”;
- 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. The loss allowance for “Financial assets measured at amortised cost” is reported in Loss allowances on the assets side of the balance sheet. For “Financial assets measured at fair value through other comprehensive income”, it is measured in the Reserve from other comprehensive income on the equity and liabilities side.

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 that would require assignment to Stage 3. 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 64.

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”;
- “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 category “Financial assets measured at amortised cost” and “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. Hedged items in the category “Assets mandatorily measured at fair value through other comprehensive income" are measured at fair value, with only changes in fair value in excess of the hedged changes being recognised in other comprehensive income. 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 assets 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 assets in portfolio hedges of interest rate risk", and cumulative changes in the fair value of the portfolio of financial liabilities are presented in the balance sheet item "Fair value changes of hedged liabilities 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 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.

10 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.

11 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 and other operating 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.

12 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.

13 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. In the hedge accounting of fair value hedges, the carrying amounts of hedged assets are adjusted by the change in fair value attributable to the hedged risk. The resulting carrying amount adjustments are recognised in Gains or losses from hedge accounting as part of Other gains or losses on valuation of financial instruments.

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”.

14 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.

15 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 and realisation 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.

16 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.

17 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”.

18 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.

19 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 three 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.

20 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 IFRS balance sheet and their tax base, as well as for unused tax loss carryforwards, 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.

The income tax assets and liabilities as well as the income and expenses for current and deferred income taxes of the Hungarian Fundamenta subsidiary are no longer reported in “Tax assets and liabilities” and “Income taxes”, but are included in "Profit or loss after tax from discontinued operations".

21 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”.

22 Loss allowances

Loss allowances for 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.

23 Assets held for sale and liabilities included in disposal groups

The carrying amount of non-current assets or groups of assets and liabilities held for sale is realised primarily through the disposal transaction and not through their continued use. They are therefore classified as held for sale if the following conditions are met.

Classification as held for sale requires the assets or groups of assets and liabilities to be available for immediate sale in their present condition subject to terms that are usual, and the sale to be highly probable. The sale is highly probable if management has committed to the plan for the sale and an active programme to locate a buyer and complete the plan has been initiated. Further, the asset or disposal group must be actively marketed at a price that is reasonable in relation to its current fair value. The sale process must be expected to be completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of carrying amount and fair less costs to sell. Among other things, these measurement requirements do not include deferred tax assets in accordance with IAS 12 or financial assets within the scope of IFRS 9. Depreciation or amortisation of the assets is discontinued from the date they are classified as held for sale.

Assets or disposal groups classified as held for sale are presented separately in Assets held for sale and Liabilities included in disposal groups.

Gains or losses from the measurement as well as gains or losses from the disposal of these assets or disposal groups that do not belong to a discontinued operation are included in Other net operating income in the income statement. In the case assets or disposal groups of discontinued operations, the entire gains or losses from these assets or disposal groups are presented separately in Profit or loss after tax from discontinued operations.

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 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 largely 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 the future development of macroeconomic conditions (such as labour market and inflation 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.

28 Discontinued operations

On 10 November 2023, Bausparkasse Schwäbisch Hall AG signed a sale agreement with MBH Bank Nyrt. Hungary (Magyar Bankholding) regarding the sale of the interests in the Hungarian subsidiary Fundamenta-Laskáskassza Lakás-takarékpénztár Zrt. (FLK). The sale is subject to the approval of the Hungarian banking supervision and anti-trust authorities. Due to the concrete plans to sell FLK and their approval by the corresponding governing bodies of Bausparkasse Schwäbisch Hall AG, FLK's operations have been reported since then as a discontinued operation and classified as a disposal group held for sale. The transaction is expected to close in the first half of 2024. The purchase price will be paid in full when the transaction closes.

The prior-period figures in the consolidated income statement, the consolidated statement of comprehensive income and the consolidated cash flow statement have been restated in accordance with IFRS 5 in order to present the discontinued operation separately from continuing operations. The Profit or loss after tax from discontinued operations in the financial year and in the previous year result from FLK's ordinary business activities.

in € thousand	01.01.-31.12.2023	01.01.-31.12.2022
Net interest income	76,855	68,373
Interest income	96,911	84,662
Interest expenses	-20,056	-16,289
Net fee and commission income	5,652	4,879
Gains or losses on derecognition of financial assets measured at amortised cost	-1,899	-3,180
Loss allowances	4,082	-3,315
Administrative expenses	-45,809	-41,303
Other net operating income	-5,718	-9,146
Profit or loss before tax from discontinued operations	**33,163**	**16,308**
Income taxes	-4,907	-2,453
Profit or loss after tax from discontinued operations	**28,256**	**13,855**
Attributable to:		
Shareholders of Bausparkasse Schwäbisch Hall	14,685	7,101
Non-controlling interest shareholders	13,571	6,754

On 31 December 2023, the FLK disposal group was recognised at the lower of carrying amount and fair value less costs to sell. Fair value was determined on the basis of the available purchase price agreement and is higher than the carrying amounts at the reporting date.

The FLK disposal group comprises the following material groups or assets and liabilities.

in € thousand	31.12.2023
Cash and cash equivalents	124,399
Loans and advances to banks	11,733
Loans and advances to customers	1,374,466
Investments	193,599
Intangible assets	25,325
Property, plant and equipment and right-of-use assets	19,187
Income tax assets	2,632
Other assets	5,487
Loss allowances	-24,144
Assets held for sale	**1,732,684**

in € thousand	31.12.2023
Deposits from banks	40,434
Deposits from customers	1,463,165
Provisions	3,238
Income tax liabilities	3,019
Other liabilities	22,680
Liabilities included in disposal groups	**1,532,536**

Disclosures on the income statement and the statement of comprehensive income

29 Segment reporting

in € thousand	*Bausparen* and Housing Financing Domestic	*Bausparen* and Housing Financing Non-Domestic	Other Domestic	Consolidation	Total segments	Reclassification as discontinued operations	Income statement
Financial year 2023							
Net interest income	463,294	86,165	393	–	549,852	-76,855	472,997
Net fee and commission income	-18,420	5,652	-6	–	-12,774	-5,652	-18,426
Gains and losses on investments	-100	–	–	–	-100	–	-100
Other gains or losses on measurement of financial instruments	821	–	–	–	821	–	821
Gains or losses on derecognition of financial assets measured at amortised cost	–	-1,899	–	–	-1,899	1,899	–
Loss allowances	-21,816	4,082	–	–	-17,734	-4,082	-21,816
Administrative expenses	-487,532	-45,809	-31,855	28,868	-536,328	45,810	-490,518
Other net operating income	42,942	-5,718	29,748	-28,868	38,104	5,718	43,822
Profit or loss before tax from continuing operations	**-20,811**	**42,473**	**-1,720**	**–**	**19,942**	**-33,162**	**-13,220**
Profit or loss before tax from discontinued operations						33,162	33,162
Profit/loss before taxes						–	**19,942**
Financial year 2022							
Net interest income	670,961	73,075	225	–	744,261	-68,373	675,888
Net fee and commission income	5,771	4,879	-8	–	10,642	-4,879	5,763
Gains and losses on investments	-75,647	–	–	-14,610	-90,257	–	-90,257
Other gains or losses on measurement of financial instruments	3,576	–	–	–	3,576	–	3,576
Gains or losses on derecognition of financial assets measured at amortised cost	5,824	-3,180	–	–	2,644	3,180	5,824
Loss allowances	-12,637	-3,315	–	–	-15,952	3,315	-12,637
Administrative expenses	-491,407	-41,303	-30,366	35,210	-527,866	41,303	-486,563
Other net operating income	24,493	-9,146	36,115	-35,210	16,252	9,146	25,398
Profit or loss before tax from continuing operations	**130,934**	**21,010**	**5,966**	**-14,610**	**143,300**	**-16,308**	**126,992**
Profit or loss before tax from discontinued operations						16,308	16,308
Profit/loss before taxes						–	**143,300**

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.

Bausparkasse Schwäbisch Hall changed its internal management structure, including internal reporting to the Management Board, and modified its segment reporting as a result. The subsidiaries BAUFINEX, SHF and SHW were initially consolidated as at 31 December 2022.

The *Bausparen* and Housing Financing 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. Because of their function of supporting the sale of building loans, SHW and BAUFINEX are allocated to the *Bausparen* and Housing Financing Domestic segment, as is SHK, which will focus solely on processing the building loans of Bausparkasse Schwäbisch Hall. The activities of UIN Fund No. 817 are also reported in this segment.

The Other Domestic segment consists solely of the business activities of SHF.

The activities of FLK and the PSS and SGB foreign joint ventures are reported in the *Bausparen* and Housing Financing Non-Domestic segment (previous year: "*Bausparen* Non-domestic" segment). Starting in financial year 2023, FLK's operations are reported as a discontinued operation. The prior-period figures in the income statement were restated accordingly.

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. Gains or losses on investments in joint ventures are presented in gains or losses on investments.

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, SHK, BAUFINEX, and SHW with SHF.

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.

30 Net interest income

in € thousand	2023	2022
Interest income	**1,336,091**	**1,217,713**
calculated using the effective interest method	**1,336,091**	**1,217,713**
Bauspar loans	86,205	59,799
Advance and bridge financing loans	729,500	758,545
Other building loans	173,439	121,013
Lending and money market transactions	196,112	171,753
Fixed-income investment securities	141,907	118,825
Fair value changes of hedged items (assets) in portfolio hedges of interest rate risk	8,928	-936
Financial assets with negative effective yield	–	-11,286
Current income	**572**	**899**
Current income from FVOCI equity instruments held at the reporting date	572	899
Interest expense on	**-872,976**	**-547,425**
Deposits from banks and customers	-780,041	-544,440
of which: for *Bauspar* deposits	-730,780	-496,024
of which from: Gains or losses from repayment of own liabilities to banks	54,570	–
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	-55,841	-2,623
Securitised liabilities	-38,720	-12,689
Financial liabilities with positive effective yield	1,889	12,338
Net interest income from derivatives	-263	–
Provisions	–	-7
Other financial liabilities	–	-4
Income from investments in joint ventures using the equity method	**9,310**	**4,702**
Total	**472,997**	**675,889**

31 Net fee and commission income

in € thousand	2023	2022
Fee and commission income	**90,327**	**123,523**
Bauspar business	29,686	39,187
Fee and commission income from cross-selling	60,641	84,336
Fee and commission expenses	**-108,753**	**-117,761**
Bauspar business	-72,408	-66,970
Commissions for contract conclusion and brokerage	-72,408	-66,970
Other	-36,345	-50,791
Total	**-18,426**	**5,762**

Fee and commission income during the reporting period contains revenue of €90,327 thousand (previous year: €123,511 thousand) from contracts with customers under IFRS 15, see Note 67.

32 Gains and losses on investments

in € thousand	2023	2022
Net income from the sale of bonds at fair value through other comprehensive income	-100	-59,447
Net income of interests in joint ventures	–	-30,810
Loss allowances	–	-30,810
Total	**-100**	**-90,257**

Of the impairment losses on investments in joint ventures in the previous year, €14.5 million was attributable to PSS and €16.3 million to SGB. There were no impairment losses on investments in joint ventures in the financial year.

33 Other gains or losses on measurement of financial instruments

Other gains or losses on measurement 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	2023	2022
Gains or losses from hedge accounting	**689**	**10,612**
Gains or losses on hedging instruments (portfolio fair value hedges)	5,094	-185,595
Gains or losses on hedged items (portfolio fair value hedges)	-4,405	196,207
Gains or losses on measurement of derivative financial instruments used for purposes other than trading	**132**	**-7,036**
Measurement gains or losses	3	-7,036
Disposal gains or losses	129	–
Total	**821**	**3,576**

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 and from closing out an interest rate swap.

34 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	2023	2022
Gains on derecognition of financial assets measured at amortised cost	**–**	**17,625**
Loans and advances to banks and customers	–	17,575
Investments	–	50
Losses on derecognition of financial assets measured at amortised cost	**–**	**-11,801**
Loans and advances to banks and customers	–	-11,801
Total	**–**	**5,824**

The transfer of registered bonds and bearer bonds issued by DZ BANK to DZ BANK resulted in the previous year in the realisation of gains of €8 million and losses of €10 million.

35 Loss allowances

in € thousand	2023	2022
Loss allowances for loans and advances to banks	**726**	**449**
Additions	-270	-383
Reversals	996	832
Loss allowances for loans and advances to customers	**-21,954**	**-13,636**
Additions	-250,121	-225,116
Reversals	228,663	210,918
Directly recognised impairment losses	-4,703	-4,139
Recoveries on loans and advances to customers previously impaired	4,207	4,701
Loss allowances for investments	**-2,331**	**-303**
Additions	-3,559	-2,412
Reversals	1,228	2,109
Other loss allowances	**1,743**	**853**
Change in provisions for loan commitments	1,743	853
Total	**-21,816**	**-12,637**

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 €22 million in the financial year (previous year: €13 million), €11 million (previous year. €16 million) is related to the industry-wide impact of the current macroeconomic events. This includes €7 million (previous year: €0 million) from the adjustment of the one-year probability of default for 2024 as at the reporting date. Industry-wide impact encompasses all potential increases in risk attributable to current developments/ influencing factors in the economic environment of the industry in question that have not already been factored into the rating (Note 64). These may be emerging recessions or pandemics. In addition to the economic factors, other macroeconomic factors such as technology and production processes, energy and raw materials are also explicitly included.

With an extreme weighting of 100% of the baseline or risk scenario on which the calculation of the loss allowance is based, the loss allowances (Note 51) would decrease by approximately 0.6% (previous year: decrease of approximately 1.95%) or increase by approximately 2.26% (previous year: increase of approximately 7.38%), respectively.

36 Administrative expenses

in € thousand	2023	2022
Personnel expenses	**-262,540**	**-258,549**
Wages and salaries	-208,660	-204,414
Social security contributions	-37,148	-36,094
Post-employment benefit expenses	-12,241	-14,828
Expenses arising from share-based payment transactions	-4,491	-3,213
General administrative expenses	**-177,431**	**-172,093**
Contributions and fees	-24,842	-23,843
Consulting	-14,833	-18,237
Office expenses	-22,749	-24,662
IT expenses	-82,515	-76,448
Property and occupancy costs	-12,518	-7,931
Public relations/marketing	-16,786	-17,825
Other general administrative expenses	-3,188	-3,147
Depreciation and amortisation	**-50,547**	**-55,920**
Property, plant and equipment	-17,138	-19,458
Intangible assets	-33,409	-36,462
Total	**-490,518**	**-486,562**

In the previous year, amortisation charges and impairment losses on intangible assets include impairment losses of €3,749 thousand on the NEXT core banking system due to restrictions or inability to continue using individual programme components and functionalities.

The net pension expense comprises the following items:

in € thousand	2023	2022
Net pension expense	**-9,220**	**-14,276**
Current service cost	-5,981	-9,517
Past service cost and settlement gains or losses	–	-2,827
Net interest	-3,239	-1,932
of which: interest expense	-24,783	-9,601
of which: return on plan assets	21,544	7,669
Other post-employment benefit expenses	**-3,021**	**-552**
Total	**-12,241**	**-14,828**

Other post-employment benefit expenses include expenses for defined contribution plans amounting to €1,272 thousand (previous year: €1,003 thousand).

37 Other net operating income

in € thousand	2023	2022
Income from loan processing and administration	5,812	9,491
Expense from additions to provisions and accruals	-724	-1,060
Income from reversals of provisions and accruals	13,850	14,121
Recognition of terminated and non-interest-bearing *Bauspar* deposits	2,132	29,741
Expenses for pre-litigation legal risks	-321	-47,350
Income from facility management services	23,428	23,065
Expenses for outsourced facility management services	-20,774	-19,799
Miscellaneous other operating income	31,287	27,270
Miscellaneous other operating expense	-10,466	-10,082
Total	**43,822**	**25,397**

Other net operating income includes income of €2,132 thousand (previous year: €29,741 thousand) from the recognition of terminated and non-interest-bearing *Bauspar* deposits that are now time-limited, with any claims on them being remote.

38 Income taxes

in € thousand	2023	2022
Current income tax expense	-258,206	-12,058
Deferred income tax income/expense	277,102	-38,289
Total	**18,896**	**-50,347**

Deferred taxes include income of €277,143 thousand (previous year: expenses of €38,292 thousand) relating to the origination and reversal of temporary differences. Deferred taxes include expenses of €42 thousand that are attributable to changes in tax rates (previous year: income of €3 thousand). The tax rate changes result from companies that are not members of the income tax consolidation group, so the individual tax rate of the companies is required to be applied. Additionally, the consolidated tax rate that applies to companies that are members of the income tax consolidated group increased in the reporting period to 31.295% (previous year: 31.260%).

Of the current taxes, expenses of €239,580 thousand (previous year: expenses of €4,210 thousand), which were mainly incurred due to the reversal of tax-related provisions, are attributable to previous years. Of the deferred taxes, Income of €255,391 thousand, which was also mainly attributable to the reversal of tax-related provisions, relates to previous years.

The reversal of tax-related provisions is primarily the result of the change in the legal opinion of the tax audit, which no longer recognises the – previously recognised – provision for customer loyalty bonuses and interest rate bonuses from the 2015 assessment period onwards. We have not yet received the final audit report and the changed tax assessments for the audit period. The resulting additional tax payment of around €200 million is reported as an allocation liability. A deferred tax asset is recognised in the same amount. We intend to challenge the legal opinion of the tax audit in out-of-court and, if necessary, court proceedings.

The expenses for current taxes were reduced by €315 thousand (previous year: €0 thousand) through the use of tax losses. The tax loss carryback relates to SHF. This company is not a member of the income tax consolidation group.

Current taxes amounting to €-4,665 thousand (previous year: €-2,109 thousand) and deferred taxes amounting to €242 thousand (previous year: €-344 thousand) were incurred for the ordinary activities of the discontinued operation. These were reported separately. The discontinued operation relates to the Hungarian Fundamenta subsidiary.

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 15.470% (previous year: 15.435%).

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	2023	2022
Profit or loss before tax from continuing operations	**-13,220**	**126,992**
Group income tax rate	31.295%	31.260%
Expected income taxes	**4,137**	**-39,698**
Income tax effects	**14,759**	**-10,649**
Impact of tax-exempt income and non-deductible expenses	-974	-9,654
Adjustments resulting from other types of income tax or trade tax multipliers and changes in tax rates	1,247	457
Tax reduction due to loss carryback to previous year	-315	–
Current and deferred income taxes relating to prior years	15,811	-498
Valuation allowances on deferred tax assets	-1,000	-860
Other effects	-10	-94
Reported income taxes	**18,896**	**-50,347**

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

in € thousand	Amount before taxes	Income taxes	Amount after taxes
Financial year 2023			
Items that may be reclassified to the income statement	**429,337**	**-133,013**	**296,324**
Gains and losses on debt instruments at fair value through other comprehensive income	427,056	-133,013	294,043
Exchange differences on currency translation of foreign operations	-6,424	–	-6,424
Changes from discontinued operations	8,705	–	8,705
Items that will not be reclassified to the income statement	**-27,101**	**8,659**	**-18,442**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	-1,324	–	-1,324
Gains and losses arising from remeasurements of defined benefit plans	-25,729	8,659	-17,070
Share of other comprehensive income/loss of equity-accounted joint ventures	-48	–	-48
Other comprehensive income/loss	**402,236**	**-124,354**	**277,882**
Financial year 2022			
Items that may be reclassified to the income statement	**-2,311,629**	**717,968**	**-1,593,661**
Gains and losses on debt instruments at fair value through other comprehensive income	-2,296,763	717,968	-1,578,795
Exchange differences on currency translation of foreign operations	-2,468	–	-2,468
Changes from discontinued operations	-12,398	–	-12,398
Items that will not be reclassified to the income statement	**20,466**	**-5,575**	**14,891**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	4,400	–	4,400
Gains and losses arising from remeasurements of defined benefit plans	15,891	-5,575	10,316
Share of other comprehensive income/loss of equity-accounted joint ventures	175	–	175
Other comprehensive income/loss	**-2,291,163**	**712,393**	**-1,578,770**

The changes from discontinued operations relate to exchange differences on currency translation of foreign operations.

Balance sheet disclosures

40 Cash and cash equivalents

in € thousand	31.12.2023	31.12.2022
Cash on hand	24	27
Balances with central banks and other government institutions	3	79,727
Total	**27**	**79,754**

The average target minimum reserve for the financial year was €4,582 thousand (previous year: €5,634 thousand).

41 Loans and advances to banks

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

in € thousand	31.12.2023	31.12.2022
Bauspar loans	102,758	–
Registered bonds	3,392,190	4,876,889
Money market transactions	660,111	3,439,576
Other loans secured by mortgages	–	28,217
Other loans and advances	304,518	452,909
Total	**4,459,577**	**8,797,591**

Among other things, registered bonds include registered public-sector Pfandbriefe of €51 million (previous year: €51 million) and registered mortgage Pfandbriefe of €433 million (previous year: €585 million); the other loans and advances relate to bank overdrafts of €121 million (previous year: €236 million) at DZ Bank AG and cash collateral furnished of €163 million (previous year: €188 million).

in € thousand	31.12.2023	31.12.2022
Domestic banks	4,416,471	8,740,215
Non-domestic banks	43,106	57,376
Total	**4,459,577**	**8,797,591**

42 Loans and advances to customers

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

in € thousand	31.12.2023	31.12.2022
Building loans by the Bausparkasse	64,631,333	63,659,813
from allocations (*Bauspar* loans)	4,870,110	3,173,048
for advance and bridge financing	44,752,320	47,302,365
other	15,008,903	13,184,400
Other loans and advances	2,358,152	2,713,085
Total	**66,989,485**	**66,372,898**

Loans and advances to domestic customers	66,691,352	64,733,159
Loans and advances to non-domestic customers	298,133	1,639,739
Total	**66,989,485**	**66,372,898**

43 Positive fair values of hedging instruments

As at 31 December 2023, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €370 million, previous year: €430 million) with a positive fair value of €14,896 thousand (previous year: €31,855 thousand) in its portfolio.

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

44 Investments and investments accounted for using the equity method

in € thousand	31.12.2023	31.12.2022
Bonds and other fixed-income securities	**10,212,738**	**9,468,561**
Mandatorily measured at fair value through other comprehensive income	8,328,394	7,543,891
Measured at amortised cost	1,884,344	1,924,670
Shares and other variable-yield securities	**5,324**	**3,797**
Fair value OCI option	5,324	3,797
Shares in subsidiaries	**2,117**	**2,117**
Fair value OCI option	2,117	2,117
Investments in associates	**5,880**	**4,380**
Fair value OCI option	5,880	4,380
Interests in equity-accounted joint ventures	**87,938**	**85,100**
Total	**10,313,997**	**9,563,955**

Bonds and other fixed-income securities include *öffentliche Inhaberpfandbriefe* (German public sector bearer covered bonds) amounting to €748 million (previous year: €688 million), *Hypothekeninhaberpfandbriefe* (German mortgage bearer covered bonds) amounting to €1,843 million (previous year: €1,621 million) and bonds from public-sector issuers amounting to €1,540 million (previous year: €1,823 million).

Investments include shares and other variable-yield securities as well as investments in subsidiaries and associates with a carrying amount of €13,321 thousand (previous year: €10,294 thousand) for which the fair value OCI option has been exercised.

For strategic reasons, Bausparkasse Schwäbisch Hall acquired a 10% interest TRUUCO GmbH, Frankfurt am Main, and a 3.076% interest in amberra GmbH, Berlin, in financial year 2022. To secure the financing of its equity investments, Bausparkasse Schwäbisch Hall contributed €1,638 thousand to the capital reserves of TRUCCO GmbH in financial year 2023, €164 thousand to the capital reserves of amberra GmbH, €1,183 thousand to the capital reserves of DOMUS Beteiligungsgesellschaft der Privaten Bausparkassen mbH and €1,500 thousand to the capital reserves of Impleco GmbH. For amberra GmbH, there is an obligation at the reporting date to pay a share premium in two further annual instalments of €164 thousand each.

The investment in SALEG Sachsen-Anhaltinische Landesentwicklungsanstalt mbH, Magdeburg, with a carrying amount of €110 thousand and a profit of €22 thousand, was sold in the reporting period.

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 77), 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:

in € million	PSS 31.12.2023	SGB 31.12.2023	PSS 31.12.2022	SGB 31.12.2022
Current assets	**518**	**1,681**	**609**	**1,562**
of which: cash and cash equivalents	13	332	5	412
Non-current assets	**2,608**	**3,111**	**2,378**	**3,107**
Current liabilities	**787**	**3,345**	**761**	**3,025**
of which: current financial liabilities	771	3,129	746	2,815
Non-current liabilities	**2,027**	**1,058**	**1,935**	**1,239**
of which: non-current financial liabilities	1,999	1,058	1,909	1,239
Underlying net assets[1]	**204**	**87**	**184**	**102**
Shareholding	32.5%	24.9%	32.5%	24.9%
Equity-accounted carrying amount	**67**	**21**	**60**	**25**

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

in € million	PSS 2023	SGB 2023	PSS 2022	SGB 2022
Net interest income	**61**	**64**	**63**	**70**
Interest income	96	149	87	153
Interest expenses	-35	-85	-24	-83
Net fee and commission income	**10**	**-7**	**11**	**-6**
Fee and commission income	11	5	12	7
Fee and commission expenses	-1	-12	-1	-13
Administrative expenses	**-41**	**-40**	**-42**	**-43**
of which depreciation/amortisation	-6	-2	-6	-2
Income taxes	**-4**	**-2**	**-5**	**-2**
Profit or loss after tax from continuing operations	**21**	**10**	**7**	**10**
Other comprehensive income or loss	**–**	**-26**	**–**	**-10**
Total comprehensive income or loss	**21**	**-16**	**7**	**–**
Dividend received	–	–	–	–

45 Intangible assets

in € thousand	31.12.2023	31.12.2022
Internally generated intangible assets	6,185	15,461
Other intangible assets	147,682	171,963
Total	**153,867**	**187,424**

€119.3 million (previous year: €132.6 million) of other intangible assets is attributable to Project NEXT.

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

in € thousand	31.12.2023	31.12.2022
Land and buildings	52,594	46,854
Office furniture and equipment	42,644	53,143
Right-of-use assets	–	9,732
Right-of-use assets for land and buildings	–	9,732
Total	**95,238**	**109,729**

47 Statement of changes in non-current assets

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

	Intangible assets		Property, plant and equipment	
in € thousand	**Internally generated intangible assets**	**Other intangible assets**	**Land and buildings**	**Office furniture and equipment**
Carrying amount as at 01.01.2022	**18,062**	**180,971**	**47,993**	**49,607**
Costs as at 01.01.2022	115,997	392,055	262,101	180,362
Additions	3,277	25,793	3,207	19,451
Reclassifications	–	-262	–	262
Disposals	-5	-250	–	-14,069
Changes attributable to currency translation	-698	-2,359	–	-1,514
Changes in the basis of consolidation	–	2,551	–	11,360
Costs as at 31.12.2022	**118,571**	**417,528**	**265,308**	**195,852**
Reversals of impairment losses as at 01.01.2022	–	1,727	–	–
Reversals of impairment losses as at 31.12.2022	**–**	**1,727**	**–**	**–**
Depreciation, amortisation and impairment as at 01.01.2022	-97,935	-212,811	-214,108	-130,755
Additions from depreciation and amortisation	-5,410	-33,811	-4,346	-17,379
Disposals	5	250	–	12,521
Changes attributable to currency translation	230	1,117	–	739
Changes in the basis of consolidation	–	-2,037	–	-7,835
Depreciation, amortisation and impairment as at 31.12.2022	**-103,110**	**-247,292**	**-218,454**	**-142,709**
Carrying amount as at 31.12.2022	**15,461**	**171,963**	**46,854**	**53,143**
Costs as at 01.01.2023	118,571	417,528	265,308	195,852
Additions	4,091	23,053	9,527	14,129
Reclassification to assets held for sale	-13,384	-34,580	–	-22,081
Disposals	-998	522	–	-8,564
Changes attributable to currency translation	521	1,423	–	948
Costs as at 31.12.2023	**-108,728**	**408,019**	**274,835**	**180,284**
Reversals of impairment losses as at 01.01.2023	–	1,727	–	–
Reversals of impairment losses as at 31.12.2023	**–**	**1,727**	**–**	**–**
Depreciation, amortisation and impairment as at 01.01.2023	-103,110	-247,292	-218,454	-142,709
Additions from depreciation and amortisation	-5,815	-30,607	-3,787	-15,678
Reclassification to assets held for sale	4,352	18,287	–	12,929
Disposals	–	476	–	8,340
Changes attributable to currency translation	-174	-724	–	-512
Depreciation, amortisation and impairment as at 31.12.2023	**-104,283**	**-260,324**	**-222,241**	**-137,640**
Carrying amount as at 31.12.2023	**4,445**	**149,422**	**52,594**	**42,644**

The carrying amount of buildings includes prepayments of €14,270 thousand (previous year: €4,744 thousand). The carrying amount of office furniture and equipment includes prepayments of €42 thousand (previous year: €913 thousand), and the carrying amount of other intangible assets includes prepayments of €22,015 thousand (previous year: €21,217 thousand).

48 Lease disclosures

THE SCHWÄBISCH HALL GROUP AS LESSEE

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

As a consequence of the reclassification to assets held for sale, property, plant and equipment no longer contain any right-of-use assets at the end of the current financial year. 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 01.01.2022	**12,538**	**74**
Additions	210	–
Remeasurements	95	-2
Depreciation and amortisation	-1,930	-57
Disposals	-1,180	-15
Carrying amount as at 31.12.2022	**9,733**	**–**
Additions	198	–
Remeasurements	2,672	–
Reclassification to assets held for sale	-10,029	–
Depreciation	-2,266	–
Disposals	-308	–
Carrying amount as at 31.12.2023	**–**	**–**

As a consequence of the reclassification to liabilities included in disposal groups, other liabilities no longer contain any lease liabilities at the end of the current financial year (previous year: 12,517 T€).

The contractual maturities of lease liabilities are structured as follows:

in € thousand	31.12.2022
Up to 1 year	2,594
More than 1 year and up to 3 years	4,793
More than 3 years and up to 5 years	4,266
More than 5 years	2,379

All cash outflows from lease liabilities relate to discontinued operations and amounted to 3,371 T€ in the financial year (previous year: 2,729 T€).

The following income and expenses from discontinued operations are reported in the income statement:

in € thousand	31.12.2023	31.12.2022
Expense from short-term leases	673	624
Expense from leases of low-value assets	365	208
Expense from variable lease payments not included in the lease liability	–	–
Income from subleasing right-of-use assets	–	–

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

Profit or loss after tax from discontinued operations contains the following income and expenses:

in € thousand	31.12.2023	31.12.2022
Expense from short-term leases	–	114
Expense from variable lease payments not included in the lease liability	–	675
Income from subleasing right-of-use assets	–	200

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 status as lessor in the case of finance leases is entirely attributable to discontinued operations. The total term of these leases is up to ten years.

The contractual maturities of lease receivables are structured as follows:

in € thousand	31.12.2022
Lease payments	
Up to 1 year	235
More than 1 year and up to 2 years	231
More than 2 years and up to 3 years	231
More than 3 years and up to 4 years	231
More than 4 years and up to 5 years	231
More than 5 years	232
Gross investment in leases	**1,391**
less unrealised finance income	146
Net investment in leases	**1,245**

Finance income from the net investment in leases amounts to €0 thousand (previous year: €42 thousand).

49 Income tax assets and liabilities

in € thousand	31.12.2023	31.12.2022
Current income tax assets	563	4,041
Deferred tax assets	765,783	613,537
Income tax assets	**766,346**	**617,578**
Current income tax liabilities	264,596	14,618
Income tax liabilities	**264,596**	**14,618**

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	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Loans and advances to banks and customers	–	256	149,545	162,180
Loss allowances	53,865	46,821	–	–
Positive and negative fair values of derivative financial instruments/hedging instruments	3,838	–	–	10,569
Investments	421,750	569,250	103	41
Property, plant and equipment	2,696	2,391	–	–
Intangible assets, excluding software	563	5,919	–	–
Software	4,820	–	–	–
Deposits from banks and customers	–	1,789	8,357	59,866
Provisions for employee benefits	143,723	138,263	–	–
Other provisions	294,623	84,940	–	1,476
Other balance sheet items	474	516	2,564	2,476
Total (gross)	**926,352**	**850,145**	**160,569**	**236,608**
Netting of deferred tax assets and liabilities	-160,569	-236,608	-160,569	-236,608
Total (net)	**765,783**	**613,537**	**–**	**–**

There are deferred tax assets recognised in other comprehensive income of €521,024 thousand (previous year: €645,378 thousand) relating to provisions for employee benefits of €87,319 thousand (previous year: €78,660 thousand) and investments of 433,705 thousand (previous year: €566,718 thousand). There are no deferred tax liabilities recognised in other comprehensive income (previous year: €1,719 thousand).

Deferred tax assets are only recognised for temporary differences and for tax loss carryforwards if their realisation is sufficiently probable. The increase in deferred tax assets on other provisions is largely attributable to the tax reversal of the provision for customer loyalty bonuses and interest rate bonuses, amounting to €213,703 thousand (previous year: €0 thousand) (see also Note 38). No deferred tax assets are recognised for corporation tax loss carryforwards that can be carried forward indefinitely in the amount of €12,019 thousand (previous year: €9,469 thousand) and for trade tax loss carryforwards in the amount of €13,833 thousand (previous year: €9,465 thousand). The tax loss carryforwards are attributable to SHW, BAUFINEX and SHF. These companies are not members of the income tax consolidation group.

Deferred tax assets that are only expected to be realised after twelve months or more amount to €766,824 thousand (previous year: €613,537 thousand).

No deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries and joint ventures amounting to €612 thousand (previous year: €11,283 thousand), as it is unlikely that these differences will reverse through realisation in the foreseeable future.

50 Other assets

in € thousand	31.12.2023	31.12.2022
Other financial receivables	13,670	14,076
Payments in advance and accruals	31,299	30,458
Remaining other assets	2,504	5,101
Total	**47,473**	**49,636**

51 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 01.01.2022	**670**	**1,025**	**53,458**	**62,226**	**80,091**	**257**	**27**	**53**	**197,807**
Additions	165	233	29,695	179,308	30,327	16	33	15	239,792
Utilisations	–	–	–	–	-2,152	–	–	–	-2,152
Reversals	-147	-704	-131,584	-63,078	-27,042	-63	-26	-10	-222,654
Change due to stage transfer	–	–	105,599	-97,809	-7,790	–	-1	1	–
Transfer from Stage 1	–	–	-4,072	3,966	106	–	–	–	–
Transfer from Stage 2	–	–	105,531	-117,762	12,231	–	-6	6	–
Transfer from Stage 3	–	–	4,140	15,987	-20,127	–	5	-5	–
Other changes	–	–	-432	-286	-369	-20	–	-4	-1,111
Balance as at 31.12.2022	**688**	**554**	**56,736**	**80,361**	**73,065**	**190**	**33**	**55**	**211,682**
Additions	233	62	34,651	195,153	34,955	34	65	31	265,184
Utilisations	–	–	–	–	-1,829	–	–	–	-1,829
Reversals	-410	-607	-125,718	-96,194	-25,452	-55	-41	-13	-248,490
Change due to stage transfer	–	–	107,188	-97,547	-9,641	–	-9	9	–
Transfer from Stage 1	–	–	-3,987	3,828	159	–	–	–	–
Transfer from Stage 2	–	–	107,764	-122,961	15,197	–	-13	13	–
Transfer from Stage 3	–	–	3,411	21,586	-24,997	–	4	-4	–
Reclassifications to assets held for sale	-12	-10	-7,393	-1,736	-14,683	-178	-47	-84	-24,143
Other changes	–	1	316	140	1,462	9	-1	2	1,929
Balance as at 31.12.2023	**499**	**–**	**65,780**	**80,177**	**57,877**	**–**	**–**	**–**	**204,333**

52 Deposits from banks

Deposits from banks can be broken down by transaction type as follows:

in € thousand	31.12.2023	31.12.2022
Bauspar deposits	432,621	1,274,666
Current business accounts	337,729	8,500
Promissory note loans	7,989,057	9,046,888
Money market transactions	602,653	–
KfW subsidised loans	103,404	122,283
Mortgage *Pfandbriefe*	5,006	5,004
Other liabilities	–	1,283
Total	**9,470,470**	**10,458,624**

Deposits from banks have the following maturities:

in € thousand	31.12.2023	31.12.2022
Deposits from domestic banks	9,470,470	10,457,340
of which: repayable on demand	337,729	8,499
with agreed maturity or notice period	8,700,120	9,174,175
with indefinite maturity	432,621	1,274,666
Deposits from foreign banks with agreed maturity	–	1,284
Total	**9,470,470**	**10,458,624**

53 Deposits from customers

in € thousand	31.12.2023	31.12.2022
Deposits from domestic customers	**63,216,380**	**64,340,182**
Bauspar deposits	62,766,432	63,800,902
Mortgage *Pfandbriefe*	43,644	–
Other deposits	406,304	539,280
of which: repayable on demand	400,016	526,902
with agreed maturity or notice period	6,288	12,378
Deposits from non-domestic customers	**935,386**	**2,511,131**
Bauspar deposits	935,386	2,509,162
Other deposits	–	1,969
of which: repayable on demand	–	1,969
Total	**64,151,766**	**66,851,313**

54 Issued bonds

As at the reporting date, this item contained issued mortgage *Pfandbriefe* in the amount of €3,030,620 thousand (previous year: €2,509,594 thousand), for which transferable registered certificates were issued. In the reporting period, mortgage *Pfandbriefe* amounting to €513 million were issued (previous year: €994 million), and there were no early repurchases.

55 Negative fair values of hedging instruments

As at 31 December 2023, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €2,377 million, previous year: €2,255 million) with a negative fair value of €175,945 thousand (previous year: €219,761 thousand) in its portfolio.

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

Cash collateral of €163,200 thousand was furnished for the swaps (previous year: €188,340 thousand), which is reported in loans and advances to banks.

56 Provisions

in € thousand	31.12.2023	31.12.2022
Provisions for employee benefits	**150,755**	**157,210**
Defined benefit obligations	104,844	105,396
Long-term employee benefits	6,937	6,789
Termination benefits	38,974	45,025
of which: Loyalty bonus	14,596	14,746
Early retirement arrangements	2,400	2,281
Other provisions	21,978	27,998
Liabilities arising from share-based payment transactions	**8,228**	**6,572**
Other provisions	**1,051,162**	**1,191,062**
Bauspar-specific provisions	913,433	1,053,038
Other provisions	132,182	130,620
Provisions for loan commitments	5,547	7,404
Total	**1,210,145**	**1,354,844**

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 has to be recognised. This resulted in an expense in the reporting period of €1,272 thousand (previous year: €1,003 thousand).

The present value of defined benefit obligations can be classified into the following risk classes:

in € thousand	31.12.2023	31.12.2022
Defined benefit obligation	**725,376**	**687,340**
of which: active participants	211,635	199,596
departed participants	62,966	63,576
retirees	450,775	424,168

in € thousand	31.12.2023	31.12.2022
Defined benefit obligation	**725,376**	**687,340**
of which: final-salary pension commitments	700,178	661,732
capital commitments	25,198	25,608

A significant risk factor for all plans is the level of market interest rates for investment grade fixed income corporate bonds, because the interest rate derived from this affects the amount of the obligations.

The predominantly final salary plans involve pension commitments by the employer to employees whose amount depends on the final remuneration before retirement 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	2023	2022
Present value of defined benefit obligations as at 01.01.	**687,340**	**831,506**
Current service cost	5,981	9,517
Past service cost	–	2,827
Interest expenses	24,758	9,597
Pension benefits paid	-31,655	-30,641
Actuarial gains (losses)	42,829	-188,676
of which: from changes in financial assumptions	41,571	-199,288
Experience adjustments	1,258	10,612
Pension benefits paid under plan settlements	-3,877	1,377
Changes in the basis of consolidation	–	51,833
Present value of defined benefit obligations as at 31.12.	**725,376**	**687,340**

Changes in financial assumptions include actuarial losses of €127 thousand (previous year: losses of €1,332 thousand) from the 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 %	31.12.2023	31.12.2022
Discount rate	3.20	3.70
Salary increase	2.30	2.30
Pensions increase	2.30	2.30

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.

	Impact on defined benefit obligations 31.12.2023		Impact on defined benefit obligations 31.12.2022	
Change in the present value of defined benefit obligations as at the reporting date if	**in € thousand**	**in %**	**in € thousand**	**in %**
the discount rate were 50 basis points higher	-45,826	-6.34	-43,278	-6.30
the discount rate were 50 basis points lower	51,055	7.06	48,200	7.01
future salary increases were 50 basis points higher	4,519	0.62	4,372	0.64
future salary increases were 50 basis points lower	-4,953	-0.68	-4,904	-0.71
future pension increases were 25 basis points higher	20,644	2.85	18,998	2.76
future pension increases were 25 basis points lower	-19,788	-2.74	-18,224	-2.65
future life expectancy were 1 year higher	36,753	5.08	32,738	4.76
future life expectancy were 1 year lower	-37,550	-5.19	-33,706	-4.90
the future financing maturity age were 1 year higher	-10,160	-1.40	-11,054	-1.61
the future financing maturity age were 1 year lower	8,826	1.22	9,763	1.42

The duration of defined benefit obligations at the end of the reporting period is 13.20 years (previous year: 12.99 years).

PLAN ASSETS

The defined benefit obligations are offset by the plan assets of Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH. €613,190 thousand of these plan assets (previous year: €573,904 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 €5,248 thousand (previous year: €5,267 thousand), which is managed by the *Unterstützungskasse* (pension fund) of Bausparkasse Schwäbisch Hall.

In the course of the persistent 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 recognised in comprehensive income.

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 €2,552 thousand (previous year: €3,433 thousand) that exceed the present value of defined benefit obligations by €458 thousand (previous year: €660 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 uncertainty, 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	31.12.2023	31.12.2022
Present value of defined benefit obligations funded by plan assets	682,255	646,699
Present value of defined benefit obligations	**725,376**	**687,340**
less fair value of plan assets	-620,990	-582,604
Defined benefit obligations (net)	**104,386**	**104,736**
Unrecognised surplus (asset ceiling)	458	660
Provisions for defined benefit plans	**104,844**	**105,396**

The net provision for defined benefit pension obligations was composed of the following items in the reporting period:

in € thousand	2023	2022
Net provision for defined benefit pension obligations at 01.01.	**105,396**	**134,329**
Current service cost	5,981	9,517
Interest income/expense (expected interest expenses)	3,239	1,932
Past service cost	–	2,827
Return on plan assets/reimbursement rights (excluding interest income)	16,873	172,412
Actuarial gains and losses	42,602	-188,303
of which due to change in financial assumptions	41,343	-198,914
of which experience adjustments	1,259	10,611
Employer contributions	634	50,550
Pension benefits paid (continuous)	30,990	28,601
Transfer payments	3,877	–
Change in the basis of consolidation	–	51,833
Total	**104,844**	**105,396**

The unrecognised surplus (asset ceiling) was composed of the following items in the reporting period:

in € thousand	2023	2022
Asset ceiling at 01.01.	**660**	**282**
Reassessment component	-202	378
Asset ceiling at 31.12.	**458**	**660**

Plan assets changed as follows:

in € thousand	2023	2022
Fair value of plan assets as at 01.01.	**582,604**	**697,459**
Employer contributions to plan assets	634	50,550
Interest income	21,544	7,669
Return on plan assets (excluding interest income)	16,873	-172,412
Pension benefits paid	-665	-663
Fair value of plan assets as at 31.12.	**620,990**	**582,604**

Payments to plan assets of €1,059 thousand are planned for financial year 2024 (financial year 2023: €698 thousand). All additions to plan assets are made by the employer.

We are expecting pension payments of €48,766 thousand in financial year 2024 (financial year 2023: €36,338 thousand)

Plan assets (CTA) are primarily invested in fixed-income assets (approximately 74%; previous year: approximately 75%). 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 53%, previous year: approximately 53%) 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 47%; previous year: approximately 47%) 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	31.12.2023			31.12.2022		
	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	–	20,469	20,469	–	21,582	21,582
Bonds and other fixed-income securities	454,934	–	454,934	430,174	–	430,174
Shares	117,980	–	117,980	101,076	–	101,076
Derivative financial instruments	-168	–	-168	-271	–	-271
Land and buildings	–	5,234	5,234	–	5,246	5,246
Other assets	19,975	2,566	22,541	–	24,797	24,797
Total	**592,721**	**28,269**	**620,990**	**530,979**	**51,625**	**582,604**

The property and other assets contained in plan assets are assets that are not used by the company itself.

The assets of R+V Pensionsversicherung a.G. amounting to €2,552 thousand (previous year: €3,433 thousand) 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 01.01.2022	**1,398,202**	**80,854**	**8,413**	**1,487,469**
Additions	115,448	64,614	12,651	192,713
Utilisation	-268,516	-12,596	–	-281,112
Reversals	-192,053	-2,151	-13,639	-207,843
Interest expenses	–	7	–	7
Other changes	-43	-108	-21	-172
Balance as at 31.12.2022	**1,053,038**	**130,620**	**7,404**	**1,191,062**
Additions	222,545	22,216	7,541	252,302
Utilisation	-359,592	-14,415	–	-374,007
Reversals	-2,062	-3,706	-9,320	-15,088
Interest expenses	–	–	–	–
Reclassifications to liabilities included in disposal groups	-519	-2,637	-82	-3,238
Other changes	23	104	4	131
Balance as at 31.12.2023	**913,433**	**132,182**	**5,547**	**1,051,162**

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 a special reversal of *Bauspar*-specific provisions amounting to €185,000 thousand at Bausparkasse Schwäbisch Hall in the previous year. This special reversal is the result of the updated projections at the reporting date (collective simulation) to reflect future customer behaviour, taking into account the higher level of interest rates. There was no requirement to reverse *Bauspar*-specific provisions in the reporting period.

Miscellaneous provisions include provisions for pre-litigation risks in connection with the lending and *Bauspar* business in the amount of €111,723 thousand (previous year: €112,714 thousand). The other disclosures required by IAS 37 are not made for these provisions because it can be expected that they would seriously adversely affect the outcome of any possible legal disputes.

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 31.12.2023				
Bauspar-specific provisions	3,760	265,906	490,289	153,478
Other provisions	153	119,409	12,620	–
Provisions for loan commitments	5,547	–	–	–
Total	**9,460**	**385,315**	**502,909**	**153,478**
Balance as at 31.12.2022				
Bauspar-specific provisions	5,087	280,186	481,567	286,198
Other provisions	485	56,416	73,675	44
Provisions for loan commitments	7,404	–	–	–
Total	**12,976**	**336,602**	**555,242**	**286,242**

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 01.01.2022	**6,521**	**971**	**921**
Additions	7,242	4,444	965
Reversals	-10,421	-2,160	-1,058
Other changes	1,280	-1,359	58
Balance as at 31.12.2022	**4,622**	**1,896**	**886**
Additions	3,936	3,187	418
Reversals	-5,660	-2,832	-828
Other changes	591	-573	-14
Reclassifications to liabilities included in disposal groups	-82	–	–
Balance as at 31.12.2023	**3,407**	**1,678**	**462**

57 Other liabilities

in € thousand	31.12.2023	31.12.2022
Accruals	103,191	116,109
for management bonuses and bonuses paid to non-Group persons	52,095	61,786
for short-term employee benefits	37,317	39,219
for outstanding invoices	13,301	14,680
other accruals	478	424
Liabilities to DZ BANK AG from profit and loss transfer agreement	70,000	15,000
Other tax liabilities to taxation authorities	30,802	35,199
Lease liabilities	–	12,517
Other financial liabilities	12,553	17,107
Remaining other liabilities	1,005	2,152
Total	**217,551**	**198,084**

58 Equity

in € thousand	31.12.2023	31.12.2022
Subscribed capital	310,000	310,000
Capital reserves	1,486,964	1,486,964
Earned equity	3,532,310	3,600,144
Retained earnings	3,581,355	3,531,132
Net profit	-49,045	69,012
Reserve from other comprehensive income	-973,338	-1,263,817
Reserve from fair value OCI equity instruments	-3,674	-2,337
Reserve from fair value OCI debt instruments	-952,156	-1,246,199
Currency translation reserve	1,490	7,915
Reserve for assets held for sale and liabilities included in disposal groups	-18,998	-23,196
Non-controlling interests	97,839	81,547
Total	**4,453,775**	**4,214,838**

The reserve for assets held for sale and liabilities included in disposal groups contains the reserve for exchange differences on currency translation of foreign operations.

Loss allowances included in the reserve from fair value OCI debt instruments changed as follows:

in € thousand	2023	2022
Balance as at 01.01.	**2,079**	**1,871**
Additions	3,559	2,412
Reversals	-1,228	-2,109
Other changes	-731	-95
Balance as at 31.12.	**3,679**	**2,079**

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 97.590% at the end of the financial year. The remaining 2.410% 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 €-185.3 million (previous year: €-168.1 million).

Retained earnings contain undistributed profits of €28.8 million (previous year: €25.5 million) that were recognised 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 22) and to the section "Risk management within comprehensive bank management" (page 41) in the combined management report.

Financial instruments disclosures

59 Disclosures on fair values of financial assets and liabilities

in € thousand	31.12.2023				
	Carrying amount	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value	**8,356,825**	**8,356,825**	**8,328,394**	**14,896**	**13,535**
Financial assets measured at fair value through profit or loss	**15,110**	**15,110**	**–**	**14,896**	**214**
Financial assets mandatorily measured at fair value through profit or loss	15,110	15,110	–	14,896	214
Positive fair values of hedging instruments	14,896	14,896	–	14,896	–
Loans and advances to customers	214	214	–	–	214
Financial assets measured at fair value through other comprehensive income	**8,341,715**	**8,341,715**	**8,328,394**	**–**	**13,321**
Financial assets mandatorily measured at fair value through other comprehensive income	8,328,394	8,328,394	8,328,394	–	–
Investments	8,328,394	8,328,394	8,328,394	–	–
Financial assets designated at fair value through other comprehensive income	13,321	13,321	–	–	13,321
Investments	13,321	13,321	–	–	13,321
Financial assets measured at amortised cost	**74,823,889**	**70,491,368**	**1,932,749**	**6,078,885**	**62,479,734**
Cash and cash equivalents	3	3	–	3	–
Loans and advances to banks	4,459,078	4,230,166	–	4,127,433	102,733
of which *Bauspar* loans	102,733	102,733	–	–	102,733
Loans and advances to customers	66,785,438	62,826,886	–	1,799,905	61,026,981
of which *Bauspar* loans	4,847,608	4,847,608	–	–	4,847,608
Investments	1,884,344	1,739,328	1,739,328	–	–
Other assets	13,670	13,670	–	13,670	–
Assets held for sale	1,681,315	1,681,315	193,421	137,874	1,350,020
Fair value changes of hedged assets in portfolio hedges of interest rate risk	41	–	–	–	–

in € thousand	31.12.2023				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial liabilities measured at fair value	**175,945**	**175,945**	**–**	**175,945**	**–**
Negative fair values of hedging instruments	175,945	175,945	–	175,945	–
Financial liabilities measured at amortised cost	**78,114,157**	**77,104,932**	**2,725,566**	**8,921,216**	**65,458,150**
Deposits from banks	9,470,470	8,763,042	–	8,330,421	432,621
of which *Bauspar* deposits	432,621	432,621	–	–	432,621
Deposits from customers	64,151,766	64,016,918	–	453,205	63,563,713
of which *Bauspar* deposits	63,701,819	63,563,713	–	–	63,563,713
Issued bonds	3,030,620	2,725,566	2,725,566	–	–
Other liabilities	82,553	82,553	–	82,553	–
Liabilities included in disposal groups	1,516,853	1,516,853	–	55,037	1,461,816
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	-138,105	–	–	–	–
Financial guarantee contracts and loan commitments (provisions)	**5,547**	**5,547**	**–**	**–**	**5,547**

in € thousand	31.12.2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets measured at fair value	**7,586,200**	**7,586,200**	**7,543,891**	**31,855**	**10,454**
Financial assets measured at fair value through profit or loss	**32,015**	**32,015**	**–**	**31,855**	**160**
Financial assets mandatorily measured at fair value through profit or loss	32,015	32,015	–	31,855	160
Positive fair values of hedging instruments	31,855	31,855	–	31,855	–
Loans and advances to customers	160	160	–	–	160
Financial assets measured at fair value through other comprehensive income	**7,554,185**	**7,554,185**	**7,543,891**	**–**	**10,294**
Financial assets mandatorily measured at fair value through other comprehensive income	7,543,891	7,543,891	7,543,891	–	–
Investments	7,543,891	7,543,891	7,543,891	–	–
Financial assets designated at fair value through other comprehensive income	10,294	10,294	–	–	10,294
Investments	10,294	10,294	–	–	10,294
Financial assets measured at amortised cost	**76,975,911**	**69,056,140**	**1,677,337**	**10,644,070**	**56,734,733**
Cash and cash equivalents	79,727	79,727	–	79,727	–
Loans and advances to banks	8,795,888	8,443,723	–	8,443,723	–
Loans and advances to customers	66,161,828	58,841,365	–	2,106,632	56,734,733
of which *Bauspar* loans	3,154,998	3,154,998	–	–	3,154,998
Investments	1,924,480	1,677,337	1,677,337	–	–
Other assets	13,988	13,988	–	13,988	–
Finance leases	**1,207**	**1,207**	**–**	**1,207**	**–**
Loans and advances to banks	460	460	–	460	–
Loans and advances to customers	747	747	–	747	–

in € thousand	31.12.2022				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial liabilities measured at fair value	**219,761**	**219,761**	**–**	**219,761**	**–**
Negative fair values of hedging instruments	219,761	219,761	–	219,761	–
Financial liabilities measured at amortised cost	**79,628,700**	**78,390,639**	**2,078,511**	**8,950,335**	**67,361,792**
Deposits from banks	10,458,624	9,652,390	–	8,377,723	1,274,666
of which *Bauspar* deposits	1,274,666	1,274,666	–	–	1,274,666
Deposits from customers	66,851,313	66,627,631	–	540,505	66,087,126
of which *Bauspar* deposits	66,310,064	66,087,126	–	–	66,087,126
Issued bonds	2,509,594	2,078,511	2,078,511	–	–
Other liabilities	32,107	32,107	–	32,107	–
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	-222,938	–	–	–	–
Financial guarantee contracts and loan commitments (provisions)	**7,404**	**7,404**	**–**	**–**	**7,404**
Leases	**12,517**	**12,517**	**–**	**12,517**	**–**
Other liabilities	12,517	12,517	–	12,517	–

There is no active market with quoted prices in accordance with IFRS 13.76 for either *Bauspar* loans or *Bauspar* deposits or similar assets and liabilities. Due to the special nature of the *Bauspar* product, there are currently also no suitable techniques for determining fair value in accordance with IFRS 13. Individual measurement of *Bauspar* contracts is not possible because the allocation of *Bauspar* loans depends on the development of the entire collective (allocation fund) and thus in particular on the development of the *Bauspar* deposits (collective link). In light of this, only the carrying amounts of the financial assets and financial liabilities from the collective *Bauspar* business are given in the table above.

For risk-bearing capacity calculations and for regulatory purposes, *bauspar*-specific simulation models are used, which have also evolved accordingly due to the greater banking supervision requirements in recent years. Statistically derived parameters, previous historical values and the current market assessment flow into these models. The present value of the future cash flows expected from the collective contract portfolio, reduced by cost components and risk margins, is compared in the following with the balance of carrying amounts from the *Bauspar* business. The balance of carrying amounts from the *Bauspar* business amounts to €-60,338 million (surplus of liabilities) (previous year: €-64,430 million). By contrast, the present value of the collective amounts to €-52,854 million (previous year: €-54,469 million).

The assets held for sale and liabilities included in disposal groups are attributable in full to the FLK disposal group. Total assets of the disposal group, net of liabilities, are covered by fair value less costs to sell. In light of this, only the carrying amounts of the financial assets and financial liabilities of the disposal group are given in the table above. The carrying amounts of the assets held for sale contrast with a fair value of €1,593 million and the liabilities included in disposal groups contrast with a fair value of €1,521 million.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE IN THE BALANCE SHEET

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).

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.

The fair value of equity instruments in the form of 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 from €10,294 thousand to €13,321 thousand in the financial year due to additions of €4,484 thousand (previous year: €2,316 thousand), changes in fair value of €-1,324 thousand (previous year: €4,400 thousand) and disposals of €132 thousand (previous year: €0 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 35% at the reporting date.

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE IN THE BALANCE SHEET

Financial instruments not measured at fair value in the balance sheet are managed on the basis of their carrying amounts; their fair values are determined solely for the purposes of notes disclosures and do not affect the Schwäbisch Hall Group’s net assets and financial position.

The valuation techniques and inputs used to measure fair value for assets and liabilities not measured at fair value in the balance sheet are substantially the same as those used to measure fair value for assets and liabilities measured at fair value in the balance sheet.

In addition to current financial instruments, the assets held for sale include collective and non-collective loans as well as non-current financial assets. Liabilities included in disposal groups mainly contain *Bauspar* deposits and current liabilities.

The fair value of current financial instruments corresponds to their carrying amount. For non-current financial assets and securitised liabilities, unadjusted quoted market prices are used as Level 1 inputs, where available. The fair value of non-collective loans is determined by discounting contractually agreed cash flows at the risk-free interest rates applicable to the corresponding residual terms, taking risk costs into account. In addition, the present value method is used to measure the fair value of registered bonds and promissory note loans.

As no valuation technique that meets the requirements of IFRS 13 is currently available for determining the fair value of *Bauspar* loans and *Bauspar* deposits, their carrying amounts represent a reasonable estimate of fair value (see Note 6).

60 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities regularly reference standard master agreements, although these 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 31.12.2023						
Financial assets						
Derivative financial instruments	14,896	14,896	14,896	–	–	–
Total	**14,896**	**14,896**	**14,896**	**–**	**–**	**–**
Financial liabilities						
Derivative financial instruments	175,945	175,945	14,896	–	161,049	–
Total	**175,945**	**175,945**	**14,896**	**–**	**161,049**	**–**
Balance as at 31.12.2022						
Financial assets						
Derivative financial instruments	31,855	31,855	31,855	–	–	–
Total	**31,855**	**31,855**	**31,855**	**–**	**–**	**–**
Financial liabilities						
Derivative financial instruments	219,761	219,761	31,855	–	187,905	–
Total	**219,761**	**219,761**	**31,855**	**–**	**187,905**	**–**

61 Collateral

On the reporting date, loans and advances to customers amounting to €103,790 thousand (previous year: €122,293 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. In addition, FLK assigned customer receivables of €42,243 thousand as collateral to Hungarian banks.

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 2023, the cover pool amounted to €5,642 million (previous year: €3,515 million), with mortgage *Pfandbriefe* with a nominal value of €3,064 million (previous year: €2,511 million) outstanding.

62 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	2023	2022
Derivative financial instruments mandatorily measured at fair value through profit or loss	**-131**	**-7,036**
Financial assets measured at fair value through other comprehensive income	**550,693**	**-2,250,379**
Financial assets mandatorily measured at fair value through other comprehensive income	551,445	-2,255,678
Net gains and losses recognised in profit or loss	124,489	41,085
Net gains and losses recognised in other comprehensive income	426,956	-2,296,763
Financial assets designated at fair value through other comprehensive income	-752	5,299
Net gains and losses recognised in profit or loss	572	899
Net gains and losses recognised in other comprehensive income	-1,324	4,400
Financial assets measured at amortised cost	**1,181,946**	**1,110,939**
Financial liabilities measured at amortised cost	**-858,970**	**-561,476**

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	2023	2022
Interest income	**1,327,163**	**1,218,649**
from financial assets measured at cost, including finance leases	1,203,174	1,118,303
from financial assets measured at fair value through other comprehensive income	123,990	100,346
Interest expense on financial liabilities measured at amortised cost, including finance leases	**-858,970**	**-561,476**

INCOME AND EXPENSE ITEMS FROM COMMISSIONS

Net fee and commission income includes fee and commission expenses of €89,417 thousand (previous year: €82,533 thousand) and fee and commission income of €29,686 thousand (previous year: €41,590 thousand) from financial assets and financial liabilities that are not measured at fair value through profit or loss.

63 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 assets are financial assets in the “Financial assets measured at fair value through other comprehensive income” category and loans and advances to customers in the “Financial assets measured at amortised cost” category, and the financial liabilities are deposits from customers measured at amortised cost. Asset- and liability-side interest rate risk portfolios 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 assets and 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 for each individual maturity band 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, or because of the early termination of hedging derivatives.

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 31.12.2023					
Assets	**938,207**	**370,000**	**8,387**	**–**	**19,803**
Positive fair values of hedging instruments	14,896	370,000			-18,526
Fair value changes of hedged assets in portfolio hedges of interest rate risk	923,311		8,387	–	38,329
Liabilities	**2,158,379**	**2,377,000**	**-136,906**	**-1,199**	**-19,115**
Negative fair values of hedging instruments	175,945	2,377,000			23,619
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	1,982,434		-136,906	-1,199	-42,734
Balance as at 31.12.2022					
Assets	**875,269**	**430,000**	**-32,873**	**–**	**-1,093**
Positive fair values of hedging instruments	31,855	430,000			32,270
Fair value changes of hedged assets in portfolio hedges of interest rate risk	843,414		-32,873	–	-33,363
Liabilities	**2,231,108**	**2,255,000**	**-222,938**	**–**	**11,705**
Negative fair values of hedging instruments	219,761	2,255,000			-217,865
Fair value changes of hedged liabilities in portfolio hedges of interest rate risk	2,011,347		-222,938	–	229,570

The residual maturities of the hedging instruments entered into to hedge interest rate risk are presented in the following:

in €	≤ 3 months	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Balance as at 31.12.2023					
To hedge interest rate risk	–	–	–	1,417,000,000	1,330,000,000
Average hedged interest rate in %	–	–	–	1.200	1.590
Total	**–**	**–**	**–**	**1,417,000,000**	**1,330,000,000**
Balance as at 31.12.2022					
To hedge interest rate risk	–	–	–	1,330,000,000	1,355,000,000
Average hedged interest rate in %	–	–	–	1.280	1.420
Total	**–**	**–**	**–**	**1,330,000,000**	**1,355,000,000**

64 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 comprehensive bank management” (page 41);
- IFRS 7.39(c) (managing liquidity risk): section “Liquidity risk” (page 50);
- IFRS 7.40-42 (market risk): section “Market risk” (page 49).

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. Because of the matching indicators and events that are considered Level 3 criteria under IFRS 9 and simultaneously lead to default under Article 178 of the CRR, these classifications are identical. If there is any default, the asset is therefore also categorised within Level 3 as impaired. 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 (purchased or originated credit-impaired assets): these are financial assets that are credit-impaired on initial recognition. They 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 POCI assets were identified in 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 for the quantitative transfer criterion 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, external credit ratings and risk forecasts are also used to assess the credit risk of financial assets. The maximum value for these transfer thresholds represents a 200% increase, i.e. an increase of 300% over the initial value (300% credit risk backstop criterion).

Four qualitative transfer criteria additionally apply. Assets more than 30 days past due, assets for which forbearance measures have been agreed, assets with business partners that are assigned to the early risk identification watch list or assets for which a sudden and significant increase in credit risk is to be expected also exhibit a significant increase in credit risk and are categorised within Level 2, unless categorisation within Level 3 is necessary. Being more than 30 days past due is a backstop criterion, as financial assets are usually transferred to Level 2 well before a being more than 30 days past due because of the other transfer criteria. The “sudden and significant increase in credit risk” criterion only applies to suspended repayment loans when there is an increase in the annuity. This criterion has been factored into the lending process since 2016.

For securities with low default risk or an investment grade rating, the increase in default risk is also measured and changes in the rating are monitored. However, under the low credit risk exemption, crossing the quantitative transfer threshold only leads to a transfer to Level 2 if the security is assigned a rating outside the investment grade range. For Bausparkasse Schwäbisch Hall, this low credit risk exemption does not apply to loans and advances. Staging of securities was performed for the first time as at the reporting date. To take account of negative macroeconomic expectations for certain economic sectors that are not yet included in the individual ratings, these economic sectors were definitively assigned to stage 2.

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.

IMPACT OF MACROECONOMIC DEVELOPMENTS

The established processes and models for determining IFRS 9 expected losses at individual exposure or portfolio level are generally retained.

Current economic developments are primarily taken into account by updating the macroeconomic forecasts. In doing so, Bausparkasse Schwäbisch Hall used the macroeconomic forecasts for the years 2023–2027 from the DZ BANK’s Research division that are taken into account when determining 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.

Because of the current macroeconomic uncertainties, which were not observed to this extent in the past, the models cannot adequately reflect the current market situation. For this reason, an expert-based override of the shift factors statistically determined on the basis of DZ BANK's macroeconomic forecasts is applied. This ensures that the shift factors used correspond to the expert expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

The methodology for the override process of the model shift factors at Group level is unchanged as at 31 December 2022. A plausibility check of the shift factors continues to take account of the industry-wide impact. This encompasses all identifiable material increases in risk attributable to current developments or influencing factors in the economic environment that are not yet reflected in the rating. In financial year 2023, this primarily includes high inflation with a sharp rise in energy prices, the war in Ukraine, the shortage of raw materials, in particular gas, and supply chain bottlenecks. As a result of this override process, the one-year probability of default for 2024 was adjusted by a correction factor of 1.1 (in-model adjustment). This was done to take into account the decision by the Federal Constitutional Court of 15 November 2023 on the special assets of the "Energy and Climate Fund" (EKF) and the resulting budget deficit, which had not yet been factored into the economic forecasts.

Since 2022, climate and environmental parameters are explicitly included in the scenario analysis. These therefore flow into the loss allowances via the shift factors. The focus is initially on including the price of CO_2, which then represents an influencing variable for measuring macroeconomic variables. This is done based on the interactions of the NGFS (Network for Greening the Financial System) scenarios, which show how climate change and its mitigation can affect important economic variables.

As far as the effects on macroeconomic variables are concerned, DZ BANK's forecasts are based on the legal situation in Germany and the technical assumptions of the European Central Bank (ECB). The effects on the macroeconomic variables have so far been limited. The introduction of a CO_2 price is likely to result in a weak to moderate increase in the annual average inflation rate in Germany and the eurozone. This price effect is already priced into the underlying inflation rates. As no significant increases in the price of CO_2 are expected for Germany or the eurozone in the coming years, the price pressure attributable to the climate parameters is likely to be insignificant in the remaining forecast period.

As at the reporting date, two macroeconomic scenarios (baseline and risk scenario) were included with a weighting of 80% for the baseline scenario and 20% for the risk scenario.

The baseline scenario is underpinned by the assumption that there will be a weak economic recovery in the coming years with a downward trend in inflation. Even if the period of recession is over, there are no signals from industrial output or the global economy that would suggest a faster recovery. The inflation rate forecast takes into account the many existing uncertainties: higher CO_2 prices, higher tax rates for the catering industry, gas and gas district heating; diminishing negative effects from the rise in the price of oil; growing upside risk for inflation due to the Middle East conflict and the massive global demand for defence materials on the one hand, and rising rents as a result of reduced construction activity on the other. Inflation rates are expected to remain above the ECB's inflation target. The baseline scenario with a 80% weighting corresponds to DZ BANK's forecasts of November 2023.

The risk scenario is predicated on the assumption that there will be a renewed oil price shock as a result of geopolitical conflicts. This could happen if the conflict in the Middle East escalates or if other geopolitical conflicts emerge. The considerable utilisation of oil production capacities and the release of strategic reserves in the USA, which has already happened, limit the scope for managing a renewed oil price shock. The risk scenario is included in the weighting with a 20% probability.

In particular, the following macroeconomic forecasts for the years 2023 to 2027 are also included in the calculation of expected loss as at the reporting date, with the ECB scenarios of December 2023 also lying within their range:

		2023	2024	2025	2026	2027
Unemployment, Germany						
Base scenario	in %	3.30	3.30	3.10	3.10	3.00
Risk scenario	in %	3.30	3.40	3.20	3.10	3.00
Real GDP growth, Germany (seasonally and calendar-adjusted)						
Base scenario	as % year-on-year	-0.25	0.75	1.25	1.00	0.75
Risk scenario	as % year-on-year	-0.25	-1.00	1.25	1.25	0.75
Inflation, Germany						
Base scenario	as % year-on-year	6.00	3.25	2.50	2.25	2.25
Risk scenario	as % year-on-year	6.00	6.00	5.00	3.50	2.25

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 expert 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 macroeconomic developments. It was not therefore necessary to develop additional post-model adjustments in the Schwäbisch Hall Group.

No significant deterioration of the value of collateral held in the form of real estate liens is currently being observed. Any valuation haircuts on real estate held as collateral are subject to continuous monitoring, taking into account ongoing macroeconomic developments.

Real estate prices are decreasing slightly in the financial year, and there are continued assumptions of a good collateralisation situation.

The macroeconomic developments did not lead to any significant transfers in the reporting period 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, 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 were finance lease receivables in the previous year with a gross carrying amount of €1,245 thousand in the Schwäbisch Hall Group. At the reporting date, finance lease receivables with a gross carrying amount of €1,055 thousand were contained in assets held for sale. A loss allowance of €32 thousand (previous year: €37 thousand) was recognised on these receivables.

FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Stage 1		Stage 2	
in € thousand	Loss allowances	Fair value	Loss allowances	Fair value
Balance as at 01.01.2022	**1,871**	**10,581,797**	**–**	**–**
Additions/increase in credit utilisation	2,412	2,279,174	–	–
Reversals and repayments	-2,109	-2,975,331	–	–
Amortisation, changes in fair value	–	-2,341,749	–	–
Other changes	-95	–	–	–
Balance as at 31.12.2022	**2,079**	**7,543,891**	**–**	**–**
Additions/increase in credit utilisation	2,975	593,408	584	–
Change to financial assets due to stage transfer	-29	-49,338	29	49,338
Transfer from Stage 1	-29	-49,338	29	49,338
Reversals and repayments	-1,228	-287,925	–	–
Amortisation, changes in fair value	–	494,237	–	-15,217
Other changes	-539	–	-192	–
Balance as at 31.12.2023	**3,258**	**8,294,273**	**421**	**34,121**

FINANCIAL ASSETS MEASURED AT AMORTISED COST

in € thousand	Stage 1 Loss allowances	Stage 1 Gross carrying amount	Stage 2 Loss allowances	Stage 2 Gross carrying amount	Stage 3 Loss allowances	Stage 3 Gross carrying amount
Balance as at 01.01.2022	**54,352**	**70,271,276**	**63,278**	**3,617,584**	**80,144**	**626,163**
Additions/increase in credit utilisation	9,239	27,772,795	1,721	164,840	–	–
Change to financial assets due to stage transfer	105,599	-685,876	-97,810	666,992	-7,789	18,884
Transfer from Stage 1	-4,072	-1,837,911	3,966	1,809,640	106	28,271
Transfer from Stage 2	105,531	1,116,156	-117,768	-1,318,061	12,237	201,905
Transfer from Stage 3	4,140	35,879	15,992	175,413	-20,132	-211,292
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	-60	-2,152	-4,196
Reversals and repayments	-4,861	-24,300,050	-11,028	-616,469	-10,450	-114,093
Changes in risk parameters	-106,300	–	125,073	–	13,740	–
Additions	20,613	–	177,853	–	30,342	–
Reversals	-126,913	–	-52,780	–	-16,602	–
Changes due to contract modifications	–	1	–	-192	–	-109
Amortisation	–	-94,887	–	-9,320	–	1,095
Currency translation differences and other changes	-452	-116,822	-286	-24,546	-373	-2,749
Changes in the basis of consolidation	–	17,295	–	–	–	–
Balance as at 31.12.2022	**57,577**	**72,863,732**	**80,948**	**3,798,829**	**73,120**	**524,995**
Additions/increase in credit utilisation	6,692	10,927,483	2,481	281,869	–	–
Change to financial assets due to stage transfer	107,188	-340,555	-97,556	242,479	-9,632	98,076
Transfer from Stage 1	-3,987	-1,810,918	3,828	1,773,705	159	37,213
Transfer from Stage 2	107,764	1,448,182	-122,974	-1,681,379	15,210	233,197
Transfer from Stage 3	3,411	22,181	21,590	150,153	-25,001	-172,334
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	-17	-1,829	-4,730
Reversals and repayments	-4,090	-12,523,859	-13,409	-688,431	-7,650	-87,395
Changes in risk parameters	-93,861	–	109,366	–	17,171	–
Additions	28,226	–	192,799	–	34,986	–
Reversals	-122,087	–	-83,433	–	-17,815	–
Amortisation	–	-108,004	–	-10,107	–	-1,272
Currency translation differences and other changes	325	69,514	140	7,248	1,465	1,413
Reclassification to assets held for sale	-7,552	-1,560,237	-1,793	-114,634	-14,768	-29,533
Balance as at 31.12.2023	**66,279**	**69,328,074**	**80,177**	**3,517,236**	**57,877**	**501,554**

ASSETS HELD FOR SALE THAT WERE PREVIOUSLY REPORTED AS 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 01.01.2023	**–**	**–**	**–**	**–**	**–**	**–**
Reclassification to assets held for sale	7,552	1,560,237	1,793	114,634	14,768	29,533
Balance as at 31.12.2023	**7,552**	**1,560,237**	**1,793**	**114,634**	**14,768**	**29,533**

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 01.01.2022	**6,521**	**6,143,702**	**971**	**43,498**	**921**	**10,692**
Additions/increase in credit utilisation	3,732	6,430,886	34	829	–	–
Change to financial assets due to stage transfer	1,301	-89,285	-1,359	78,979	58	10,306
Transfer from Stage 1	-285	-96,219	258	84,800	27	11,419
Transfer from Stage 2	1,378	5,271	-1,750	-6,919	372	1,648
Transfer from Stage 3	208	1,663	133	1,098	-341	-2,761
Reversals and repayments	-5,406	-7,935,247	-746	-53,968	-575	-11,366
Changes in risk parameters	-1,505	–	2,996	–	482	–
Additions	3,510	–	4,410	–	965	–
Reversals	-5,015	–	-1,414	–	-483	–
Currency translation differences and other changes	-21	-2,097	–	–	–	-30
Balance as at 31.12.2022	**4,622**	**4,547,959**	**1,896**	**69,338**	**886**	**9,602**
Additions/increase in credit utilisation	2,360	3,755,102	67	739	–	–
Change to financial assets due to stage transfer	587	-37,661	-573	34,000	-14	3,661
Transfer from Stage 1	-233	-48,267	226	44,031	8	4,237
Transfer from Stage 2	689	9,789	-1,132	-11,867	442	2,077
Transfer from Stage 3	131	817	333	1,836	-464	-2,653
Reversals and repayments	-4,173	-5,722,657	-1,483	-56,801	-595	-8,475
Changes in risk parameters	89	–	1,771	–	185	–
Additions	1,576	–	3,120	–	418	–
Reversals	-1,487	–	-1,349	–	-233	–
Reclassification to liabilities included in disposal groups	-82	-13,635	–	–	–	–
Currency translation differences and other changes	4	514	–	–	–	–
Balance as at 31.12.2023	**3,407**	**2,529,622**	**1,678**	**47,276**	**462**	**4,788**

LIABILITIES INCLUDED IN DISPOSAL GROUPS THAT WERE PREVIOUSLY REPORTED IN FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

	Stage 1	
in € thousand	Loss allowances	Nominal amount
Balance as at 01.01.2023	**–**	**–**
Reclassification to liabilities included in disposal groups	82	13,635
Balance as at 31.12.2023	**82**	**13,635**

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 €0 thousand (previous year: €39,660 thousand) before contract adjustments. Modification losses on these assets amounted to €0 thousand (previous year: €-301 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 €42,626 thousand (previous year: €123,419 thousand). These are attributable in full to discontinued operations.

MAXIMUM EXPOSURE TO CREDIT RISK

The Schwäbisch Hall Group is exposed to credit risk arising from financial instruments. The maximum exposure to credit risk is the carrying amounts of the financial assets measured at fair value or amortised cost or the nominal amounts of financial guarantee contracts and loan commitments. Collateral is not taken into account. The following collateral is held to hedge the maximum exposure to credit risk:

		of which secured by				
in € thousand	**Maximum credit risk**	**Warranties, guarantees**	**Land charges, mortgages**	**Chattel mortgages/ assignments/ pledging of receivables**	**Financial collateral**	**Other collateral**
Balance as at 31.12.2023						
Financial assets measured at fair value	**8,343,503**	**–**	**1,370,542**	**419,632**	**–**	**752,490**
Financial assets measured at fair value through profit or loss	15,109	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	8,328,394	–	1,370,542	419,632	–	752,490
Financial assets measured at amortised cost	**73,142,573**	**161,984**	**51,436,526**	**670,531**	**9,390,476**	**1,348,872**
of which: credit-impaired	–	–	334,525	–	67,060	1,005
Financial guarantee contracts and loan commitments	**2,581,686**	**–**	**2,157,656**	**–**	**31,513**	**7,993**
of which: credit-impaired		–	3,340	–	48	–
Balance as at 31.12.2022						
Financial assets measured at fair value	**7,575,907**	**–**	**1,113,778**	**359,296**	**–**	**722,832**
Financial assets measured at fair value through profit or loss	32,016	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	7,543,891	–	1,113,778	359,296	–	722,832
Financial assets measured at amortised cost	**76,975,912**	**131,417**	**51,608,429**	**751,537**	**9,077,518**	**2,084,638**
of which: credit-impaired	–	–	342,213	–	60,757	1,292
Financial guarantee contracts and loan commitments	**4,626,899**	**–**	**4,121,322**	**–**	**7,132**	**3,871**
of which: credit-impaired		–	6,149	–	3	–
Balance as at 31.12.2023						
Assets held for sale in financial assets measured at amortised cost	**1,680,292**	**–**	**1,218,114**	**–**	**24,189**	**–**
of which: credit-impaired	–	–	13,501	–	234	–
Liabilities included in disposal groups in financial guarantee contracts and loan commitments	**13,635**	**–**	**11,316**	**–**	**290**	**–**
of which: credit-impaired		–	–	–	–	–

CREDIT CONCENTRATION RISK

The Bausparkasse Schwäbisch Hall Group's credit risk exposure from financial instruments is broken down by sectors 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 (administration/ government)	Corporates	Retail
Balance as at 31.12.2023					
Investment grade		**11,224,504**	**4,101,176**	**1,972,062**	**50,017,439**
Fair value	Stage 1	5,129,006	1,646,273	1,518,994	–
	Stage 2	–	–	34,121	–
Gross carrying amount	Stage 1	6,071,636	2,453,259	391,473	47,401,437
	Stage 2	–	–	6,108	958,712
Nominal amount	Stage 1	23,862	1,644	21,366	1,655,367
	Stage 2	–	–	–	1,923
Non-investment grade		**30,173**	**–**	**779,615**	**15,625,634**
Gross carrying amount	Stage 1	26,017	–	676,718	12,307,535
	Stage 2	2,580	–	72,736	2,477,100
	Stage 3	–	–	–	–
Nominal amount	Stage 1	1,576	–	26,280	799,527
	Stage 2	–	–	3,881	41,472
Default		**–**	**–**	**4,145**	**502,196**
Gross carrying amount	Stage 3	–	–	4,145	497,408
Nominal amount	Stage 3	–	–	–	4,788
Not rated		**–**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	–	–	–
	Stage 2	–	–	–	–
	Stage 3	–	–	–	–

in € thousand		Financial sector	Public sector (administration/ government)	Corporates	Retail
Balance as at 31.12.2022					
Investment grade		**14,664,993**	**4,771,119**	**1,881,675**	**49,960,383**
Fair value	Stage 1	4,398,546	1,714,435	1,430,910	–
	Stage 2	–	–	–	–
Gross carrying amount	Stage 1	10,257,059	3,055,491	399,190	45,639,742
	Stage 2	391	–	13,981	1,254,133
Nominal amount	Stage 1	8,997	1,193	37,594	3,061,154
	Stage 2	–	–	–	5,354
Non-investment grade		**53,498**	**–**	**736,541**	**16,757,740**
Gross carrying amount	Stage 1	18,409	–	602,618	12,885,642
	Stage 2	30,802	–	59,185	2,438,487
	Stage 3	1	–	131	9,500
Nominal amount	Stage 1	4,286	–	69,537	1,365,198
	Stage 2	–	–	5,070	58,913
Default		**–**	**–**	**4,366**	**520,456**
Gross carrying amount	Stage 3	–	–	4,366	510,854
Nominal amount	Stage 3	–	–	–	9,602
Not rated		**5,475**	**–**	**2,609**	**738**
Gross carrying amount	Stage 1	5,420	–	775	634
	Stage 2	55	–	1,778	17
	Stage 3	–	–	56	87

CREDIT RISK CONCENTRATIONS BY COUNTRY

in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets
Balance as at 31.12.2023					
Investment grade		**62,978,696**	**4,331,086**	**1,114**	**4,285**
Fair value	Stage 1	4,207,542	4,086,731	–	–
	Stage 2	–	34,121	–	–
Gross carrying amount	Stage 1	56,135,429	177,017	1,079	4,280
	Stage 2	962,866	1,949	–	5
Nominal amount	Stage 1	1,670,936	31,268	35	–
	Stage 2	1,923	–	–	–
Non-investment grade		**16,267,946**	**163,131**	**1,789**	**2,556**
Gross carrying amount	Stage 1	12,876,280	130,535	1,283	2,172
	Stage 2	2,534,636	16,994	402	384
	Stage 3	–	–	–	–
Nominal amount	Stage 1	812,635	14,644	104	–
	Stage 2	44,395	958	–	–
Default		**501,164**	**4,385**	**310**	**482**
Gross carrying amount	Stage 3	496,432	4,329	310	482
Nominal amount	Stage 3	4,732	56	–	–
Not rated		**–**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	–	–	–
	Stage 2	–	–	–	–
	Stage 3	–	–	–	–

in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets
Balance as at 31.12.2022					
Investment grade		**66,295,705**	**4,974,782**	**2,109**	**5,574**
Fair value	Stage 1	3,875,519	3,668,372	–	–
	Stage 2	–	–	–	–
Gross carrying amount	Stage 1	58,118,447	1,225,394	2,067	5,574
	Stage 2	1,219,940	48,565	–	–
Nominal amount	Stage 1	3,076,445	32,451	42	–
	Stage 2	5,354	–	–	–
Non-investment grade		**16,850,276**	**694,714**	**906**	**1,883**
Gross carrying amount	Stage 1	12,969,641	534,888	689	1,451
	Stage 2	2,405,187	122,742	113	432
	Stage 3	–	9,632	–	–
Nominal amount	Stage 1	1,412,397	26,520	104	–
	Stage 2	63,051	932	–	–
Default		**499,177**	**24,995**	**197**	**453**
Gross carrying amount	Stage 3	489,707	24,863	197	453
Nominal amount	Stage 3	9,470	132	–	–
Not rated		**–**	**8,822**	**–**	**–**
Gross carrying amount	Stage 1	–	6,829	–	–
	Stage 2	–	1,850	–	–
	Stage 3	–	143	–	–

65 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 31.12.2023							
Financial assets	**1,852,695**	**2,180,205**	**4,563,182**	**29,733,900**	**56,172,042**	**13,321**	**94,515,345**
Cash and cash equivalents	3	–	–	–	–	–	3
Loans and advances to banks	802,560	475,872	160,084	1,860,089	1,440,246	–	4,738,851
Loans and advances to customers	772,284	1,209,414	4,175,962	23,761,511	47,118,516	–	77,037,687
Positive fair values of hedging instruments [1]	3,034	1,535	1,402	331	14,288	–	20,590
Investments	261,144	493,384	225,734	4,111,969	7,598,992	13,321	12,704,544
Other assets	13,670	–	–	–	–	–	13,670
Financial liabilities	**-1,362,575**	**-295,193**	**-211,048**	**-4,299,483**	**-7,490,351**	**-64,253,124**	**-77,911,774**
Deposits from banks	-941,508	-213,203	-137,400	-4,052,182	-4,230,920	-432,621	-10,007,834
Deposits from customers	-400,068	-612	-2,114	-9,315	-54,010	-63,820,503	-64,286,622
Issued bonds	–	–	-38,788	-156,150	-3,154,913	–	-3,349,851
Negative fair values of hedging instruments [1]	-8,446	-11,378	-32,746	-81,836	-50,508	–	-184,914
Other liabilities	-12,553	-70,000	–	–	–	–	-82,553
Financial guarantee contracts and loan commitments	**-2,580,492**	**–**	**-72**	**–**	**-1,121**	**–**	**-2,581,685**
Balance as at 31.12.2022							
Financial assets	**1,818,066**	**1,797,362**	**7,943,385**	**26,661,308**	**58,966,270**	**10,294**	**97,196,685**
Cash and cash equivalents	79,727	–	–	–	–	–	79,727
Loans and advances to banks	747,723	637,640	4,047,222	1,759,574	1,972,438	–	9,164,597
Loans and advances to customers	701,826	1,132,302	3,634,694	21,040,273	48,835,052	–	75,344,147
Positive fair values of hedging instruments [1]	484	462	–	15,119	27,765	–	43,830
Investments	275,208	26,930	261,362	3,846,328	8,130,186	10,294	12,550,308
Other assets	13,098	28	107	14	829	–	14,076
Financial liabilities	**-756,052**	**-24,156**	**-405,389**	**-3,631,198**	**-8,663,490**	**-68,025,975**	**-81,506,260**
Deposits from banks	-209,359	-6,769	-352,899	-3,385,352	-5,986,753	-1,274,666	-11,215,798
Deposits from customers	-528,871	-366	-675	-5,789	-7,274	-66,751,309	-67,294,284
Issued bonds	–	–	-23,925	-96,700	-2,603,900	–	-2,724,525
Negative fair values of hedging instruments [1]	-768	-2,021	-27,890	-143,219	-65,563	–	-239,461
Other liabilities	-17,054	-15,000	–	-138	–	–	-32,192
Financial guarantee contracts and loan commitments	**-4,625,371**	**–**	**–**	**–**	**-1,527**	**–**	**-4,626,898**

[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

66 Financial guarantee contracts and loan commitments

	31.12.2023	31.12.2022
Loan commitments	**2,581,240**	**4,626,172**
Credit facilities to customers	2,581,240	4,626,172
Financial guarantee contracts	**446**	**727**
Loan guarantees	–	–
Other guarantees and warranties	446	727
Total	**2,581,686**	**4,626,899**

The information disclosed on financial guarantee contracts and loan commitments refers to the nominal amounts of the relevant obligations entered into.

67 Revenue from contracts with customers

DISCLOSURES ON REVENUE FROM CONTRACTS WITH CUSTOMERS BY OPERATING SEGMENT

in € thousand	*Bausparen* and Housing Financing Domestic	Other Domestic	*Bausparen* and Housing Financing Non-Domestic	Consolidation	Total segments	Reclassification as discontinued operations	Income statement
Financial year 2023							
Revenue types	**119,336**	**50,087**	**9,935**	**-29,365**	**149,993**	**-9,935**	**140,058**
Fee and commission income from the *Bauspar* business	29,686	–	5,273	–	34,959	-5,273	29,686
Fee and commission income from cross-selling	60,641	–	4,223	–	64,864	-4,223	60,641
Other operating income	29,009	50,087	439	-29,365	50,170	-439	49,731
Primary geographical markets	**119,336**	**50,087**	**9,935**	**-29,365**	**149,993**	**-9,935**	**140,058**
Germany	119,336	50,087	–	-29,365	140,058	–	140,058
Rest of Europe	–	–	9,935	–	9,935	-9,935	–
Type of revenue recognition	**119,336**	**50,087**	**9,935**	**-29,365**	**149,993**	**-9,935**	**140,058**
At a point in time	99,479	2,781	9,935	-1,766	110,429	-9,935	100,494
Over time	19,857	47,306	–	-27,599	39,564	–	39,564
Financial year 2022							
Revenue types	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**	**-9,417**	**171,770**
Fee and commission income from the *Bauspar* business	39,187	–	5,485	–	44,672	-5,485	39,187
Fee and commission income from cross-selling	84,325	–	3,337	–	87,662	-3,337	84,325
Other operating income	27,947	55,305	595	-34,994	48,853	-595	48,258
Primary geographical markets	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**	**-9,417**	**171,770**
Germany	151,459	55,305	–	-34,994	171,770	–	171,770
Rest of Europe	–	–	9,417	–	9,417	-9,417	–
Type of revenue recognition	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**	**-9,417**	**171,770**
At a point in time	151,459	71	9,417	-2,304	158,643	-9,417	149,226
Over time	–	55,234	–	-32,690	22,544	–	22,544

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.

Performance obligations are primarily satisfied at a point in time and recognised accordingly.

In the case of facility management services, the performance obligation arises over the term of the contract and is correspondingly satisfied over time.

Performance obligations over time are satisfied over the course of time. They are mainly invoiced monthly or quarterly within a year. As a rule, payment is due once the service has been rendered.

CHANGES IN RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

in € thousand	Other receivables (other assets)
Balance as at 01.01.2022	**–**
Additions	15,735
Disposals	-9,616
Other changes	2,715
Balance as at 31.12.2022	**8,835**
Additions	8,154
Disposals	-8,363
Balance as at 31.12.2023	**8,626**

Receivables from contracts with customers in which the recognised income is not subject to the effective interest method are accounted for in accordance with IFRS 15.

68 Employees

The average number of employees comprises the fully consolidated companies of the Schwäbisch Hall Group by employee group:

	2023			2022
	Continuing operations	Discontinued operations	Total	Total
Female employees	**2,012**	**378**	**2,390**	**2,408**
Full-time employees	875	323	1,198	1,232
Part-time employees	1,137	55	1,192	1,176
Male employees	**1,329**	**202**	**1,531**	**1,526**
Full-time employees	1,191	199	1,390	1,384
Part-time employees	138	3	141	142
Total employees	**3,341**	**580**	**3,921**	**3,934**
Female junior employees	70	1	71	70
Male junior employees	154	3	157	147
Total junior employees	**224**	**4**	**228**	**217**

69 Auditors’ fee

The total fee charged by the Group auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Stuttgart, its affiliated companies and other companies in the international PwC network for the reporting year is broken down as follows by type of service:

	2023	
in € thousand	Total	of which: Germany
Audit services	995	891
Other assurance services	50	50
Other services	4	–
Total	**1,049**	**941**

The fees for audit services comprise expenses for the audit of the annual and consolidated financial statements and the audit of the combined management report of Bausparkasse Schwäbisch Hall. They also include the fees for the subsidiaries and specialised funds included in the consolidated financial statements and audited by the auditor of the consolidated financial statements. Other assurance services include fees for other audits for which the professional seal is or can be applied.

70 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 €4,631 thousand in the reporting period (previous year: €4,595 thousand) under IFRSs. These are broken down into current benefits of €2,779 thousand (previous year: €2,681 thousand), termination benefits of €808 thousand (previous year: €1,008 thousand) and share-based payments of €1,044 thousand (previous year: €906 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 €298 thousand (previous year: €292 thousand) and consists of current benefits.

There are defined benefit obligations of €11,008 thousand (previous year: €7,092 thousand) for members of the Management Board. Provisions of €49,991 thousand (previous year: €48,605 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 €3,823 thousand in the reporting period (previous year: €3,587 thousand), and €298 thousand (previous year: €292 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 €3,252 thousand (previous year: €3,069 thousand). Provisions of €58,341 thousand (previous year: €60,357 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 €691 thousand on an arm's length basis (previous year: €371 thousand).

The members of the Advisory Board were paid attendance fees of €90 thousand.

71 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 01.01.2022	**1,745**	**250**
Share-based remuneration granted in reporting period	655	403
Share-based remuneration paid out that was granted in financial year 2019	-158	-16
Share-based remuneration paid out that was granted in financial year 2018	-104	-15
Share-based remuneration paid out that was granted in earlier financial years	-284	-81
Share-based remuneration not paid out as at 31.12.2022	**1,854**	**541**
Share-based remuneration granted in reporting period	714	335
Share-based remuneration paid out that was granted in financial year 2020	-164	-101
Share-based remuneration paid out that was granted in financial year 2019	-95	-10
Share-based remuneration paid out that was granted in earlier financial years	-207	-25
Share-based remuneration not paid out as at 31.12.2023	**2,103**	**741**

72 Events after the reporting period

There were no events after the end of the reporting period that are reportable under IAS 10.

73 Related party disclosures

Transactions are entered into with related parties 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 and DZ BANK 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 €691 thousand at the end of the financial year (previous year: €371 thousand) in the Schwäbisch Hall Group. Note 70 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	31.12.2023	31.12.2022
Interest income and current income	**124,599**	**74,686**
DZ BANK AG (parent company)	105,767	50,217
Other related parties	18,779	24,466
Subsidiaries	47	–
Pension plans for employees	6	3
Interest expenses	**-60,667**	**-23,165**
DZ BANK AG (parent company)	-60,609	-23,116
Other related parties	-58	-49
Fee and commission income	**20,242**	**22,059**
DZ BANK AG (parent company)	–	2,392
Subsidiaries	1,962	2,399
Other related parties	18,280	17,268
Fee and commission expenses	**-1,386**	**-3,680**
DZ BANK AG (parent company)	-247	-599
Subsidiaries	–	-1,897
Other related parties	-1,139	-1,184
Other net operating income	**12,783**	**13,656**
DZ BANK AG (parent company)	5,239	8,524
Subsidiaries	1,834	663
Other related parties	5,710	4,469
Gains or losses on derecognition of financial assets measured at amortised cost	**–**	**-2,022**
DZ BANK AG (parent company)	–	-2,022
Loans and advances to banks	**2,565,968**	**5,837,341**
DZ BANK AG (parent company)	2,133,507	5,202,500
Other related parties	432,461	634,841
Loans and advances to customers	**214**	**160**
Pension plans for employees	214	160
Positive fair values of hedging instruments	**14,896**	**31,855**
DZ BANK AG (parent company)	14,896	31,855
Investments	**1,884,343**	**1,717,533**
DZ BANK AG (parent company)	1,083,674	882,321
Other related parties	800,669	835,212
Other assets	**3,359**	**4,024**
DZ BANK AG (parent company)	–	394
Subsidiaries	1,553	1,624
Other related parties	1,806	2,006

in € thousand	31.12.2023	31.12.2022
Deposits from banks	**8,926,954**	**9,052,021**
DZ BANK AG (parent company)	8,926,909	9,052,021
Other related parties	45	–
Deposits from customers	**6,287**	**7,378**
Subsidiaries	6,287	7,378
Negative fair values of hedging instruments	**175,945**	**219,761**
DZ BANK AG (parent company)	175,945	219,761
Other liabilities	**4**	**103**
Subsidiaries	4	103
Financial guarantee contracts	**21**	**5**
Subsidiaries	21	5
Loan commitments	**747**	**801**
Pension plans for employees	747	801

Loans and advances to banks result primarily from investments in short-term time deposits amounting to €617 million (previous year: €3,262 million) and in registered bonds (€1,664 million; previous year: €2,151 million), of which €382 million (previous year: €534 million) related to registered *Pfandbriefe* and €291 million (previous year: €343 million) to covered bonds of DZ BANK AG. Interest rates on short-term investments ranged from 3.31% to 3.78%, and on registered bonds from 0.68% to 2.16%.

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. The bonds mainly have fixed interest rates with a coupon of between 0.01% and 3.0%. An unsecured, variable-rate bond totalling €250 million currently bears interest at 4.6%.

Liabilities to banks result from the issuance of unsecured promissory note loans amounting to €7,989 million (previous year: €9,047 million), money market transactions amounting to €603 million (previous year: €0 million) and current account liabilities amounting to €331 million (previous year: €0 million). The promissory note loans include senior non-preferred instruments with a nominal value of €50 million (previous year: €50 million) and a further €600 million (previous year: €400 million) relating to subordinated liabilities in accordance with Article 45 of the BRRD. Interest rates on the promissory note loans ranges from 0.01% to 5.152%, and on money market transactions from 3.91% to 3.95%.

74 Management Board

Reinhard Klein
– Chief Executive Officer –
Responsible for Communication, Human Resource, Internal Audit, Marketing and Corporate Strategy, Board Staff/Policy/Non-Domestic (responsible until 31 December 2023)

Mike Kammann
Responsible for Accounting and Reporting, Financial Control (incl. Management of the Collective), Risk Control, Legal and Compliance, Lending Activities

Peter Magel
Responsible for Sales, Regional Offices, Operational Treasury

Kristin Seyboth
Responsible for Process Management, IT Operations, IT Solutions and Projects, IT Control, Purchasing and Supplier Management, Savings Activities

Dr Mario Thaten
Responsible for Marketing, Corporate Strategy
(Member of the Management Board since 1 October 2023)

GENERAL EXECUTIVE MANAGERS

Claudia Klug

Dr Mario Thaten (until 30 September 2023)

Katharina Thomas (since 1 October 2023)

75 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

Oliver Frey
Member of the Management Board
Vereinigte Volksbank eG

Martin Gross
Regional District Manager
ver.di – Regional district of Baden-Württemberg

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
(Member of the Supervisory Board until 30 September 2023)

Katharina Kaupp
General Manager, Trade Union Secretary
ver.di – District of Heilbronn-Neckar-Franken

Manfred Klenk
Employee
Schwäbisch Hall Facility Management GmbH

Marija Kolak
President
National Association of
German Cooperative Banks (BVR)

Thomas Leiser
Senior Employee
Bausparkasse Schwäbisch Hall AG

Wilhelm Oberhofer
Member of the Management Board
Raiffeisenbank Kempten-Oberallgäu eG

Frank Overkamp
Chief Executive Officer
Volksbank Gronau-Ahaus eG

Ingmar Rega
Chief Executive Officer
Genossenschaftsverband – Verband der Regionen e.V.

Sonja Schäfer
Employee
Schwäbisch Hall Kreditservice GmbH
(Member of the Supervisory Board since 1 October 2023)

Heiko Schmidt
Employee
Bausparkasse Schwäbisch Hall AG

Jörg Stahl
Co-Spokesman of the Management Board
Volksbank in der Region eG

Manfred Stang
Chief Executive Officer
Sparda-Bank Südwest eG

Werner Thomann
Chief Executive Officer
Volksbank Rhein-Wehra eG

Bernhard Vogel
Employee
Bausparkasse Schwäbisch Hall AG

OMBUDSMAN

In accordance with section 12 of the German *Bausparkassen* Act (BauSparkG)

Harald Christ
Businessman

76 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
Mike Kammann	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*) Sino-German Bausparkasse Co. Ltd., Tianjin (*)
Peter Magel	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*) Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)
Kristin Seyboth	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)

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) (*)
Dr Dirk Otterbach	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall (*)
Frank Schurr	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

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

77 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						
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.	Budapest	Hungary	51.97	51.97	190,156	27,055
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.	Budapest	Hungary	51.97	51.97	9,952	1,036
Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft.	Budapest	Hungary	51.97	51.97	-1,271	189
Schwäbisch Hall Kreditservice GmbH[1]	Schwäbisch Hall	Germany	100.00	100.00	133,293	-13,842
Schwäbisch Hall Facility Management GmbH	Schwäbisch Hall	Germany	100.00	100.00	18,329	-1,451
Schwäbisch Hall Wohnen GmbH	Schwäbisch Hall	Germany	100.00	100.00	899	-526
BAUFINEX GmbH	Schwäbisch Hall	Germany	70.00	70.00	982	-1,980
Consolidated structured subsidiaries						
UIN Union Investment Institutional Fonds Nr. 817	Frankfurt/Main	Germany	–	–	2,901,312	-5,525
Equity-accounted joint ventures						
Prvá stavebná sporiteľňa, a. s.	Bratislava	Slovakia	32.50	32.50	311,848	20,798
Sino-German Bausparkasse Co. Ltd.	Tianjin	China	24.90	24.90	388,493	10,245
Unconsolidated subsidiaries						
Schwäbisch Hall Transformation GmbH	Schwäbisch Hall	Germany	100.00	100.00	2,423	-764
BAUFINEX Service GmbH[1]	Berlin	Germany	50.00	75.00	25	–
VR Kreditservice GmbH[1]	Hamburg	Germany	100.00	100.00	25	–
Unconsolidated associates						
Impleco GmbH	Berlin	Germany	50.00	50.00	4,461	-2,415

[1] A profit and loss transfer agreement exists

78 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 2023:

in €	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	**6,750,416**	**297,448,913**	**499,096**	**15,570,383**	**7,249,512**	**313,019,296**
B. Additions in financial year by						
1. New business honoured (contracts)[1]	449,610	30,879,229	–	–	449,610	30,879,229
2. Transfer	15,035	617,494	1,280	97,314	16,315	714,808
3. Allocation waiver and revocation of allocation	5,139	228,069	–	–	5,139	228,069
4. Splitting	113,209	–	263	–	113,472	–
5. Allocation or acceptance of allocation	–	–	544,654	18,223,966	544,654	18,223,966
6. Other	92,980	4,161,278	48	3,953	93,028	4,165,231
Total	**675,973**	**35,886,070**	**546,245**	**18,325,233**	**1,222,218**	**54,211,303**
C. Disposals in financial year by						
1. Allocation or acceptance of allocation	544,654	18,223,966	–	–	544,654	18,223,966
2. Reduction	–	1,061,989	–	–	–	1,061,989
3. Dissolution	263,157	8,194,466	393,891	11,127,107	657,048	19,321,573
4. Transfer	15,035	617,494	1,280	97,314	16,315	714,808
5. Merging[1]	75,667	–	1	–	75,668	–
6. Contract expiration	–	–	71,357	1,943,236	71,357	1,943,236
7. Allocation waiver and revocation of allocation	–	–	5,139	228,069	5,139	228,069
8. Other	92,980	4,161,278	48	3,953	93,028	4,165,231
Total	**991,493**	**32,259,193**	**471,716**	**13,399,679**	**1,463,209**	**45,658,872**
D. Net additions/disposals	**-315,520**	**3,626,877**	**74,529**	**4,925,554**	**-240,991**	**8,552,431**
E. Portfolio at end of financial year	**6,434,896**	**301,075,790**	**573,625**	**20,495,937**	**7,008,521**	**321,571,727**

[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	**63,359,547,713.15**
II. Additions in financial year	
1. Savings amounts (including offset house-building premiums)	9,817,766,119.38
2. Repayment amounts [1] (including offset house-building premiums)	1,285,122,909.81
3. Interest on *Bauspar* deposits	771,527,008.83
4. Technical security reserve [2]	–
Total	**75,233,963,751.17**
B. Withdrawals	
I. Withdrawals in financial year	
1. Allocated sums, where disbursed	
a) *Bauspar* deposits	10,991,217,968.40
b) Building loans	3,224,338,694.08
2. Repayment of *Bauspar* deposits on as yet unallocated *Bauspar* contracts	1,723,599,227.32
3. Technical security reserve	–
II. Surplus of additions	
(amounts not yet disbursed) at end of the financial year [3]	**59,294,807,861.37**
Total	**75,233,963,751.17**

Comments:
[1] Repayment amounts are the portion of repayment instalments attributable solely to repayment.
[2] The appropriation to the technical security reserve was made in the Group in the amount of the statutory appropriation.
[3] Among other things, the surplus of additions includes:

a) *Bauspar* deposits of allocated *Bauspar* contracts not yet disbursed	136,148,803.43
b) *Bauspar* loans from allocations not yet disbursed	3,016,282,364.20

Schwäbisch Hall, 13 February 2024

Bausparkasse Schwäbisch Hall Aktiengesellschaft
Bausparkasse der Volksbanken und Raiffeisenbanken

Management Board

Kammann **Magel** **Seyboth** **Thaten**

Independent Auditor’s Report

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 balance sheet as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2023, and notes to the consolidated financial statements, including material accounting policy information. 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 2023. 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 2023, and of its financial performance for the financial year from 1 January to 31 December 2023, 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 2023. 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*-technical 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*-TECHNICAL PROVISIONS (PROVISIONS RELATING TO BUILDING SOCIETY OPERATIONS)

1. In the Group's consolidated financial statements *Bauspar*-specific provisions (provisions relating to building society operations) amounting to € 913 million are reported under the „Provisions" balance sheet item. These include *Bauspar*-technical provisions that relate to the Group's obligations from interest bonuses (particularly loyalty bonuses) on *Bauspar* deposits. According to the tariff terms and conditions, interest bonuses are granted to *Bauspar* customers subject to the occurrence of various conditions, such as the *Bauspar* customer's choice to exercise their option to receive the interest bonus, compliance with 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 interest bonuses represent obligations that are uncertain in terms of their amount and maturity. They are measured at the amount that is the best estimate of the expenses required to settle the present obligation at the reporting date. The estimate is based on the planning method which is based on a forecast of the loyalty bonus payout and the credited interest on credit balances from the basic scenario of the *Bauspar*-technical simulation calculation (collective simulation). In the course of selecting the parameters for this simulation calculation, the executive directors make assumptions regarding the future behaviour of *Bauspar* customers on the basis of historical data and the forecast capital market rate of interest, and the forecast period. Using a bandwidth method, the amount of the provision derived from the planning method is checked for plausibility based on the bonus potential accrued as at the valuation date and the disposals determined in the simulation calculation (e.g. due to cancellations) and the amount of the provision is adjusted if certain thresholds are exceeded. The forecast quality of the model for the *Bauspar*-technical simulation calculation on which the planning method is based is validated on an annual basis. If the future behaviour of *Bauspar* customers is influenced by factors that are not adequately taken into account either in the planning method or in the plausibility check, adjustments are made by the executive directors when adjusting the amount of the provision. The calculation of the *Bauspar*-technical provisions required the use of judgments and assumptions by the executive directors. Minor changes in these assumptions in the model used for the *Bauspar*-technical simulation calculation and in the calculation of the adjustment amount can have a significant impact on the measurement of the *Bauspar*-technical provisions for interest bonuses.

   Due to the material significance of these provisions for the assets, liabilities and financial performance of the Group as well as the associated estimation uncertainties and the considerable scope for judgment on the part of the executive directors in measuring the provisions, the measurement of the *Bauspar*-technical provisions was of particular significance in the context of our audit.

2. Given the significance of *Bauspar*-technical provisions for the Group's overall business, we assessed as part of our audit, together with our internal specialists for *Bauspar*-specific mathematics, the methodology used for the *Bauspar*-technical simulation calculation, the planning method and plausibility check as well as the estimates and assumptions made by the executive directors. Among other things, we used our industry knowledge and our industry experience as a basis. We also assessed the process for determining and recognizing *Bauspar*-technical provisions. Furthermore, we assessed the forecasting quality of the model used on the basis of past forecasting accuracy. Therewith, we assessed the calculated result for the amount of the provisions and verified the consistent application of the underlying model.

   Based on our audit procedures, we were able to assure that the estimates and the assumptions made by the executive directors for the purpose of measuring the *Bauspar*-technical provisions are substantiated and sufficiently documented.

3. The Group's disclosures relating to *Bauspar*-technical provisions are contained in sections 6, 26 and 56 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 Group'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 the consideration of macroeconomic developments on the building loans business.

   Specific loss allowances (corresponds to level 3 of the expected loss model in accordance with IFRS 9) on receivables from building loans for non-notable exposures are determined on the basis of parameters using histories of losses, which are adjusted for forecast future losses, or on the basis of individual estimates for notable exposures 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 loss allowances for notable exposures reflects the difference between the outstanding loan amount and the present value of the returns expected from the exposure based on expert estimates or for non-notable exposures, the parameter based credit losses expected over the term.

   Statistical models for estimating the expected credit loss (corresponds to level 1 and 2 of the expected loss model in accordance with IFRS 9) are used to determine the general loss 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 but which haven't defaulted, the general loss 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). Considering the macroeconomic changes that resulted from geopolitical risks, the high inflation and the significant rise in interest rates, 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 macroeconomic developments, 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 Group'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 Group 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 general loss allowances, we evaluated the measurement models used by the Group, the underlying inputs, macroeconomic assumptions and parameters as well as the 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 macroeconomic developments 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 Group's disclosures relating to loss allowances for the building loans business are contained in sections 22, 35, 51 and 64 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) obtained by us prior to the date of this auditor's report as an unaudited part of the group management report.

The other information comprises further all remaining parts of the Financial Report 2023 – excluding cross-references to external information – expected to be made available to us after the date of the auditor's report 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 (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the 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, actions taken to eliminate threats or safeguards applied.

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 28 April 2023. We were engaged by the supervisory board on 16 November 2023. 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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Peter Schüz.

Stuttgart, 14 February 2024

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Peter Schüz	ppa. Robin Aigeldinger
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Report of the Supervisory Board

SUPERVISORY BOARD AND COMMITTEES

In financial year 2023, 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. The *Bausparkasse's* "TOP-Prioritäten" (key priorities) and strategic initiatives in financial year 2023 were discussed at all meetings throughout the year. The sustainability strategy and corresponding initiatives in particular were discussed in detail by the Supervisory Board. In this context, the Supervisory Board provided advice on the development of the new German investees, which play an important role on the journey to becoming the leading product and solutions provider in the cooperative "building society operations" ecosystem. It also addressed in detail the sale of the interest in the Hungarian subsidiary. The Supervisory Board was also informed appropriately about the successful implementation of the NEXT programme. Furthermore, the Supervisory Board discussed in depth the measures to improve the earnings situation.

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 2023, 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.

There were no indications of any relevant conflicts of interest involving members of the Supervisory Board.

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 overall bank management, corporate strategy, bank regulation and corporate governance). In addition, the Supervisory Board organised a workshop with experts in financial year 2023 that focused in particular on *Bauspar*-specific issues relating to the duties of the Supervisory Board. This focused on the issues of "Strategic action areas of the business strategy", "Interest rate and liquidity management" and the "Digital Operational Resilience Act".

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 risk situation, risk management, the modernisation of the IT infrastructure and the performance of domestic and non-domestic investees. It also addressed the risk report, the internal 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 2023. The joint Risk and Audit Committee met twice. The Nomination Committee and the Remuneration Committee each met three times. It was not necessary for the Mediation Committee to meet during financial year 2023. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2023 and participated in the written resolution procedures of the relevant bodies.

In its meetings, the Supervisory Board primarily received and 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 2022, 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 28 April 2023, 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 addressed the issue of succession planning for the Management Board in detail. In this context, a new appointment to the Management Board was discussed and – in line with the recommendation of the Nomination Committee – a resolution was adopted. The Supervisory Board also approved the introduction of a separate risk function at Management Board level, thus complying with the recommendation of the supervisory authority. Further, the Supervisory Board approved changes to the Rules of Procedure for the Supervisory Board and the Management Board. 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 appropriateness of the remuneration systems, the Remuneration Report and the determination of the total amount of variable remuneration for financial year 2022.

In the course of its duties, the joint Risk and Audit Committee also addressed the election of the auditor for financial year 2023 and supervised the engagement of the auditor for non-audit services.

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

PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements and consolidated financial statements prepared by the Management Board for financial year 2022 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.

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 2023. 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 2023 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 1 March 2024, the Supervisory Board approved the annual financial statements of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements as at 31 December 2023 prepared by the Management Board. The annual financial statements is therefore adopted.

CHANGES IN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Following the Annual General Meeting on 28 April 2023, the Supervisory Board convened for its constituent meeting with the same composition. This was the outcome of the elections of the employee representatives on 30 March 2023 and the re-election of the shareholder representatives at the Annual General Meeting held beforehand. Dr Cornelius Riese was elected as Chairman and Ninon Kiesler as Deputy Chair of the Supervisory Board. The members and the chairs of the individual committees were also re-elected without change. Additionally, Sonja Schäfer joined the Supervisory Board as employee representative and successor to Roland Herhoffer effective 1 October 2023.

Dr Mario Thaten joined the Management Board effective 1 October 2023 and Reinhard Klein left the Management Board effective 31 December 2023. Mike Kammann took over as Chief Executive Officer effective 1 January 2024. The Supervisory Board would like to thank the Management Board and all of the employees of the Schwäbisch Hall Group for their work in 2023.

Schwäbisch Hall, March 2024

Bausparkasse Schwäbisch Hall AG
– Bausparkasse der Volksbanken und Raiffeisenbanken –

Dr Cornelius Riese
Chairman of the Supervisory Board

Advisory Board of Bausparkasse Schwäbisch Hall AG

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:

Matthias Martiné
– Chairman of the Advisory Board –
Spokesman of the Management Board
Volksbank Darmstadt Mainz eG,
Mainz

Ulrich Scheppan
– Deputy Chairman of the Advisory Board –
Former member of the Management Board
Volksbank Bielefeld-Gütersloh eG,
Bielefeld
(Member of the Advisory Board until 31 December 2023)

Uwe Abel
Spokesman of the Management Board
Volksbank Darmstadt Mainz eG,
Mainz

Kurt Abele
Chief Executive Officer
VR-Bank Ostalb eG,
Aalen

Jürgen Beerkircher
Chief Executive Officer
Volksbank Backnang eG,
Backnang

Holger Benitz
Member of the Management Board
Vereinigte Volksbank eG
Bramgau Osnabrück Wittlage,
Osnabrück

Friedhelm Beuse
Member of the Management Board
Volksbank im Münsterland eG,
Münster

Ingo Freidel
Member of the Management Board
Volksbank Stendal eG,
Hansestadt Stendal

Matthias Frentzen
Member of the Management Board
Dortmunder Volksbank eG,
Dortmund

Klaus Gimperlein
Spokesman of the Management Board
VR Bank Metropolregion Nürnberg eG,
Nürnberg

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
Chief Executive Officer
VR Bank Bamberg-Forchheim eG,
Bamberg

Martin Heinzmann
Chief Executive Officer
Volksbank Mittlerer Schwarzwald eG,
Wolfach

Björn Henkel
Member of the Management Board
VR-Bank Mitte eG,
Duderstadt

Rita Herbers
Member of the Management Board
Hamburger Volksbank eG,
Hamburg
(Member of the Advisory Board since 28 April 2023)

Sabine Hermsdorf
Member of the Management Board
Volksbank Alzey-Worms eG,
Worms
(Member of the Advisory Board since 28 April 2023)

Helmut Hollweck
Member of the Management Board
PSD Bank Nürnberg eG,
Nürnberg

Jörg Horstkötter
Chief Executive Officer
Volksbank Delbrück-Hövelhof eG,
Delbrück

Jochen Kerschbaumer
Former member of the Management Board
Wiesbadener Volksbank eG,
Wiesbaden
(Member of the Advisory Board until 28 April 2023)

Thomas Krießler
Member of the Management Board
Volksbank Mittlerer Neckar aG,
Esslingen am Neckar

Michael C. Kuch
Member of the Management Board
VR Bank RheinAhrEifel eG,
Koblenz
(Member of the Advisory Board since 28 April 2023)

Rüdiger Kümmerlin
Member of the Management Board
Volksbank Kraichgau eG,
Wiesloch

Rouven Lewandowski
Member of the Management Board
Raiffeisenbank Mainschleife-Steigerwald eG,
Volkach

Stephan Liesegang
Chief Executive Officer
Sparda-Bank Hamburg eG,
Hamburg

Rainer Lukas
Member of the Management Board
Volksbank Raiffeisenbank Nordoberpfalz eG,
Weiden

Peter Marsch
Member of the Management Board
Wiesbadener Volskbank eG,
Wiesbaden
(Member of the Advisory Board since 28 April 2023)

Willi Obitz
Former member of the Management Board
Volksbank eG Gera • Jena • Rudolstadt,
Rudolstadt
(Member of the Advisory Board until 28 April 2023)

Heino Oehring
Member of the Management Board
Harzer Volksbank eG,
Wernigerode

Martina Palte
Member of the Management Board
Berliner Volksbank eG,
Berlin

Dr Jan Rolin
Member of the Management Board
Bank 1 Saar eG,
Saarbrücken

Peter Scherf
Member of the Management Board
Volksbank Herford-Mindener Land eG,
Minden

Martin Schöner
Former member of the Management Board
Volksbank pur eG,
Karlsruhe
(Member of the Advisory Board until 3 November 2023)

Roland Seidl
Member of the Management Board
meine Volksbank Raiffeisenbank
Rosenheim-Chiemsee eG,
Rosenheim

Stefan Sendlinger
Member of the Management Board
VR-Bank Rottal-Inn eG,
Pfarrkirchen

Thomas Stauber
Deputy Chief Executive Officer
Volksbank Bodensee-Oberschwaben eG,
Tettnang

Markus Strahler
Member of the Management Board
Volksbank in Schaumburg und Nienburg eG,
Rinteln

Georg Straub
Member of the Management Board
Volksbank Lindenberg eG,
Lindenberg

Karsten Voß
Member of the Management Board
Volksbank Raiffeisenbank eG,
Itzehoe

Martin Wangemann
Member of the Management Board
Volksbank Vorpommern eG,
Stralsund

Michael Weidmann
Deputy Chief Executive Officer
Sparda-Bank Hessen eG,
Frankfurt am Main
(Member of the Advisory Board since 28 April 2023)

Dr Lars Witteck
Spokesman of the Management Board
Volksbank Mittelhessen eG,
Gießen

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

Verein für Umweltmanagement und Nachhaltigkeit in Finanzinstituten – reg. assoc. (VfU), Frankfurt a. M.

European Federation of Building Societies, Brussels

IUHF International Union for Housing Finance, Brussels

The Institute of International Finance (IIF), Washington DC

Addresses

Bausparkasse Schwäbisch Hall AG
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Specialised banks Cooperative institutions (throughout Germany)	Lyoner Straße 15 60528 Frankfurt/Main	069 669097-0

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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 700 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.

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