Bausparkasse Schwäbisch Hall AG

Financial Report 2020

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

Schwäbisch Hall
Auf diese Steine können Sie bauen

At a glance

Bausparkasse Schwäbisch Hall AG	2020	2019
New business		
Bausparen (presented, in € billion)	24.20	28.46
Housing financing (total, in € billion)	17.1	14.7
Contracted business		
Bauspar sum (honoured, in € billion)	315.55	313.38
Contracts (in millions)	8.00	8.24
Loans and loan commitments (total, in € billion)	59.68	54.16
Number of customers (in millions)	7.00	7.16

Schwäbisch Hall Group Non-domestic, including joint ventures	2020	2019
New business		
Bausparen (presented, in € billion)	8.15	7.16
Housing financing (total, in € billion)	1.36	1.47
Contracted business		
Bauspar sum (honoured, in € billion)	40.10	40.02
Contracts (in millions)	2.01	2.06
Loans and loan commitments (total, in € billion)	2.52	2.55
Number of customers (in millions)	1.66	1.77

Schwäbisch Hall Group IFRS key financial indicators in € million	2020	2019
Profit/loss before taxes	81	189
Net profit	59	166
Balance sheet total	81,673	77,469
Equity	6,065	5,700

Schwäbisch Hall Group regulatory ratios in %	2020	2019
Common Equity Tier 1 capital ratio	31.6	31.4
Total capital ratio	31.6	31.4
Leverage ratio for Bausparkasse Schwäbisch Hall AG	6.0	5.6

Moody's ratings	2020	2019
Bank rating	Aa1	Aa1
Hypothekenpfandbriefe (German mortgage covered bonds)	Aaa	Aaa

Human Resources	2020	2019
Employees (full-time equivalents in the Group)	2,927	2,904
Trainees and apprentices	196	191

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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.

Board of Managing Directors of Bausparkasse Schwäbisch Hall AG: Jürgen Gießler, Peter Magel, Reinhard Klein (Chief Executive Officer) und Mike Kammann (from left to right)

DEAR READERS,

COVID-19 has pushed us to the limits over the past year. The pandemic has brought many restrictions with it, and people are spending a lot more time at home than before. What this means is that how and where they live became more important for many people. Suddenly, their own home was not only somewhere they lived, but also where they worked and went to school. This was and remains a tremendous challenge for families in particular.

Despite the overall general uncertainty, together with the cooperative banks we accomplished a new record result in the housing financing business in 2020, at more than €17 billion, hence posting significantly stronger growth than the market. By contrast, there was a decline in the *Bauspar* volume, just like the market as a whole. Nevertheless, we were able to extend our market share and remain the market leader. With total sales of €42.2 billion, we are satisfied with our performance in 2020.

This overall result is due above all to the tremendous commitment of our office staff and sales force. They have demonstrated a huge degree of flexibility and commitment since the beginning of the pandemic. In the course of the first lockdown, we equipped 90% of our workforce to work from home virtually overnight. We also managed to retrain our sales force to provide online advice in a very short time. This allowed us to continue advising and servicing our customers as before, despite the more testing conditions.

An important milestone for us in 2020 was the successful placement on the market of our first benchmark issue with a yield of – 0.27%. The books closed after just short of two hours with an order volume of around €2 billion. Our *Pfandbrief* issuances enable us to successively develop a second refinancing instrument alongside our *Bauspar* deposits so that we can sustainably achieve our growth targets for housing financing.

On our way to becoming a provider of housing finance with a *Bausparen* core business segment, our decades-long collaboration with the cooperative banks has proven to be an important lever. This successful alliance will remain at the heart of our efforts in 2021.

At the same time, we are continuing to make ourselves fit for the future. Digital technologies play a key role in this strategy. A success story here is BAUFINEX, our digital housing financing marketplace for independent intermediaries, which evolved into a growth driver in 2020, with a transaction volume of more than €5 billion. In the autumn, we intend implementing our core banking system on the new SAP 4/Hana platform and processing all of our lending business using this new technology. Together with the cooperative banks, we plan to improve our marketing and sales contact with our customers and process enquiries faster. That is why we are using smart data applications and successively expanding our data-driven business models, our omnichannel capability and our online service offerings.

By leveraging this development in our core business segments, by pushing into new digital technologies and business models, and thanks to our highly motivated employees, we feel optimally equipped for the challenges of tomorrow.

Sincerely,

Reinhard Klein (Vorsitzender des Vorstands)

Jürgen Gießler

Mike Kammann

Peter Magel

Combined management report

Fundamental information about the Group

The management report of Bausparkasse Schwäbisch Hall AG and the Group management report are combined in accordance with German Accounting Standard (GAS) 20. Accordingly, together with the Bausparkasse Schwäbisch Hall Group, which reports in accordance with International Financial Reporting Standards (IFRS), the parent company Bausparkasse Schwäbisch Hall AG is also included in this management report, with disclosures on the basis of the German GAAP. The annual financial statements of Bausparkasse Schwäbisch Hall AG prepared in accordance with German GAAP and the combined management report will be published at the same time in the German Federal Gazette (*Bundesanzeiger*).

GROUP STRUCTURE

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

The Bausparkasse Schwäbisch Hall Group mainly consists of its parent company, Bausparkasse Schwäbisch Hall AG unless expressly stated otherwise, the information disclosed in this combined management report refers to both the Bausparkasse Schwäbisch Hall Group as well as Bausparkasse Schwäbisch Hall AG.

The Company's registered office is in Schwäbisch Hall, and Bausparkasse Schwäbisch Hall also has offices in Schwäbisch Hall (South regional office), Frankfurt am Main (West and Specialised banks regional offices) and Hamburg (North-East regional office). Outside Germany, Schwäbisch Hall is represented in China, Luxembourg (until 31 December 2020), 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 and Living”. The objective of this focus as the socially responsible real estate financing provider for the German Cooperative Banking Group (GFG) is to consolidate the GFG's position in the long term as one of Germany's leading integrated financial services providers. The companies of the DZ BANK Group work together with the cooperative banks and Fiducia & GAD IT AG, Karlsruhe and Münster (Fiducia GAD) under the umbrella of the National Association of German Cooperative Banks, Berlin, (BVR), to shape the future. GFG offers a broad range of services, from retirement provision through real estate and housing financing, down to insurance and funds. With its approximately 800 cooperative banks, their more than 9,000 bank branches and 30 million customers, it is one of the leading integrated financial services partners in Germany.

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

THE SCHWÄBISCH HALL GROUP

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

Bausparkasse Schwäbisch Hall

With its strategic target vision "HORIZONT 2025", Schwäbisch Hall has defined the framework for a process of transformation: from being a "*Bausparkasse* with a housing financing business segment" to becoming a leading real estate financing provider with *Bausparen* and Housing Financing as its two core business segments. In its Housing Financing core business segment, Schwäbisch Hall is positioned as a partner of the cooperative banks. It concentrates on traditional *Bauspar* loans, its own *Bauspar*-backed immediate financing products, including *Riester*-subsidised financing (*Wohn-Riester* home ownership pensions), building loans and brokering real estate loans for the cooperative banks. In its *Bausparen* core business segment, Schwäbisch Hall's product range is being enhanced to improve product profitability. The customer service employees at Schwäbisch Hall and the more than 3,200 sales force experts ensure that seven million customers receive advice and customer service.

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

Domestic subsidiaries

Its domestic subsidiaries provide services for SHG. Its largest subsidiary is Schwäbisch Hall Kreditservice GmbH (SHK), which handles new and existing business on behalf of Bausparkasse Schwäbisch Hall AG and operates the subsidised lending business for DZ BANK. With a portfolio of about 11 million contracts and approximately 1,700 employees, together with its subsidiary VR Kreditservice GmbH, Hamburg, SHK is a market leader in the field of standardised processing of loans and *Bauspar* products.

The responsibilities of Schwäbisch Hall Facility Management GmbH (SHF) include building management and operation of the Group's head office in Schwäbisch Hall. It also serves other external customers in the Schwäbisch Hall region as well as GFG customers. Schwäbisch Hall Training GmbH (SHT) offers training and personnel development activities for the Schwäbisch Hall Group and other GFG institutions.

Non-domestic *Bausparkassen*

The Group's foreign subsidiaries and investments in China, Slovakia and Hungary are *Bausparkassen* that pursue *Bauspar* and housing financing business in their domestic markets in line with the German model.

Segments of the Schwäbisch Hall Group

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

The following companies are included in the consolidated financial statements:

Segments of the Schwäbisch Hall Group

BAUSPAREN DOMESTIC

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (parent company)

with the core business segments:
– *Bausparen*
– Housing Financing
and the business segment
– Cross-Selling

Specialised fund

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

BAUSPAREN NON-DOMESTIC

Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary (as subgroup)

Joint venture *Bausparkassen*:
– Českomoravská stavební spořitelna, a. s., Prague, Czech Republic (ČMSS) [1]
– Prvá stavebná sporiteľňa, a. s., Bratislava, Slovakia (PSS)
– Sino-German Bausparkasse Co. Ltd., Tianjin, China (SGB)

BAUSPAR AND LOAN PROCESSING

Schwäbisch Hall Kreditservice GmbH (SHK), Schwäbisch Hall

[1] Českomoravská stavební spořitelna, a. s., Prague (ČMSS), was sold to the majority shareholder ČSOB and deconsolidated effective 31 May 2019.

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

The *Bausparen* core business segment consists of the traditional *Bauspar* business in Germany as well as Schwäbisch Hall's Luxembourg branch.

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

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

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

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

In the ***Bauspar*** **and Loan Processing segment**, SHK handles new and existing business on behalf of Schwäbisch Hall and is responsible for core IT support services. SHK processes the subsidised lending business for DZ BANK.

Factors influencing the core business segments

Bausparen is the core of Bausparkasse Schwäbisch Hall's product range. It is based on an earmarked advance saving scheme that is strictly regulated and subject to strict statutory safety standards. At the heart of this model is the closed loop of payments made by *Bauspar* customers into savings accounts and the repayments made by borrowers that provide the funds used to offer housing financing. There is no direct link between this closed system and the situation on the capital markets. Changes in capital market interest rates indirectly affect Schwäbisch Hall's business position and financial performance: firstly, because the return on potential financing alternatives influences the development of new *Bauspar* loan business, and secondly because the returns achievable on the capital markets for 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 key performance indicators (KPIs) for earnings, volume, productivity and capital adequacy, as well as the economic return on risk-adjusted capital (RORAC), are outlined below for SHG:

- **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" in this Group management report as well as in the "Loss allowances" disclosures (note 34) in the notes to the consolidated financial statements

- **IFRS volume measures:**

  Equity and total assets are the key performance indicators for volume measures. They are presented in the "Group financial position and net assets" chapter in this Group management report, as well as in the consolidated financial statements (balance sheet as at 31 December 2020) and in the disclosures on "Equity" (note 58) in the notes to the consolidated financial statements

- **Productivity:**

  The cost/income ratio is one of the most important productivity KPIs. This KPI for

SHG is described in the “Financial performance of the Group and the segments” chapter in this Group management report.

- **Capital adequacy:**

  SHG’s regulatory capital adequacy KPIs (total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio) are presented in the “Regulatory ratios under the CRR” chapter in this Group management report.

- **Economic RORAC:**

  The economic return on risk-adjusted capital (RORAC) is a measure of risk-adjusted performance. In the reporting period, it reflects the ratio of profit before taxes to economic risk capital. Economic RORAC thus expresses the return on risk capital employed. This KPI for SHG is described in the “Financial performance of the Group and the segments” chapter in this Group management report.

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

Report on economic position

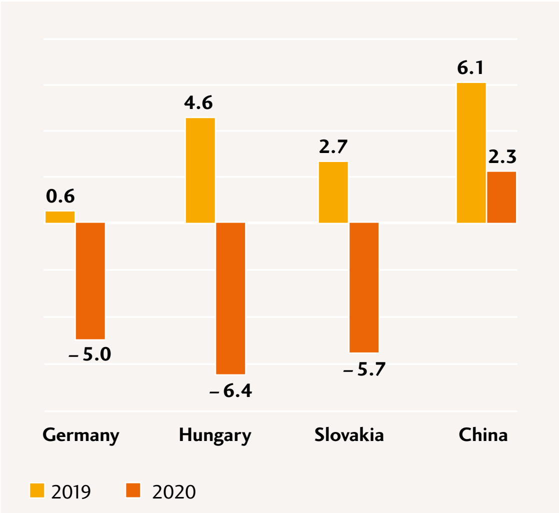
CHANGES IN THE OPERATING ENVIRONMENT

Macroeconomic environment

The world faced major and unprecedented challenges in 2020 because of the spread of the coronavirus (SARS-CoV-2). Starting in China, the pandemic spread to Europe and covered almost the entire globe in the second quarter. Many countries took far-reaching public health countermeasures to contain the virus. The goal of these measures was to reduce the speed at which the virus was spreading and prevent healthcare systems from being overloaded. As a result, global economic activity contracted extremely sharply in the first half of the year, with the global recession bottoming out in the second quarter. Economic activity recovered significantly in the third quarter as measures to control the spread of infection were gradually eased. A resurgence of the pandemic at the beginning of the fourth quarter led to tighter containment measures and renewed economic disruption. The COVID-19 pandemic and in particular the measures to contain it triggered the sharpest downturn in the global economy since the 1930s. At the end of 2020, the International Monetary Fund (IMF) forecast a slump of approximately 4.4% in global gross domestic product (GDP) for the current year.

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

GDP growth in SH markets
in %



The economic impact of the pandemic varied significantly across the European Union. This was due to the spread of the virus, the relevant containment measures, the sectoral composition of the economies and the effectiveness of national policy actions. Whereas economic output in Germany collapsed by 11.5% in the first half of the year, the other major eurozone countries of Italy (– 17.8%), France (– 19.7%) and in particular Spain (– 23.7%) recorded even sharper declines.

In Germany, containing the first wave of infection in the spring required the previously unimaginable shutdown of many economic activities.

In the weeks of the hard lockdown between 23 March and 19 April, economic activity plummeted by approximately 20% compared with pre-crisis levels. Industrial output in April was 25% below the level in February, while retail sales still remained stable, falling by around 9%. However, the initial recovery that started in May was almost as rapid as the slump. The gradual lifting of the containment measures in Germany and abroad allowed business activity to ramp up again in many areas. This was also helped by the political stabilisation measures, which enabled companies and jobs to be largely safeguarded in 2020 and hence prevented the crisis from deepening. The economic recovery process slowed when infection control measures were tightened again through the partial lockdown in November. The economy collapsed again, however, after the strong recovery in the third quarter. Because the coronavirus restrictions did not apply to large parts of industry this time, the downturn in economic output in the fourth quarter of 2020 was not as pronounced as it had been in the first half of the year. Nevertheless, 2020 saw Germany recording the sharpest economic slump since the 2008/2009 financial market crisis, with a GDP decline of 5.0%.

The high-growth Eastern European EU countries were hit harder by the COVID-19 crisis than initially expected. Although many countries in Eastern Europe had survived the first wave of the coronavirus in the spring with comparatively low infection figures, they were hit hard by the second wave in the autumn.

In Hungary, the effects of the coronavirus pandemic quickly rendered all economic growth forecasts for 2020 obsolete. After the first cases of SARS-CoV-2 infection were confirmed in early March, the Hungarian government declared a national emergency on 11 March 2020. The borders were closed, and restaurants, non-essential retail, schools and universities were also forced to close. Manufacturing industry, in particular automotive manufacturers, who are the driving force in the Hungarian economy, also shut their gates for around three weeks. More than that, however, the collapse in demand, postponed investments, interrupted supply chains and uncertain prospects negatively impacted the economy. The government responded with numerous measures to mitigate the negative effects on the economy. It introduced tax relief for certain sectors, tax cuts, tax administration relief and payroll support programmes. Special taxes for credit institutions and the retail sector were imposed to finance the measures. After GDP declined by 6.1% in the first quarter, the deficit already amounted to 13.6% in the second quarter. A sharp rise in the number of infections to a number many times what had been reached in the spring forced the government to declare a renewed state of emergency effective 3 November and drastically curb public life. Forecasts are assuming a severe recession and a 6.4% decline in GDP for the year as a whole.

The coronavirus also destroyed 2020 growth prospects for Slovakia. On the back of an early lockdown, Slovakia was able to start returning to normality relatively quickly. The almost eight-week freeze on social interaction and large parts of business activity nevertheless took a heavy toll on the export-driven Slovak economy. Supply chains and sales markets were also disrupted by similar measures in the country's most important trading partners. According to the Slovak statistical office, industrial output plunged by 42% in April, with the auto industry posting the worst drop, at 79%. Following a moderate 3.7% decline in GDP in the first quarter, the statistical office recorded a 12.1% downturn for the second quarter. The numerous administrative as well as finance measures undertaken by the government to combat the coronavirus mainly served to protect health and small businesses. The situation eased clearly in the summer months, with exports of goods already slightly above the previous year's level in nominal terms. The infection figures and incidence rates rose so sharply in the autumn that the government again declared a state of emergency in mid-October. Although the entire leisure sector was shuttered, the government did not close the borders or impose more widespread business closures. To break the surge in coronavirus cases, the government decided on introduce nationwide antigen testing, which happened until 8 November. Nevertheless, the 2020 recession was a deep one, and the national bank is estimating a 5.7% decline in full-year GDP.

The first cases of the hitherto unknown COVID-19 lung disease appeared in the Chinese provincial capital of Wuhan in late 2019, from where the viral disease initially spread rapidly through the People's Republic, and then worldwide in the following months. By imposing rigid measures – with almost all public and business activity coming to a standstill – the Chinese leadership managed to lower the number of new infections. According to official data, only 202 new local infections occurred in May 2020. As a result, retail sales fell by 13.5% year-on-year from January to May. To jump start the economy, policymakers adopted a variety of targeted individual measures as well as monetary and fiscal policy instruments. The primary goals were to stabilise businesses and employment. While the government generated demand with investments, private consumption lagged significantly behind because of the persistent consumer uncertainty, which was the main reason behind the reluctance to spend. Although GDP growth of around 6% had been forecast before the crisis began, the world's second largest economy still achieved growth of 2.3%, according to information released by the Beijing statistics office. This makes China one of the few countries that were still able to record positive growth even in the 2020, the year of COVID-19.

Financial markets and interest rates

Whereas the 2008/2009 economic crisis had its origins in the financial sector, the coronavirus economic crisis was rooted in the real economy. The epidemic policy measures instituted by governments slowed down both industrial production and household and business demand. In turn, the income shortfall at businesses and households threatened to spill over into the financial markets. More restrictive bank lending on the back of the deterioration in the macroeconomic outlook would have further exacerbated the crisis. The European Central Bank (ECB) responded to this situation with monetary policy measures to provide the financial sector with sufficient liquidity. The objective was to ensure favourable financing conditions for all sectors of the economy. The ECB's Governing Council therefore announced a new Pandemic Emergency Purchase Programme (PEPP) on 18 March 2020 with a total volume of €1,350 billion, which will run until the end of June 2021. The older Asset Purchase Programme (APP) to buy bonds and other securities for €20 billion per month ran alongside this new bond purchase programme until the end of the year. To do this, the ECB established a framework for additional net asset purchases of €120 billion in March 2020. Supplying banks with cheap long-term refinancing is another instrument in the

ECB's monetary policy toolbox. In 2020, banks were able to call down three-year Targeted Longer-Term Refinancing Operations (TLTROs) from the central bank (in this case: TLTRO III). The interest rate for these liquidity injections was the deposit rate (– 0.5%).

The ECB's Governing Council decided on 10 December 2020 to recalibrate the ECB's monetary policy instruments. The PEPP bond purchase programme was increased by half a trillion euros, and the ECB additionally announced that it would extend net asset purchases until March 2022. At the same time, it extended the period during which the programme is expected to maintain a stable volume by means of replacement purchases until at least the end of 2023. The TLTROs were also prolonged and will now run until mid-2022. This is designed to contribute to preserving favourable financing conditions during the period of the pandemic, thereby supporting the flow of credit to all sectors of the economy, underpinning economic activity and safeguarding medium-term price stability. The ECB's Governing Council again emphasised that the ECB's key interest rates will remain at their present or a lower level until the inflation outlook gets close to a level that is sufficiently close to, but below, 2.0%. In December, inflation in the 19 countries of the eurozone remained at – 0.3% and hence at its lowest level since the introduction of the euro.

In 2020, the yields on the bond market, which are a benchmark for the market rate of interest for real estate loans, remained at a very low level in historical terms. Ten-year German Bunds were yielding – 0.57% at the end of 2020, compared with – 0.27% at the end of 2019. A persistently low interest rate has a particularly strong impact on *Bausparkassen* and an extraordinarily negative effect on their net interest income, a key earnings component.

Housing construction activity

Housing construction in Germany remained on a growth trajectory even during the COVID-19 crisis and thus helped to stabilise the overall economy during the lockdown-induced recession. The pandemic additionally strengthened people's desire for home ownership, according to a study by the Gesellschaft für Markt- und Absatzforschung (GMA). A major factor in this was the fact that many companies required their staff to work from home during the lockdown. It showed companies and their employees that office work can be performed efficiently at home. However, with an estimated 300,000 housing units completed in 2020 (Central Association of German Construction Companies), the German government's target of 375,000 homes was again clearly missed. That fact that more was not built in 2020 was due primarily to the high number of 740,400 homes approved but not completed. This construction backlog has been growing for years and has now reached its highest level since 1998. The reasons for this are largely a lack of capacity in the construction industry and the building trades. Whereas the order backlog has almost tripled since 2008, the number of employees only rose by 25% from 2008 to 2018. There has been no return to the record employment levels in the primary construction sector at the end of the 1990s.

According to estimates by EUROCONSTRUCT, the European market research network for the construction sector, the number of housing units completed in Hungary was around 28,000 in 2020, and hence almost twice as much as in 2017. In contrast to the industrial and service sectors, the construction sector initially appeared surprisingly resilient to the crisis, with companies systematically working off their orders. However, the general uncertainty in industry and society also increasingly impacted private housing construction. Although the number of completions still grew in the first half of 2020, the number of building permits dropped substantially by around 31% compared with the prior-year period. The government responded with countermeasures: In April, it launched a programme to promote housing construction in industrial brownfield sites, to which a reduced VAT rate of 5% will apply. It also announced the reintroduction of the reduced tax rate for residential construction. From 2021 to the end of 2022, new buildings will be taxed at only 5% instead of the usual 27%. The government stepped up its measures in October. It announced that it would also refund the reduced VAT rate of 5% to those families who used a state-subsidised CSOK loan to buy a new home. Based on current housing prices, this corresponded to a rebate of almost 2 million forints (approximately €5,600).

In Slovakia, the coronavirus crisis put an abrupt end to the positive start of the year for the construction industry. Although residential construction still rose in the first quarter, it plummeted in the second quarter, dropping by almost one-fifth compared with the second quarter of 2019. According to estimates by the EUROCONSTRUCT network, 19,500 housing units were completed in Slovakia in 2020, down slightly compared with the previous year (20,200).

Following a downturn in the first months of the year due to the COVID-19 crisis, investments in real estate in China recovered significantly over the course of the year. According to estimates by the data analysis company CEIC, housing prices were already up around 5.3% year-on-year in June. Prices and demand rose especially in the large cities. Although household loans were negatively impacted by the decline in consumption, mortgage loans continued to grow unabated, according to an analysis by French investment bank Natixis. This also explains why the real estate market recovered faster than other sectors.

Loan repayment holidays in the wake of the coronavirus pandemic

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

In Germany, special arrangements were introduced for a limited period in Article 240 of the Introductory Act to the Civil Code (*Einführungsgesetz zum Bürgerlichen Gesetzbuch*). These gave debtors the option to temporarily refuse to perform contractual obligations that they were unable to discharge due to the coronavirus pandemic without any adverse legal consequences for them. The law required interest and principal payments due in the period from 1 April to 30 June to be deferred. The only condition was for borrowers to make a declaration stating that they were affected by income shortfalls because of the pandemic. 281 of Bausparkasse Schwäbisch Hall's customers made use of this legal payment moratorium. The amortised cost of the loans in question as at 30 June 2020 was €20.3 million. The deferred interest and principal payments amounted to €0.2 million as at 30 June 2020. As an alternative, Schwäbisch Hall offered customers with COVID-19-related financial difficulties a private payment moratorium as part of an industry-wide solution, limited until 30 September 2020. Instead of a legislative three-month deferral, customers were able to take advantage of a payment holiday of up to six months. Around 15,900 of Bausparkasse Schwäbisch Hall's customers made use of this private payment holiday in 2020. The amortised cost of the loans in question as at 31 December 2020 was €200 million. The deferred principal repayments amounted to €15.8 million as at 31 December 2020.

The Hungarian government ordered a payment moratorium by way of Regulation 47/2020. (III.181), supplemented by Regulation 62/2020. (III.24.). The payment holiday applied to all credit and loan agreements as well as savings contracts related to credit agreements entered into with FLK or other credit institutions. The payment moratorium began on 19 March 2020 and ended in the first instance on 31 December 2020. This suspended loan repayments and interest payments until the end of the calendar year in respect of agreements that had been entered into and disbursed by 18 March 2020. The calculation of compound interest payments for the period of the payment moratorium was also prohibited. The payment holiday came into force automatically by law, and did not require any application to be made. However, customers were also entitled to continue meeting their payment obligations according to the original terms and conditions. As at 31 December 2020, 27,939 FLK customers were still taking advantage of this legislative payment moratorium. The amortised cost of the loans in question as at 31 December 2020 was HUF 150.4 billion (€0.4 billion). The deferred interest and principal repayments (including savings instalments) amounted to HUF 12.0 billion (€32.8 million) as at 31 December 2020.

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

COURSE OF BUSINESS OF THE GROUP AND THE SEGMENTS

Group

In an economic environment hit hard by the spread of the COVID-19 pandemic, SHG was still able to maintain its leading position in the *Bauspar* market and substantially expanded its new business in real property finance for retail customers. With a volume of €10.3 billion (+ 11.7%), SHG wrote a new record in housing financing. The decline in new *Bauspar* business to €32.3 billion (– 9.2%) is attributable primarily to the negative circumstances surrounding the pandemic, such as the lockdown in the spring and the partial lockdown in the autumn. Short-time working arrangements and other government support measures help the majority of borrowers to successfully master the crisis in the reporting period. In the view of the Management Board, SHG achieved an overall strong sales performance.

Bausparen Domestic segment

The course of business in the *Bausparen* Domestic segment is classified into the *Bausparen* and

Housing Financing core business segments as well as the Cross-Selling business segment. The balance sheet amounts disclosed in this section of the report are German GAAP amounts.

Bausparen core business segment

Schwäbisch Hall reinforced its position as the number one *Bausparkasse* in Germany. Its market share for new business honoured reached 30.1% and was thus slightly over the 30% mark (2019: 29.7%). As at the end of 2020, Bausparkasse Schwäbisch Hall had 7.0 million customers (2019: 7.16 million), with a stock of 8.0 million contracts honoured (2019: 8.2 million).

At €24.2 billion, new *Bauspar* business in Germany declined by 15.0% year-on-year (2019: €28.5 billion). With 455,795 contracts concluded, this corresponds to a 12.9% under the 2019 comparative figure (523,533). The average *Bauspar* sum for new contracts was €53,087 (2019: €54,360), and hence slightly lower than the prior-year amount.

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

	in %
under 20 years old	9.5
20 to under 25 years old	7.9
25 to under 30 years old	9.0
30 to under 40 years old	19.8
40 to under 50 years old	16.2
50 to under 60 years old	18.0
60 years old or more	19.6

In financial year 2020, just over 30,000 *Wohn-Riester* (home ownership pension) subsidised old-age provision contracts were concluded with Schwäbisch Hall. Schwäbisch Hall has 671,000 *Wohn-Riester* (home ownership pension) contracts in its portfolio.

The volume of *Bauspar* deposits increased by €1.4 billion or 2.1% in 2020 to €65.0 billion. This was a result of the high level of savings funds received due to the low level of interest rates.

The *Bauspar* sum for the stock of contracts increased by 0.7%, from €313.4 billion in 2019 to €315.6 billion in 2020. The average *Bauspar* sum for the stock of contracts increased from €38,038 in 2019 to €39,469 in 2020, corresponding to 3.8% growth. Additions to the allocation fund increased by €246 million to €11.6 billion.

476,568 *Bauspar* contracts (2019: 384,354) were allocated in 2020. At €12.1 billion, the allocated *Bauspar* volume was up 22.8% on the previous year's level of €9.8 billion. The volume of loans provided, net of allocation cancellations and loan waivers was €8.6 billion (2019: €6.6 billion).

Housing Financing core business segment

Schwäbisch Hall again generated a record new business volume in 2020 in its Housing Financing business segment. Brokerage of its own suspended repayment financing (interest-only loans) accounted for €5.0 billion (2019: €6.0 billion) of the total volume of €17.1 billion (2019: €14.7 billion), with brokerage of *Fuchs* building loans accounting for €4.2 billion (2019: €2.1 billion). In addition, financing schemes with a volume of €7.9 billion (2019: €6.7 billion) were brokered for GFG institutions. This does not include the business relating to advance payment loans by the cooperative banks that are backed by a *Bauspar* contract, which amounted to €6.5 billion (2019: €7.1 billion). Schwäbisch Hall *Bauspar* loans and bridging loans accounted for a further €2.1 billion (2019: €2.0 billion). The total portfolio of building loans was €53.8 billion, approximately 10.9% higher than in 2019 (€48.5 billion). €2.4 billion of this amount related to *Bauspar* loans (+1.4%), €45.2 billion to advance payment and bridging loans (+5.5%) and €6.2 billion (+86.2%) to other building loans.

Cross-Selling business segment

With a total volume of €1.0 billion in 2020 (2019: €0.8 billion), Cross-Selling product sales rose by 19.0% in 2020. The total volume does not include the volume of term life insurance policies brokered in connection with building loans, which rose by almost 10% to approximately €920 million.

As part of its sales partnership, Schwäbisch Hall's sales force brokered almost 102,000 financing and investment products for its cooperative partner institutions (+0.6% compared with 2019).

Bausparen Non-domestic segment

Overview

The Group's *Bausparkassen* outside Germany again cemented their leading market positions in a difficult environment marked by the coronavirus pandemic. Overall, the foreign *Bausparkassen* included in Schwäbisch Hall's consolidated financial statements concluded 257,602 new contracts in 2020, compared with 276,810 in 2019. The volume of new business increased significantly year-on-year to €8.1 billion (2019: €7.2 billion). The average *Bauspar* sum for the new contracts was €31,600 and hence up considerably over the previous year (€25,900). The companies' stock of contracts in foreign companies declined slightly to 2.01 million contracts (2019: 2.06 million contracts); the *Bauspar* sum rose by 3.8% to €40.1 billion (2019: €40.0 billion).

Unless otherwise indicated, the percentage deviations have been calculated on the basis of the applicable national currency.

Hungary

FLK's new business in Hungary was significantly affected by the coronavirus pandemic and the associated partial restrictions on people's mobility. Further containment measures imposed by the government and increased short-time working led to uncertainty among households. In this environment, with an overall *Bauspar* sum of around €1.03 billion (47,600 contracts), FLK exceeded the previous year's new business of €0.99 billion. The reason for this was a significant increase in the average *Bauspar* sum to €21,600 (2019: €17,400). At €445 million, savings funds received were down appreciably on the previous year's figure of €561 million (–12.6%). *Bauspar* deposits rose by 9.8% to €1.7 billion (2019: €1.7 billion) for exchange rate reasons. The volume of *Bauspar* loans granted decreased by 1.2% compared with the previous year (€167 million) to €150 million. Overall, FLK's portfolio of housing financing loans amounted to €1.3 billion and was thus, expressed in the national currency, 5.4% higher than the previous year's volume of €1.4 billion.

Slovakia

PSS's new business in Slovakia was also hit hard by the COVID-19 pandemic. Nevertheless, PSS maintained its strong position in the Slovak housing financing market, with 50,519 *Bauspar* contracts concluded (2019: 123,584) and an overall *Bauspar* sum of €1.2 billion (2019: €2.1 billion). Savings funds received amounted to €500 million, compared with €646 million in the previous year. The volume of *Bauspar* deposits declined slightly to €2.7 billion (– 1.9%). *Bauspar* loans reached a total volume of €156 million, a 8.8% decline on the previous year's figure of €171 million. At the end of reporting period, PSS's portfolio included housing financing loans with a total value of €2.3 billion, with the result that its total stock of housing financing loans was up 0.7% year-on-year.

China

In China, the government's limited local containment measures to combat the COVID-19 pandemic did not have any significant impact on SGB's new business – there was only a noticeable decline in the first quarter of 2020, which was fully offset in the subsequent months. With new business of €5.9 billion, SGB again recorded significant growth in 2020 compared with the previous year (€4.1 billion). In terms of the number of *Bauspar* contracts concluded, it reached a new record of approximately 160,000 (2019: 96,300). This is also attributable to the successful launch of new *Bauspar* products. *Bauspar* deposits rose from €1.7 billion in 2019 to €2.4 billion. Savings funds received rose significantly to €6.2 billion (2019: €5.4 billion). At €401 million, *Bauspar* loans were up on the previous year (€390 million). The *Bauspar*-specific volume of housing financing exceeded €1.3 billion, compared with €1.0 billion in the previous year, for an increase of 34.8%.

Bauspar and Loan Processing segment

In its credit processing activities for Bausparkasse Schwäbisch Hall, SHK processed a record new volume of €9.2 billion in financial year 2020 (2019: €8.1 billion) for *SofortBauGeld*, which was also significantly higher than the projected €8.2 billion. Other capacity strains resulted from the organisational and process-related conditions established for the successful placement of *Pfandbriefe* (German covered bonds) by Bausparkasse Schwäbisch Hall on the capital markets in 2020. The slight decline in the Bausparkasse's new *Bauspar* business only eased these strains to a minor extent.

In 2020, enhancing Schwäbisch Hall's IT systems again focused on NEXT, a major IT project to modernise the core banking system based on SAP standard software.

In its subsidised lending business, SHK processed around 132,000 new loan applications on behalf of DZ BANK, compared with 65,000 in 2019. The high level of new business was due primarily to the special programmes launched by the development banks in connection with the coronavirus pandemic.

FINANCIAL PERFORMANCE OF THE GROUP AND THE SEGMENTS

Group

Bausparkasse Schwäbisch Hall's net profit fell sharply in 2020. The year-on-year comparison is dominated by non-recurring effects in both financial years. Adjusted for these non-recurring effects, net interest income declined significantly year-on-year. Whereas additional allocations to *Bauspar*-specific provisions for legacy tariffs at Bausparkasse Schwäbisch Hall had to be recognised in the amount of €280 million in 2019, an additional allocation of €115 million was necessary in the coronavirus crisis year 2020. Another non-recurring effect in the year-on-year comparison results from the income of €99 million from the sale of the ČMSS investee recognised in 2019. In light of the persistently low interest rate environment and the huge implications of the coronavirus pandemic, with effects not only on business activities, but also on the financial markets and legislation (moratoria), the Management Board believes that the result achieved can still be viewed as satisfactory.

Financial performance of the Schwäbisch Hall Group

in € million	2020	2019	Change absolute	Change in %
Net interest income	531	462	69	14.9
Interest income	1,497	1,586	– 89	– 5.6
Interest expenses	– 971	– 1,137	166	14.6
Income from investments in joint ventures using the equity method	5	13	– 8	– 61.5
Loss allowances	– 29	– 4	– 25	< – 100
Net fee and commission income	– 9	– 28	19	67.9
Fee and commission income	103	93	10	10.8
Fee and commission expenses	– 112	– 121	9	7.4
Gains and losses on investments	56	151	– 95	– 62.9
Other gains or losses on valuation of financial instruments	5	18	– 13	– 72.2
Gains or losses on derecognition of financial assets measured at amortised cost	15	18	– 3	– 16.7
Administrative expenses	– 526	– 486	– 40	– 8.2
of which personnel expenses	– 256	– 225	– 31	– 13.8
of which other administrative expenses	– 211	– 210	– 1	– 0.5
of which depreciation/amortisation	– 59	– 51	– 8	– 15.7
Other net operating income	38	58	– 20	– 34.5
Profit/loss before taxes	**81**	**189**	**– 108**	**– 57.1**
Income taxes	– 22	– 23	1	4.3
Net profit	**59**	**166**	**– 107**	**– 64.5**

2019: €– 12 million of the income from investments in joint ventures using the equity method was reclassified to gains and losses on investments

Interest income declined substantially year-on-year. Interest income relating to *Bauspar* loans decreased by €2 million. As the total portfolio was stable, the primary factor here were the lower interest rates for the more recent tariffs. Despite lower average interest rates, income from advance payment and bridge financing loans and other building loans was kept almost stable (€– 4 million) in the wake of the growth in business in recent years. Investment interest declined significantly (€– 76 million) due to the low capital market interest rates.

Interest expenses were attributable mainly to *Bauspar* deposits. Despite the increase in volumes, the introduction of lower-interest *Bauspar* tariffs and portfolio measures ensured a year-on-year reduction in current interest expense. The further decrease in interest expenses resulted from additions to *Bauspar*-specific provisions. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to make payments of interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Additions to these provisions amounted to €318 million in the reporting period (2019: €473 million) (provisions as at 31 December 2020/2019: €1,425 million/€1,388 million). As well as regular allocations of €203 million in 2020 (2019: €193 million), there were special allocations of €115 million (2019: €280 million), €53 million (2019: €57 million) of which was attributable to portfolio measures implemented in the previous year.

The income from investments in joint ventures using the equity method contains the earnings contribution by PSS amounting to €3 million (2019: €5 million) and the earnings contribution by SGB amounting to €2 million (2019: €1 million). €7 million was still attributable to ČMSS in 2019.

Of the net measurement gains from lending business of €– 29 million, €– 23 million is attributable to Bausparkasse Schwäbisch Hall and €– 6 million to FLK. At Bausparkasse Schwäbisch Hall, a €14 million increase relates to COVID-19-related adjustments to the macroeconomic parameters, and the renewed lockdown in December 2020 was also reflected here. A further €3 million results from the annual validation of the model parameters. Whereas loss allowances in Stages I and II under IFRS 9 rose significantly, there was a decline in Stage III because of the declining volumes of past due loans. The increase in the loss allowance at FLK is due almost exclusively to the coronavirus pandemic.

Fee and commission income improved by €19 million to €– 9 million. Bausparkasse Schwäbisch Hall includes arrangement fees and acquisition commissions in its effective interest rate calculation where they are directly associated with the acquisition of *Bauspar* deposits. This reduced fee and commission expense by €79 million in 2020 (2019: €107 million). Fee and commission expenses were further reduced by the deferral of transaction costs in the housing financing business by €173 million (2019: €127 million). On the other hand, net interest income was negatively affected by the amortisation of deferred commissions and transaction costs. The improvement in net fee and commission income is attributable to the slowdown in new *Bauspar* business, resulting in lower commission payments not required to be deferred.

Gains and losses on investments result mainly from sales of listed bearer bonds and are attributable to UIN Union Investment Institutional Fund No. 817 (€52 million, 2019: €45 million) and Bausparkasse Schwäbisch Hall (€4 million, 2019: €19 million). The prior-year result contains the income from the disposal of the interest in ČMSS.

Other measurement gains or losses on financial instruments are attributable to the interest rate swaps entered into before the designation of hedging relationships at Schwäbisch Hall. The prior-year result also contains the gain on the early termination of interest rate swaps (€16 million) when hedge accounting was introduced.

Gains or losses on derecognition of financial assets measured at amortised cost are largely attributable to the transfer of registered bonds and bearer bonds of DZ BANK to DZ BANK (€9 million). All sales from these portfolios were below the materiality threshold, so there was no violation of the business model.

Personnel expenses only increased slightly because of higher collectively agreed wages and new permanent hires in the expanding Housing Financing core business segment. The clear increase is attributable to the “Structural Optimisation of Costs and their Management” programme (German abbreviation: SOKS) launched in the reporting period (€– 29 million). SOKS is a multi-year SHG project that aims to ensure greater cost transparency and to keep costs at a sustainably lower level. In addition to the strategic projects, the cost management programme is another building block for making SHG future-proof.

The cost/income ratio, which is the ratio of administrative expenses to total operating income, was 82.7% for the Schwäbisch Hall Group in the reporting period, compared with 71.6% in 2019. Economic RORAC was 3.0% (2019: 7.1%).

After deducting non-controlling interests of €6 million (2019: €11 million), net profit of €53 million (2019: €155 million) before profit transfer is attributable to Bausparkasse Schwäbisch Hall.

Financial performance of the *Bausparen* Domestic segment

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

Financial performance of the *Bausparen* Domestic segment

			Change	
in € million	**2020**	**2019**	**absolute**	**in %**
Net interest income	474	381	93	24.4
Interest income	1,422	1,495	– 73	– 4.9
Interest expenses	– 952	– 1,118	166	14.8
Current income from investments in subsidiaries and joint ventures, and dividend income	4	4	–	–
Loss allowances	– 23	– 2	– 21	< – 100
Net fee and commission income	– 14	– 32	18	56.3
Fee and commission income	95	84	11	13.1
Fee and commission expenses	– 108	– 116	8	6.9
Gains and losses on investments	56	297	– 241	– 81.1
Other gains or losses on valuation of financial instruments	5	18	– 13	– 72.2
Gains or losses on derecognition of financial assets measured at amortised cost	13	18	– 5	– 27.8
Administrative expenses	– 472	– 416	– 56	– 13.5
of which personnel expenses	– 105	– 93	– 12	– 12.9
of which other administrative expenses	– 316	– 280	– 36	– 12.9
of which depreciation/amortisation	– 51	– 43	– 8	– 18.6
Other net operating income	20	41	– 21	– 51.2
Segment profit before taxes	**59**	**305**	**– 246**	**– 80.7**

The decline in segment profit is attributable mainly to gains and losses on investments, which contained the gain on the sale of the interest in ČMSS (€233 million) in 2019. The increase in other administrative expenses and loss allowances, as well as the decline in net interest income from investments, were offset by lower special allocations to *Bauspar*-specific provisions.

Personnel expenses only increased slightly because of higher collectively agreed wages and new permanent hires in the expanding Housing Financing core business segment. The clear increase (€–6 million) is due to the SOKS programme launched in the reporting period.

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

Financial performance of the *Bausparen* Non-domestic segment

The *Bausparen* Non-domestic segment comprises the joint venture *Bausparkassen* PSS and SGB as well as the FLK subsidiary. The ČMSS joint venture *Bausparkasse* was deconsolidated on 31 May 2019. The earnings contribution from the joint venture *Bausparkassen* attributable to Schwäbisch Hall is reported in the income from investments in joint ventures using the equity method. The aggregate profit before taxes (€38 million) of the *Bausparkassen* included in the *Bausparen* Non-domestic segment was down significantly year-on-year (2019: €56 million). The decrease in segment profit before taxes to €20 million (2019: €29 million) is due largely to the coronavirus crisis and is attributable to FLK and PSS, as SGB significantly improved its profit.

Financial performance of the *Bausparen* Non-domestic segment

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

In 2020, FLK was unable to repeat the good result achieved in the previous year because of the coronavirus crisis. In Hungary, the government introduced an opt-out moratorium suspending loan repayment instalments in response to the COVID-19 pandemic; this was extended in the course of the year until 30 June 2021. This significantly impacted net interest income. The borrower repayment rate recorded positive growth, rising to around 70% at year-end. Profit was additionally impacted by loss allowances, which increased significantly because of the pandemic. The decline in lending business due to the pandemic and the devaluation of the Hungarian currency also had a negative impact. Even the strictest cost discipline, with savings of a further €3 million in administrative expenses, which were even lower than projected, could not prevent the decline in profit before taxes. At €15 million, FLK's profit was around €12 million lower than projected.

In Slovakia, the coronavirus pandemic also hit PSS's 2020 profit very hard. Although PSS was

Financial performance of the *Bausparen* Non-domestic segment

2019 in € million	FLK	PSS	SGB	Total	Reconciliation equity-method JVs	Non-domestic segment
Net interest income	69	63	37	169	– 100	69
Interest income	90	101	84	275	– 185	90
Interest expenses	– 21	– 38	– 47	– 106	85	– 21
Income from investments in joint ventures using the equity method	–	–	–	–	13	13[1]
Loss allowances	– 1	– 9	– 5	– 15	14	– 1
Net fee and commission income	5	15	– 4	16	– 11	5
Fee and commission income	10	16	9	35	– 25	10
Fee and commission expenses	– 5	– 1	– 13	– 19	14	– 5
Gains and losses on investments	–	–	–	–	– 12	– 12[1]
Gains or losses on derecognition of financial assets measured at amortised cost	–	– 3	–	– 3	3	–
Administrative expenses	– 42	– 34	– 36	– 112	70	– 42
of which depreciation / amortisation	– 9	– 5	– 3	– 17	8	– 9
Other net operating income	– 3	– 12	16	1	– 4	– 3
Profit before taxes / segment profit before taxes	**28**	**20**	**8**	**56**	**– 27**	**29**
Income taxes	– 5	– 5	– 2	– 12	7	– 5
Profit or loss after tax from continuing operations	23	15	6	44	– 20	24
Other comprehensive income or loss	– 4	–	3	– 1	– 3	– 4
Total comprehensive income	**19**	**15**	**9**	**43**	**– 23**	**20**
Shareholding	51.25%	32.50%	24.90%			
Share of profit or loss for the year	10	5	2			
Dividend received	4	–	–			

[1] Amounts adjusted

able to significantly offset the decline in interest income through a decrease in interest expenses, the COVID-19 pandemic had a particularly strong impact on loss allowances, which rose sharply because of the portfolio of loans in forbearance due to the pandemic. The decline in new *Bauspar* business due to COVID-19 also negatively impacted fee and commission income. The banking levy retrospectively abolished effective 30 June 2020 had an offsetting effect. PSS's profit before taxes was therefore only €12 million, which was around €2 million lower than projected.

In China, SGB was able to reach its projected profit level despite the adverse effects of the coronavirus pandemic, and hence significantly exceed its prior-year profit. The primary reasons for this were higher net interest income due to volume growth and improvements in the funding structure, as well as lower non-personnel operating expenses. The lower fee and commission income resulted from new *Bauspar* products, are increasingly no-fee products. Profit before taxes was €11 million.

Financial performance of the *Bauspar* and Loan Processing segment

in € million	2020	2019	Change absolute	Change in %
Net interest income	2	2	–	–
Interest income	2	2	–	–
Interest expenses	–	–	–	–
Loss allowances	–	–	–	–
Net fee and commission income	–	–	–	–
Fee and commission income	–	–	–	–
Fee and commission expenses	–	–	–	–
Gains and losses on investments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	–	–	–	–
Administrative expenses	– 141	– 120	– 21	– 17.5
of which personnel expenses	– 137	– 115	– 22	– 19.1
of which other administrative expenses	– 4	– 5	1	20.0
of which depreciation/amortisation	–	–	–	–
Other net operating income	145	112	33	29.5
Segment profit before taxes	**6**	**– 6**	**12**	**>100**

Financial performance of the *Bauspar* and Loan Processing segment

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

Net interest income is generated by investing cash funds.

Personnel expenses only increased slightly because of higher collectively agreed wages and new permanent hires in the expanding Housing Financing core business segment. The clear increase is due to the "Structural Optimisation of Costs and their Management" programme (German abbreviation: SOKS) launched in the reporting period and the provisions recognised for it (€23 million).

The increase in the revenue reported in other net operating income is due chiefly to a reclassification effect. Until 2019, changes in the value of the plan assets externally funded by a CTA in as part of central incidental personnel expenses were allocated directly to Bausparkasse Schwäbisch Hall.

This significantly increased segment profit before taxes.

GROUP FINANCIAL POSITION AND NET ASSETS

Changes in the Schwäbisch Hall Group's balance sheet

Net assets

in € million	31.12.2020	31.12.2019	Change absolute	Change in %
Assets				
Loans and advances to banks	8,934	11,209	– 2,275	– 20.3
Loans and advances to customers	58,862	53,867	4,995	9.3
Positive fair values of hedging instruments	31	3	28	>100
Investments	12,930	11,906	1,024	8.6
Other assets	916	484	432	89.3
Total assets	**81,673**	**77,469**	**4,204**	**5.4**
Equity and liabilities				
Deposits from banks	7,776	6,142	1,634	26.6
Deposits from customers	65,074	63,607	1,467	2.3
Fair value changes of hedged items in portfolio hedges of interest rate risk	23	– 4	27	> 100
Issued bonds	513	–	513	–
Negative fair values of hedging instruments	–	5	– 5	– 100.0
Provisions	1,766	1,700	66	3.9
Other liabilities	456	319	137	42.9
Equity	6,065	5,700	365	6.4
Total equity and liabilities	**81,673**	**77,469**	**4,204**	**5.4**

The Schwäbisch Hall Group's total assets rose by €4.2 billion (5.4%) as at 31 December 2020 to €81.7 billion. On the asset side, the growth in total assets is mainly attributable to increased loans and advances to customers, while on the equity and liabilities side it reflects higher deposits from banks and customers. Both of these trends are attributable to the increased volume of business.

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

The Group's volume of non-collective housing financing in loans and advances to customers increased by 11.1% to €53.1 billion (2019: €47.8 billion).

Bausparkasse Schwäbisch Hall's loan-deposit ratio I, i.e. the ratio of *Bauspar* loans to *Bauspar* deposits, was unchanged at 3.7% at the end of 2020. Its loan-deposit ratio II – i.e. the ratio of *Bauspar* loans plus suspended repayment and bridging loans to *Bauspar* deposits – increased from 71.0% to 73.2% at the end of 2020. This trend is chiefly the result of the positive new business in housing financing over the past few years.

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

Due to statutory requirements, FLK's cash funds of €386.0 million (nominal amount: €374.0 million) are mainly invested in Hungarian government bonds.

The derivative financial instruments entered into with DZ BANK (interest rate swaps) with a notional amount of €730 million (2019: €425 million) serve exclusively to manage Bausparkasse Schwäbisch Hall's general interest rate risk. Portfolio fair value hedge accounting (PFVHA) under IAS 39 (EU carve-out) was implemented in 2019 to account for these hedges. In PFVHA, *Bauspar* deposits (measured at amortised cost) are hedged against interest rate risk by means of dynamic asset-liability management. The fair value of the interest rate swaps was €30.9 million as at 31 December 2020 (2019: €– 1.9 million).

Deposits from banks exclusively relate to German credit institutions, including €6.0 billion (2019: €3.9 billion) relating to DZ BANK. They include *Bauspar* deposits of €1.6 billion (2019: €1.6 billion).

Deposits from customers primarily comprise *Bauspar* deposits of €64.7 billion (2019: €63.2 billion).

The further increase in *Bauspar* deposits to a record level of €66.2 billion (2019: €64.9 billion) resulted mainly from the high volume of new business in the recent years as well as muted demand for *Bauspar* funds.

The growth in the Schwäbisch Hall Group's equity was due to the positive financial performance and the increase in the reserve for debt instruments measured at fair value through other comprehensive income. Equity also includes the technical security reserve of €226 million (2019: €278 million).

REGULATORY RATIOS UNDER THE CRR

The Group's regulatory capital calculated under the Capital Requirements Regulation (CRR) totalled €4,966.5 million as at 31 December 2020 (2019: €4,554.5 million). Schwäbisch Hall does not have any Additional Tier 1 or Tier 2 instruments. 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 €1,256.5 million as at 31 December 2020 (2019: €1,162.2 million). This growth is mainly attributable to the increase in the lending business.

The Group's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio rose from 31.4% as at 31 December 2019 to 31.6% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

CRR regulatory ratios

in € million	31. Dec. 2020[1]	31. Dec. 2019
Capital		
Common Equity Tier 1 capital	4,966.5	4,554.5
Additional Tier 1 capital	–	–
Tier 1 capital	4,966.5	4,554.5
Tier 2 capital	–	–
Total capital	**4,966.5**	**4,554.5**
Capital requirements		
Credit risk (including equity investments)	1,153.5	1,054.1
Market risk	–	–
Operational risk	103.0	108.1
Total	1,256.5	1,162.2
Capital ratios		
Total capital ratio (minimum value: 4.5%)	31.6%	31.4%
Tier 1 capital ratio (minimum value: 6.0%)	31.6%	31.4%
Common Equity Tier 1 capital ratio (minimum value: 8.0%)	31.6%	31.4%

[1] Provisional figures

Target/actual comparison of the previous year's forecast

Overall, changes in the key business and earnings indicators were in line with the expectations described in the Report on expected developments in the 2019 Annual Report, despite the coronavirus pandemic. However, the decline in interest rates in 2020 due to COVID-19 negatively impacted net interest income in particular.

The goals and expectations for financial year 2020 described in the Report on expected developments in the Group's 2019 Annual Report are compared with the actual trends and any discrepancies are accounted for.

Expected developments (FR* 2019)	**Actual performance**	**Comparison**
Business development		
Bausparen Domestic segment: noticeable decline in new *Bauspar* business	New *Bauspar* business €24.1 billion (2019: €28.5 billion)	Forecast not reached. Sharp decline due mainly to the coronavirus pandemic
Bausparen Domestic segment: slight growth in housing financing business	New housing financing business €18.1 billion (2019: €16.7 billion)	Forecast exceeded
Bausparen Non-domestic segment: slight increase in new *Bauspar* business at FLK, stable new *Bauspar* business at PSS and SGB	New *Bauspar* business €8.1 billion (2019: €7.2 billion), clear increase at FLK, clear decline at PSS and sharp increase at SGB	Forecast exceeded overall
Bauspar and Loan Processing segment: sharp rise in revenues	Significant increase in revenues to €145 million (2019: €112 million)	In line with forecast
Financial performance		
Group: significant decline in net interest income and clearly higher administrative expenses result in a significant decrease in prof-it/loss before taxes, earnings may be additionally impacted by ECB interest rate adjustment	Significant decline in net interest income and clearly higher administrative expenses. Earnings additionally impacted by ECB's COVID-19-related liquidity measures	In line with forecast
Group: moderate increase in loss allowances in line with loan portfolio	Sharp rise in loss allowances because of COVID-19	Forecast not reached because of impact of coronavirus pandemic
***Bausparen* Domestic:** significant decrease in profit/loss before taxes due mainly to low interest rate environment	Significant decrease in net interest income and profit/loss before taxes (see also Group)	In line with forecast and impact on net interest income amplified by coronavirus pandemic
***Bausparen* Domestic:** the expected notice-able decline in the new *Bauspar* business and a slight increase in the volume of housing financing will lead to stable net fee and commission income	Net fee and commission income improved sharply because of the sharp decline in new *Bauspar* business and higher income from other fees	Forecast exceeded
***Bausparen* Non-domestic:** overall, the *Bausparkassen* outside Germany are expect-ing a positive performance, with profit/loss before taxes down slightly year-on-year	Profit before tax down slightly overall year-on-year	In line with forecast, although the declines at FLK and PSS due to COVID-19 were offset by SGB
***Bauspar* and Loan Processing:** slightly positive result	Slightly positive result	In line with forecast

* Financial report

Non-financial statement

Bausparkasse Schwäbisch Hall is included in the consolidated non-financial statement 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 statement is a component of DZ BANK's sustainability report and can be downloaded (in German) from the following website: www.berichte2020.dzbank.de.

Report on expected developments

CHANGES IN MACROECONOMIC CONDITIONS

The COVID-19 pandemic continued to keep the global economy in suspense at the turn of the year 2020/2021. Overall, however, the pandemic is likely to have a less negative impact on economic activity in the six-month winter period in 2020/2021 than in the spring of 2020, as there will probably be no large-scale plant closures in manufacturing industry this time. Nevertheless, the measures taken by governments to protect against the second wave are likely to affect global economic growth in 2021. This view is shared by both the Organisation for Economic Co-operation (OECD) and the International Monetary Fund (IMF), which trimmed back their growth expectations for the global economy at the end of the year by 0.3% to 4.2% (OECD) and by 0.2% to 5.2% (IMF). Whereas in Europe, the measures to mitigate the infection and thus the restrictions on mobility are set to remain in place until the end of the first quarter of 2021, tougher containment measures are expected to be implemented in the USA the course of the first quarter. The economic research institutes expect that the majority of the measures will be eased again by the summer. A growing number of COVID-19 vaccinations is also expected to contribute to this trend. Economic activity in Europe and the USA is therefore likely to record quite strong growth in the six-month summer period of 2021, though growth is expected to slow down again somewhat over the further course of the year. This trend will be accompanied by a continued very expansionary monetary policy. Both the ECB and the Fed have already announced that they will leave key interest rates at their current or a lower level beyond the forecast period.

After a hard winter, the economic research institutes are expecting the German economy to recover strongly starting in the spring, thanks to progress on vaccinations. Economic forecasts are predicting a GDP increase of between 3.1% and 4.9% for Germany in 2021. The assumptions are based on the predication that manufacturing industry, which went into the second lockdown in December with a strong tailwind, will again become a pillar of the economy in 2021. This is suggested in particular by the figures for the automotive industry, which was hardly affected by the significant rise in infection figures towards the end of the year and the resulting restrictions imposed by policymakers. Economists estimate that ensuring that the lockdown measures are neither tightened nor prolonged beyond the winter in 2021 will be a critical factor for further economic recovery. According to optimistic assessments, the vaccinations that commenced at the end of 2020 will lead to a turnaround and increase the probability that the world will return to normality in the second half of 2021. In this environment, GPD growth will still be weak at the beginning of the year, with an increase of 0.6% according to the German Economic Institute (IW). The reason for this is that private consumer spending in particular will continue to be muted, and will thus likely remain flat at a low level compared with the previous quarter. Unemployment will therefore probably rise further initially in the new year until it peaks in the course of the first half of the year. The economic recovery is expected to pick up speed in the second quarter in line with the easing of restrictions on public life. This will probably be reflected in strong growth in private consumption. Capital spending both business and private households is likely to continue its upward trend, largely unaffected by the shutdown. This probably see a return to the pre-crisis level of macroeconomic production of goods and services by the end of 2021. Assumptions about the course of the pandemic and the subsequent recovery represent a considerable risk to the forecast of economic development in Germany. There are downside risks to the forecast exist if the assumptions about the duration and impact of the Shutdown measures in force since December turn out to be overly optimistic. There is a risk that a renewed increase in infections and the resulting strains could overwhelm the healthcare system. This third wave or prolonged second wave could trigger a further stop-start situation in the economy. Production processes could again be disrupted by sick or absent employees. Shutdown measures in Germany and abroad could once again restrict consumption and investments, and supply and demand shocks could again accumulate into macroeconomic slumps, with considerable consequences for economic growth and Bausparkasse Schwäbisch Hall's business performance in 2021.

For Hungary, the leading Budapest economic research institute GKI Economic Research Co. is expecting GDP growth of 4.5% in 2021. This means that GKI's projection for 2021 is more pessimistic than the 6% forecast by the EU. At the same time, the GKI draws attention to the high level of uncertainty due to the coronavirus pandemic, assuming that growth will not begin until the second quarter. According to the EU and the OECD, however, GDP is not expected to return to its 2019 level until 2022 at the earliest.

For the labour market, the GKI expects employment to increase by an average of 1% in 2021, with unemployment at around 4.5%. Gross wages are expected to rise by around 5%, while real wages are only set to increase by 1–1.5%. The forint/euro exchange rate has been weakening systematically for years: although 1 euro cost an average of 275.4 forints in 2010, it was already around 350 forints in 2020, with further weakening forecast for 2021. The average annual euro exchange rate is expected to be around 365 forints in 2021. The moratorium on loan repayments stabilised the liquidity situation of Hungarian consumers and businesses in 2020 according to a survey by the Hungarian government, the moratorium helped 1.6 million families and 60,000 companies by allowing those affected to retain approximately HUF 2 trillion (approximately €5.5 billion) in liquidity. The extension of the moratorium until 30 June 2021 is expected to increase this amount by approximately HUF 450 billion (approximately €1.2 billion). The moratorium cost the banking sector almost HUF 50 billion (approximately €130 million) in 2020. It is therefore foreseeable that the impact of the pandemic will continue to weigh on the Hungarian banking sector in 2021.

A significant increase in GDP is also forecast for the Slovak economy in 2021. While the finance ministry is expecting an increase of 5.5%, the national bank is assuming growth of 5.6%. The widespread lockdown in the spring of 2020 and the resurgence of infections combined with new restrictions in the autumn mean that domestic demand is expected to remain subdued well into 2021. Extensive fiscal support measures are expected to cushion the impact. Unemployment is expected to rise from 6.9% in 2020 to 7.8% in 2021, due in part to the planned expiry of protective measures such as short-time working. Private consumption is expected to recover significantly in 2021, but will not return fully to its previous growth trajectory due to relatively weaker employment and wage growth. Both private and public-sector investment are forecast to record strong growth in 2021, even if support measures such as repayment holidays expire.

China's economy already demonstrated its impressive resilience and stability in 2020. GDP growth could reach the 8.1% mark in 2021. Leading Chinese economists are forecasting that

2021 will still be a year of recovery due to the low baseline in 2020. New industries driven by technological innovation, together with robust domestic demand and recovering exports, will give new impetus to the economy in the coming year.

CHANGES IN PRIVATE HOUSING CONSTRUCTION AND BUILDING REFURBISHMENT

Germany

A look at the existing order books reveals that private housing construction in Germany is in comparatively good health at the end of 2020. The cornerstones of high demand remain solid despite the coronavirus pandemic: the research institutes are expecting a weakening, but still positive, trend in employment for 2021. In addition, they expect real income growth and continued favourable financing conditions. On top of this, a backlog of more than half a million homes that have been approved but not yet been completed has built up in recent years. The pressure on the housing markets, especially in metropolitan areas and their surrounding regions, is therefore not expected to ease in 2021 despite the COVID-19 crisis. Furthermore, the economic crisis means there could be an increased influx of workers from Southern Europe to Germany again, which will keep demand for housing high. At around 300,000 new homes in 2021, the Central Association of German Construction Companies (ZDB) is expecting the completion volume to be on a level with the previous year.

However, the coronavirus pandemic might have a greater impact on private housing construction in 2021 than currently expected. The multitude of analogue processes at the municipal level at the building authorities, in the development of building legislation, the issuing of construction permits or in building inspections could be slowed down due to COVID-19. Renewed disruption of the supply chains in the six-month winter period 2020/2021 also appears to be possible. Supply-side obstacles should be ruled out, either – for example, a lack of employees on construction sites because of the pandemic, for example due to quarantine measures and travel restrictions.

Around 35% of Germany's total final energy is consumed in buildings, primarily for heating and hot water. The German federal government wants to achieve a climate-neutral housing stock by 2050. To reach this goal, buildings need to become more energy-efficient and renewable energies will have to account for a higher share of heat generation. Experts reckon this would require the current refurbishment rate of the building stock to double as a minimum. The investments that will have to be made in the building sector by 2050 are expected to range between €500 billion and €1,000 billion. Through its new "Federal Support for Efficient Buildings" (BEG) programme, a core element of the national climate protection programme 2030, the federal government will restructure its energy-related support for buildings starting in 2021. The plan is for the incentive effect of investments in energy efficiency and renewable energies to be noticeably strengthened. The specific use of renewable energies, and particularly sustainable building projects, will be rewarded with extra subsidies in future. The federal government is providing a further incentive for the energy-efficient refurbishment of residential buildings through the carbon tax on fossil fuels that will kick in from 2021. The new carbon pricing will make the consumption of fossil fuels, including for heating, more expensive. This will make climate-friendly technologies such as heat pumps, energy saving and the use of renewable energies more worthwhile.

Foreign markets

Private housing construction has been a driving force behind the economic upturn in Hungary in recent years. The Hungarian government responded to the COVID-19 crisis by another cut to the home purchase rate to 5% from 1 January 2021 and limited to two years. In addition, starting on 1 January 2021, young families with children can claim the entire subsidy of 10 million forints (approximately €27,500) for the CSOK housing construction subsidy for the construction of new multi-generation houses or attic co conversions of single-family houses. In addition, the loan repayment moratorium originally planned until 31 December 2020 was prolonged until 30 June 2021. It is difficult to predict whether these measures and tax breaks will be enough to offset the negative effects of the coronavirus crisis. Following the record year 2020, European research and consulting network EUROCONSTRUCT is forecasting a significant decline in completions to 22,000 homes in 2021. However, the national currency came under pressure at the end of the year, while fears of unemployment are growing. As an offsetting effect, inflation is driving people to buy homes as an investment. In particular in light of the COVID-19 crisis and its potential impact, EUROCONSTRUCT's forecast is therefore subject to a high level of uncertainty.

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

After the financial market crisis, the COVID-19 crisis is also Slovakia's second economic crisis in the past 15 years. In contrast to the first crisis, demand far outstripped supply on the real estate market at the end of 2020. There are therefore no expectations that price growth will come to a halt in 2021. Many property and project developers are building homes in 2021 that were already sold in the project preparation phase. Based on previous observations of market behaviour in Slovakia, however, the rate of price growth is expected to slow in 2021. EUROCONSTRUCT is forecasting 20,800 housing completions in 2021, around 1,300 more than in 2020. In particular in light of the COVID-19 crisis and its potential impact, however, EUROCONSTRUCT's forecast is subject to a high level of uncertainty.

The European Energy Performance of Buildings Directive (2010/31/EU) also requires the Slovakian government to improve the conditions for energy-efficient construction. Since December 2020, all new private buildings must meet the nearly zero-energy buildings standard. Large parts of the building stock still show their socialist construction heritage and thus have a low level of energy efficiency. Although a wave of modernisation begun in recent years, the pent-up demand for energy efficiency measures is still huge.

The uncertainty on the real estate markets accompanying the COVID-19 crisis has so far left China comparatively untouched. Demand for residential property in the major Chinese cities remains unchanged. There are many reasons for this phenomenon. The Chinese economic miracle benefited not just the elites, but also large parts of the population. There are also cultural reasons: people in China believe that owning “concrete gold” is the safest investment and hence a guarantee of future prosperity. Rapid urbanisation is a further factor. Since the beginning of the millennium, the prospering real estate market has not only been an expression of sustained economic growth, but has also itself become a critical economic factor. And there is another situation further driving the shortage of properties in central locations: most houses in China are designed to last for 30 to 50 years. Many buildings from the 1980s and 1990s are therefore now reaching the end of their life cycle, and refurbishing these buildings is booming industry. The government responded to this trend by introducing laws that make it more difficult for private individuals to buy second or third properties in the popular metropolises. Meanwhile, there are growing signs that a trend reversal in property prices in China could be imminent. Any sudden deflation in Chinese property prices could trigger a chain reaction that would likely lead to radical government intervention. If this happens, the housing market in China’s large cities would cool down significantly.

EXPECTED DEVELOPMENT OF THE BUSINESS AND FINANCIAL POSITION OF THE SCHWÄBISCH HALL GROUP

Development of the Group

The persistently low capital market interest rates continue to shape expectations of the Schwäbisch Hall Group’s business development (in line with MaRisk) in financial year 2021. However, the coronavirus pandemic is also likely to affect new business until the summer months. The increase in the house-building premium in Germany is projected to have a positive effect. The volume of new business in the *Bausparen* core business area is therefore expected to remain at the previous year’s level. Following the record year in the Housing Financing core business segment, a consolidation in 2021 is projected here. The volume of new business is therefore likely to remain slightly below the previous year’s level.

A number of factors will continue to impact financial performance in 2021: the continued extremely low interest rates; higher costs due to the sustained increase in regulatory requirements; significant scheduled investments recognised as expenses in the *Bausparen* and especially the Housing Financing strategic core business segments, with the modernisation of IT platforms at Bausparkasse Schwäbisch Hall in particular. This is offset by initial positive effects from the SOKS cost management programme and the foreseeable non-recurrence of a non-recurring factor that substantially depressed Bausparkasse Schwäbisch Hall’s net interest income in 2020. The moratorium in Hungary, which is expected to expire in the first half of 2021, should also have a positive effect on FLK’s earnings.

Profit/loss before taxes is therefore expected to decline slightly by comparison with financial year 2020.

Net interest income adjusted for the non-recurring effect from the recognition of mathematical *Bauspar* provisions (€115 million) in 2020 is expected to decline significantly year-on-year in 2021. This is attributable to the persistent low interest rate environment together with legacy tariffs with high interest rates. The expected further portfolio growth for non-collective loans and the newly introduced low-interest *Bauspar* tariffs will have a positive effect. An unexpected adjustment to the ECB's key interest rate and deposit interest rate or other liquidity measures could have an additional negative impact on net interest income in financial year 2021.

Loss allowances are expected to increase substantially compared with 2020, developing in line with the loan portfolio, which has risen significantly in recent years, and long-term standard risk costs. The expected moderate trend for loss allowances also reflects the ebbing of the coronavirus pandemic and the ensuing easing of the economic situation, together with growing employment in Germany.

A slight decrease in the housing financing business, accompanied by a slight rise in new *Bauspar* business, is expected to lead to stable net fee and commission income.

Administrative expenses are set to move sideways in 2021. While the strategic projects and measures implemented for the ongoing development of the *Bausparen* and especially the Housing Financing core business segments will require increased capital spending, implementation of the SOKS cost management programme at Bausparkasse Schwäbisch Hall will already lead to a slight decline 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. A slight decline is expected in 2021, mainly as a result of higher net interest income and stable administrative expenses.

Economic RORAC is likely to be slightly below the prior-year figure in financial year 2021 due to the earnings expectations

Liquidity position and net assets

For financial year 2021, Bausparkasse Schwäbisch Hall is again assuming that savings for *Bauspar* contracts will remain stable in its operational liquidity management. Funds provided by institutional investors and DZ BANK are additionally available. A high level of new *Bauspar* business is assumed for the structural refinancing of Bausparkasse Schwäbisch Hall. Additionally, further benchmark issues in the *Pfandbrief* (German covered bonds) segment are expected for 2021.

From today's perspective, Schwäbisch Hall will continue meeting the economic and regulatory capital adequacy requirements in financial year 2021.

SEGMENT DEVELOPMENT

Development of *Bausparen* Domestic

In Germany, the Bausparkasse will again operate in a challenging environment in 2021 that is expected to be shaped by low interest rates, high regulatory requirements and increasing digital transformation, which will be amplified by the effects of the COVID-19 pandemic. Based on this assumption, the Bausparkasse is anticipating a sales performance on a line with the previous year across both the core business segments. After the significant increase to the new record level, the housing financing business is likely to fall slightly short of the 2020 volume in 2021. In the new *Bauspar* business, the consolidation in 2021 will lead to new business that will only slightly exceed the 2020 figure.

Taking into account the non-recurring effect contained in 2020, Schwäbisch Hall is expecting interest expenses in 2021 to be on a level with the previous year.

A significant increase in net interest income is forecast for 2021 compared with the previous year, taking into account the increased provisions recognised for interest bonus obligations in 2020 (€115 million). Apart from that, the probable further increase in the portfolio of non-collective loans and the newly introduced *Fuchs Bauspar* tariffs are expected to have a positive effect, although they will be unable to cushion the decrease attributable to the low interest rates, particularly in the area of financial investments.

Loss allowances are likely to increase still further slightly in the course of the year due to COVID-19, before the ebbing pandemic and a significant upturn in economic growth stabilise the employment situation and slow the further increase. At the end of the year, loss allowances are therefore likely to be significantly above the previous year's level.

A sales performance on a level with the previous year is expected to lead to stable net fee and commission income.

Administrative expenses are projected to decline noticeably. With continuing strong capital spending to reinforce the *Bausparen* and especially Housing Financing strategic core business segments, administrative expenses will decline because of the initial results from the SOKS cost management programme.

Even if all sales and cost targets are achieved, Schwäbisch Hall is therefore expecting a slight decline in profit before taxes in the *Bausparen* Domestic segment in 2021, due primarily to the low level of interest rates.

Development of *Bausparen* Non-domestic

Overall, we are expecting the non-domestic *Bausparkassen* outside Germany to perform positively in 2021. Once the COVID-19 pandemic has been overcome, and supported by low interest rates, demand for financing products is expected to remain at a high level. Thanks to attractive financing opportunities, we expect the *Bausparkassen* in the Eastern European EU member states to benefit particularly strongly from this trend. New business figures in the Housing Financing and *Bausparen* core business segments will be slightly above the prior-year level. Profit/loss before taxes is expected to be up significantly over the 2020 level.

FLK will continue its strategic realignment in 2021 by developing additional business segments and focusing on the Housing Financing core business segment, where it is expecting a slight increase in the volume of new business. FLK is expecting new *Bauspar* business to close the year down significantly on the previous year because of a “clearance sale” effect due to a tariff change at the end of 2020. Net interest income and net fee and commission income will be up on the previous year in particular because of the negative impact of the loan repayment moratorium in 2020. Administrative costs are projected to rise slightly because of inflation. Profit/loss before taxes is expected to be up significantly year-on-year. FLK is also benefiting from its buoyant business performance in recent years and the expansion of its housing financing portfolios.

In Slovakia, PSS is anticipating the volume of new business in 2021 to be up on the previous year. It will continue to focus clearly on the lending business with attractive financing opportunities. PSS is expecting its net interest income to increase slightly due to the adjustment of the interest rates on *Bauspar* contracts. Loss allowances are expected to decline significantly as the pandemic peters out. While net fee and commission income is predicted to match the previous year's level, higher administrative expenses will only partially offset the improvement in net interest income. The discontinuation of the banking levy will have a significantly positive effect on other net operating income. Profit/loss before taxes will therefore probably be considerably higher than the 2020 level.

At SGB, the focus of financial year 2021 will be on the continued profitable and sustainable expansion of its business model towards private housing financing. It is predicting sustained stable growth in new business for financial year 2021. The increase in *Bauspar* deposits and the *Bauspar* loan portfolio (including suspended repayment and bridging loans) and further improvements in the funding structure will be core issues, as in the previous year. In 2021, SGB is expecting a continuation of the positive financial performance in 2020. As a result, profit/loss before taxes is expected to be up on the 2020 result.

***Bauspar* and Loan Processing development**

SHK is working continuously with Bausparkasse Schwäbisch Hall on the strategic evolution of the Schwäbisch Hall Group. IT modernisation will lay the foundations for the digital transformation of the value chain. The third stage of the new SAP-based core banking system is expected to go live in March 2021, and work for the next stages is continuing in parallel. At the same time, the advisory systems are being reorganised in terms of both content and technology. Processing volumes are therefore expected to be stable in Processing in 2021. Together with the first results from SOKS, these are expected to result in a significant year-on-year decline in revenue and a slight loss before taxes.

DISCLOSURES ON SCHWÄBISCH HALL'S GERMAN GAAP SINGLE ENTITY ANNUAL FINANCIAL STATEMENTS

FINANCIAL PERFORMANCE

Earnings position

Income statement

			Change	
in € million	**2020**	**2019**	**absolute**	**in %**
Net interest income	689	566	123	21.7
Net fee and commission income	– 264	– 265	1	0.4
Administrative expenses	– 467	– 394 [1]	– 73	– 18.5
Partial operating result	**– 42**	**– 93**	**51**	**54.8**
Other net operating income	–	26 [1]	– 26	– 100.0
Loss allowances	4	274	– 270	– 98.5
Operating profit after loss allowances	**– 38**	**207**	**– 245**	**< – 100**
Reversal of technical security reserve	52	–	52	–
Allocation to fund for general banking risks	–	– 170	170	100.0
Income taxes	– 6	– 21	15	71.4
Profit transfer	– 8	– 16	8	50.0
Net profit for the financial year	**–**	**–**	**–**	**–**

[1] The reclassification from other income to administrative expenses from allocations of €4 million was reversed in 2019.

Operating profit after loss allowances fell sharply year-on-year, driven by a significant increase in net interest income and a substantial rise in administrative expenses. The decrease in loss allowances is a result of the income from the disposal of the interest in ČMSS contained in the prior-year amount.

Bausparkasse Schwäbisch Hall's interest income, including current income from specialised funds and equity investments, declined by €67 million in 2020. Despite the continuing low interest rates, interest income from bridging loans, suspended repayment loans and other building loans experienced a volume-driven increase in income (€+ 16 million) due to the significant business expansion in recent years. This more than offset the decline in earnings from *Bauspar* loans (€– 2 million). Interest income from the investment of available funds in registered bonds and bearer bonds, including specialised funds, fell sharply (€– 81 million), while income from investees declined by €0.2 million.

Bausparkasse Schwäbisch Hall's interest expenses decreased by €190 million to €864 million and are attributable predominantly to *Bauspar* deposits. Despite the increase in volumes, the introduction of *Bauspar* tariffs with lower interest rates and the implementation of portfolio measures ensured a year-on-year reduction in current interest expense.

The decrease in interest expenses resulted from additions to *Bauspar*-specific provisions. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to pay interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Additions to these provisions amounted to €322 million in the reporting period (2019: €478 million) (provisions as at 31 December 2020/31 December 2019: €1,419 million/€1,377 million). As well as regular allocations of €207 million (2019: €198 million), there were special allocations of €115 million (2019: €280 million), €53 million (2019: €57 million) of which was attributable to portfolio measures implemented in the previous year. Interest expense on *Bauspar* deposits resulted in a further tariff-related decrease of €21 million.

The negative fee and commission balance narrowed from €–265 million to €–264 million. The lower new *Bauspar* business and the record new business in the Housing Financing core business segment led to slightly lower net fee and commission income from brokering housing financing (€–9 million). The increase in net income from other commissions (€+10 million) is attributable to fees and brokerage for cross-selling.

At €467 million, administrative expenses were €73 million lower than the previous year's level.

€102 million (2019: €73 million) of the administrative expenses is attributable to personnel expenses. Although expenses for wages and salaries rose by €11 million because of the increase in collectively agreed wages and a slight increase in headcount in the Housing Financing business segment, expenses for pensions and other post-employment benefits climbed substantially by €18 million. €9 million of this increase was attributable to the fair value measurement of plan assets invested in specialised funds under a CTA, and €9 million to additions to pension provisions.

The rise in other administrative expenses is due mainly to cost allocations with SHK (€–32 million). Schwäbisch Hall benefited here in the previous year from the lower personnel expenses at SHK due to the positive change in the fair value of plan assets and lower additions to pension provisions.

Depreciation and amortisation of fixed assets increased by €7 million.

Loss allowances changed as follows:

Net measurement gains from lending business fell by €18 million to €–20 million. The increase in the expense is due largely to COVID-19. It also includes the validation of credit risk parameters (€–3 million).

Net measurement gains on the securities portfolio amounted to €24 million in the reporting period, compared with €42 million in the previous year. These gains are attributable to the disposal of bearer bonds and registered bonds.

Net measurement gains of €233 million on equity investments in 2019 related to the disposal of the interest in ČMSS.

€52 million was withdrawn from the technical security reserve (TSR) in the reporting period. As at 31 December 2020, €226 million (2019: €278 million) was appropriated to the TSR, which therefore amounts to 0.35% (2019: 0.44%) of *Bauspar* deposits. €0 million was appropriated to the fund for general banking risks in 2020 (2019: €170 million).

The profit to be transferred to DZ BANK on the basis of a profit and loss transfer agreement amounts to €8 million (2019: €16 million). The cost/income ratio was 109.9% (2019: 120.5%).

Net assets

Bausparkasse Schwäbisch Hall's total assets as at 31 December 2020 increased by €3.6 billion to €78.2 billion, reaching a new high.

The business volume amounted to €84.3 billion (2019: €79.3 billion). This figure includes both the total assets and the other commitments of the Bausparkasse amounting to €6.1 billion.

The Bausparkasse was able to significantly expand its lending volume in 2020. Building loans rose by €5.3 billion to a new record high of €53.8 billion at year-end 2020. While demand for *Bauspar* loans remained muted due to the interest rate environment, the volume of non-collective housing financing increased significantly.

Financial investments, most of which were invested in German issuers, decreased significantly. They include investments of cash funds from the *Bauspar* business in the form of registered bonds (€8.8 billion; 2019: €11.1 billion) and promissory note loans (€3.2 billion; 2019: €3.5 billion). Securities are listed bearer bonds (€8.2 billion; 2019: €8.0 billion) and shares in UIN Fund No. 817 (€3.0 billion; 2019: €2.75 billion).

Net assets

			Change	
in € million	**2020**	**2019**	**absolute**	**in %**
Building loans	53,785	48,518	5,267	10.9
of which: *Bauspar* loans	2,403	2,370	33	1.4
Suspended repayment and bridging loans	45,206	42,832	2,374	5.5
Other	6,176	3,316	2,860	86.2
Financial investments	23,888	25,580	– 1,692	– 6.6
Loans and advances	12,691	14,866	– 2,175	– 14.6
Securities	11,197	10,714	483	4.5
Fixed assets	390	366	24	6.6
Other assets	88	77	11	14.3
Bauspar deposits	65,038	63,674	1,364	2.1
Other liabilities	7,301	5,052	2,249	44.5
of which: borrowings	6,861	4,628	2,233	48.2
Provisions	1,621	1,572	49	3.1
Technical security reserve	226	278	– 52	– 18.7
Fund for general banking risks	2,153	2,153	–	–
Equity	1,812	1,812	–	–
Total net assets	**78,151**	**74,541**	**3,610**	**4.8**

The increase in *Bauspar* deposits to the record high of 65.0 billion was driven primarily by the high level of new business in recent years as well as the muted demand for *Bauspar* loans due to the interest rate environment.

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

The derivative financial instruments entered into with DZ BANK (interest rate swaps) in a notional amount of €730 million (2019: €425 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 €30.9 million as at 31 December 2020 (2019: €– 1.9 million).

Financial position

The liquidity position is satisfactory, with only insignificant changes compared with the previous year. The Bausparkasse has had to comply with a 100% liquidity coverage ratio (LCR) since 2018. Under Article 412(5) of the Capital Requirements Regulation (CRR), the national provisions relating to liquidity therefore no longer apply. The CRR LCR was complied with at all times in financial year 2020. As at 31 December 2020, the LCR was 441.7% (2019: 249.4%).

Management of Bausparkasse Schwäbisch Hall's longer-term liquidity incorporates any of the Bausparkasse's liquidity-related business positions using liquidity gap analyses and then compares them with the existing liquidity reserves.

Liquidity risk is managed using established limits that ensure management action can be taken at an early stage. The liquidity reserves taken into account in the course of liquidity management primarily consist of highly liquid securities as well as the option of borrowing from the ECB, the amount of which is determined by the value of the securities portfolio eligible as collateral with the ECB.

In the option outlined in the "Addendum to the ECB Guide on options and discretions available in Union law", the ECB allows banks to voluntarily apply IFRSs as the accounting framework for reports to which national GAAP is to be applied. Bausparkasse Schwäbisch Hall exercises this option and has prepared its regulatory reports on the basis of IFRSs since 30 June 2017. Bausparkasse Schwäbisch Hall's regulatory capital calculated in compliance with the CRR amounted to a total of €4,844.6 million as at 31 December 2020 (2019: €4,282.8 million). Schwäbisch Hall does not have any Additional Tier 1 or Tier 2 instruments. 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 €1,152.3 million as at 31 December 2020 (2019: €1,058.9 million). This growth is mainly attributable to the increase in the lending business.

Bausparkasse Schwäbisch Hall's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio increased from 32.4% as at 31 December 2019 to 33.6% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

The CRR introduced the concept of a leverage ratio for credit institutions. 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 ratio of 3% will have to be complied with from 30 June 2021.

CRR regulatory ratios

in € million	IFRS 31 Dec 2020[1]	IFRS 31 Dec 2019
Capital		
Common Equity Tier 1 capital	4,844.6	4,282.8
Additional Tier 1 capital	–	–
Tier 1 capital	4,844.6	4,282.8
Tier 2 capital	–	–
Total capital	4,844.6	4,282.8
Capital requirements		
Credit risk (including equity investments)	1,065.2	967.6
Market risk	–	–
Operational risk	87.1	91.3
Total	1,152.3	1,058.9
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	33.6%	32.4%
Tier 1 capital ratio (minimum value: 6.0%)	33.6%	32.4%
Total capital ratio (minimum value: 8.0%)	33.6%	32.4%
Liquidity coverage ratio (LCR)	**441.7%**	**249.4%**
Leverage ratio	**6.0%**	**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 has defined targets for the proportion of women in leadership positions.

Equal participation of women and men in leadership positions, ACTUAL as at 31 December 2020

	in %
Supervisory Board	35.0
Management Board	0.0
Management level 1	9.5
Management level 2	16 .0

A target of 30% was defined for the Supervisory Board (currently 35%), while a target of 0% was defined for the Management Board, corresponding to the current composition. The targets are to be achieved by 31 December 2022.

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

These targets were not met at either of those levels in the reporting period, with a 9.5% proportion of women at management level M1 and 16% for management level M2.

Share of women in leadership positions

Management level	Target 31 Dec 2023
M1	15.0
M2	20.0

Opportunity and risk report

FUNDAMENTALS

Preliminary remarks

The risk report meets the requirements of the German Commercial Code (HGB) and German Accounting Standard No. 20 (GAS 20, Group Management Report).

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

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

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

Risk strategy

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

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

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

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

Risk culture

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

The key features of the risk culture are set out in a framework document that is accessible to all

Schwäbisch Hall Group (in line with MaRisk) employees.

OPPORTUNITIES

The report on expected developments presents the expected performance of the business segments and the financial position for the 2021 financial year. These factors represent key indicators for determining strategic positioning and the resulting potential for increasing earnings and reducing costs.

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

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

Bausparkasse Schwäbisch Hall opened up a new sales channel and established a digital broker marketplace in 2018 with the foundation of BAUFINEX GmbH. It foresees opportunities for the brokerage of products via BAUFINEX and other marketplaces, in particular.

In addition, Bausparkasse Schwäbisch Hall expects business opportunities to further increase by using *Pfandbrief* (German covered bonds) for refinancing. Its first *Pfandbrief* was successfully issued in 2019. Greater use of this refinancing option has been made starting in 2020.

Despite the challenges faced by the entire housing financing sector in the 2021 financial year, in particular, the Management Board expects the available opportunities to outweigh the stated risks for Bausparkasse Schwäbisch Hall.

RISK MANAGEMENT SYSTEM

Risk management principles

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

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

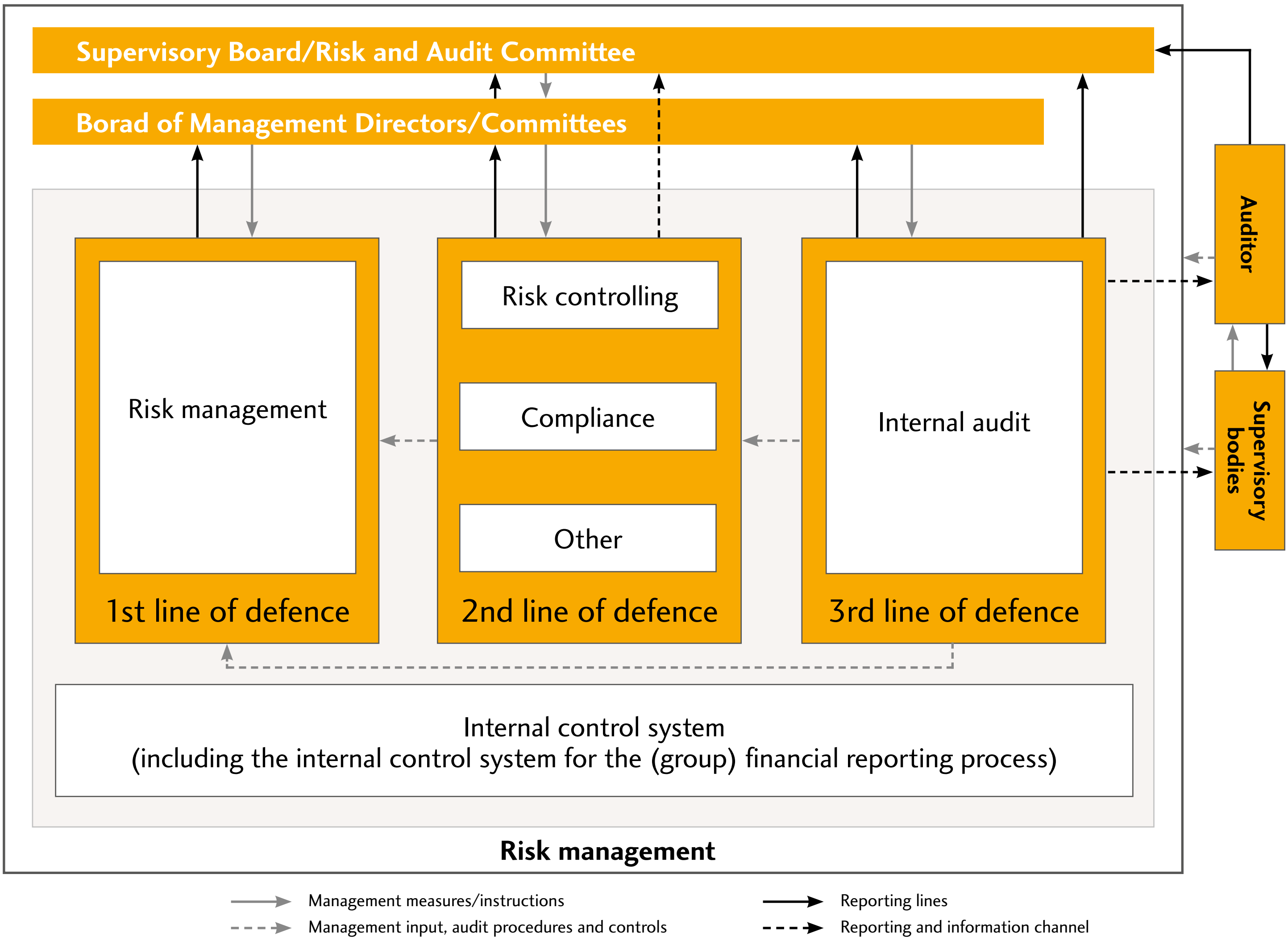
As a part of the DZ BANK Group, Bausparkasse Schwäbisch Hall is integrated into the Group management of the DZ BANK Group and is accordingly subject to its risk policy requirements. The strategic and operational planning process as well as the Group-wide risk management and control processes of DZ BANK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

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

Governance

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

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



1st line of defence:

Operational assumption of risks and their management

2nd line of defence:

Establishment and continued development of a risk management framework; monitoring of compliance with framework by the 1st line of defence and relevant reporting to the Supervisory Board and Management Board.

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 and the Supervisory Board.

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.

Risk management

"Risk management" refers to the operational implementation of risk strategies in individual risk areas. The committees responsible for risk management and risk controlling prepare decisions regarding the conscious assumption or avoidance of risks. During this process, they take into account the general conditions and risk limits set by the Management Board.

The Asset Liability Committee (ALCO) is responsible for asset-liability management. ALCO manages market risk, liquidity risk, equity investment risk and the *Bauspar* technical risk at the overall bank level and prepares for or takes relevant decisions.

The Credit Committee (KreCo) has lead responsibility for credit risk management, i.e. it manages credit risk and prepares relevant recommendations for the Management Board. Furthermore, KreCo is responsible for handling operational risks in the Schwäbisch Hall Group (in line with MaRisk). With regard to risk measurement, reputational risk is covered by the *Bauspar* technical risk and operational risk. Responsibility for questions arising in this regard falls to the relevant risk committee in each case, namely ALCO and/or KreCo.

Risk Controlling is responsible for coordinating both committees.

Risk Controlling

Risk Controlling supports management with regard to all risk policy issues, particularly the development and implementation of the risk strategy and the design of a risk mitigation system. In addition to performing the risk inventory and generating the overall risk profile, Risk Controlling helps the management set up and further develop risk management and control processes. Risk Controlling is also responsible for establishing and developing a system of risk indicators and an early warning system for risks. Further duties include ongoing monitoring of the institution's risk situation and risk-bearing capacity, and monitoring compliance with the established risk limits. Furthermore, Risk Controlling compiles regular risk reports for the Management Board. It is also responsible for the processes ensuring that any information significant from a risk perspective is immediately forwarded to the Management Board, the persons responsible and, if applicable, to Internal Audit.

Schwäbisch Hall Group's Risk Controlling division (in line with MaRisk) is responsible for controlling risk within the Group. This division is organisationally and functionally separate from the other corporate management divisions.

The risk controlling function is responsible for the independent monitoring and communication of risks. The Risk Controlling division is responsible for this function. The management of the risk controlling function is involved in all risk policy decisions of the Schwäbisch Hall Group (in line with MaRisk). This is achieved, for example, through early involvement in the process for preparing decisions by the Management Board.

Compliance

The duties of the compliance function are performed by the Legal and Compliance division. The compliance management system comprises policies and measures introduced with the aim of ensuring the compliant conduct of company employees. The compliance function counteracts risks that could arise from non-compliance with legal regulations and requirements. The compliance management system serves to recognise and monitor compliance risks, prevent compliance breaches and, in cases where they nonetheless occur, identify and address any such breaches and take disciplinary measures if appropriate.

Additional functions: data protection, information security and outsourcing management

The Schwäbisch Hall Group (in line with MaRisk) takes precautions to ensure compliance with data protection requirements in respect of its customers, business partners and employees. In particular, there are data protection officers for all Schwäbisch Hall Group (in line with MaRisk) companies, standard data protection guidelines have been issued within the DZ BANK Group, and a Data Protection Policy, including associated directives, has been published in the written Rules of Procedure. Furthermore, employees are regularly made familiar with the currently applicable data protection provisions. The data protection officers report to the Management Board and the Managing Directors of the Group companies.

The Schwäbisch Hall Group (in line with MaRisk) has implemented an information security management system that is intended to ensure the confidentiality, integrity, availability and authenticity of information assets and information media (IT applications, IT systems and infrastructure components). The implemented governance model defines the methods, processes, roles, responsibilities, competencies and reporting lines that are required to put into practice the strategic goals and duties. At the same time, it forms the framework for the standard quantitative and qualitative measurement and management of information security risk as part of operational risk.

At Bausparkasse Schwäbisch Hall, Central Outsourcing Management (COM) acts as a central point of contact for all management questions relating to services purchased from third parties. These comprise outsourced services and 'control-related services purchased from third parties' (other purchased third-party IT services and other purchased non-IT services). In the three lines of defence model, COM, as a 2nd line of defence function, is responsible for developing, introducing and monitoring framework requirements as well as the appropriate implementation of statutory requirements governing third-party services purchased by Bausparkasse Schwäbisch Hall. It also ensures periodic reporting to management relating to all material outsourced services.

Internal audit

As a process-independent unit, Internal Audit systematically and regularly reviews the functionality and effectiveness of the risk management systems. Particular attention is paid to reviewing risk measurement processes and risk reporting. In addition, Internal Audit reviews compliance with statutory and regulatory requirements. The results are reported directly to the Management Board. Internal Audit is therefore another independent component of the internal control system of the Schwäbisch Hall Group (in line with MaRisk).

INTERNAL CONTROL SYSTEM OF THE (CONSOLIDATED) FINANCIAL REPORTING PROCESS

Objective and responsibilities

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

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

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

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

Instructions and rules

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

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

Resources and methods

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

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

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

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

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

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

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

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

Information technology

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

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

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

Ensuring and improving effectiveness

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

RISK FACTORS

Overarching risk factors

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

Low-interest rate environment

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

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

Economic impact of the COVID-19 pandemic

The COVID-19 pandemic and the containment measures imposed to combat it plunged the global economy into a deep recession since the spring of 2020. There is still a high level of uncertainty about economic developments and the related employment situation. Short-time working is continuing to rise in the course of the second lockdown. Short-time working represents latent unemployment, resulting in a danger of increased credit risk in the lending business.

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

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

Regulatory environment

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

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

Significant risks and associated risk factors

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

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

Risks for Bausparkasse Schwäbisch Hall and associated risk factors

Credit risk

Credit risk denotes the risk of losses from the default or deterioration in creditworthiness of counterparties (borrowers, issuers, counterparties, including specialised funds).

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

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

Market risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

Bauspar technical risk

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

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

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

Equity investment risk

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

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

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

Operational risk

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

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

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

Reputational risk

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

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

Risk and earnings concentrations

The business model of the Schwäbisch Hall Group (in line with MaRisk) is mainly focused on *Bauspar* products, including advance financing and bridge financing, and building loans. This gives rise to a fundamental risk concentration, which has been consciously entered into.

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

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

RISK MANAGEMENT WITHIN OVERALL BANK MANAGEMENT

Risk monitoring and risk management systems

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

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

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

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

The following risks were identified as significant for 2020:

- Credit risk
- Market risk
- Operational risk
- Equity investment risk
- *Bauspar* technical risk
- Liquidity risk
- Reputational 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.

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

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

Risk-bearing capacity

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

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

Economic perspective

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

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

In 2020, the risk capital requirement under the economic perspective was well within the limit based on internal capital. Economic capital adequacy amounted to 183% as at the 31 December 2020 reporting date. In the course of the financial year, it was above the internal minimum target of 120% at all times.

Normative internal perspective

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

This perspective takes into account the total capital ratio and the leverage ratio. The total capital ratio is determined by dividing the regulatory capital by the regulatory risk-weighted assets of the Schwäbisch Hall Group. The leverage ratio is the ratio of Tier 1 capital to the total risk exposure. As at 31 December 2020, the total capital ratio was 15% and the leverage ratio was 3.5%. It is planned that the total capital ratio and leverage ratio regulatory indicators, as well as details of capital resources, capital requirements and the risk exposure values in the leverage ratio will be disclosed as at 31 December 2020 in the Disclosure Report 2020 – Partial Disclosure Report of Schwäbisch Hall Group (in line with MaRisk) 2020 in the sections Equity, Capital Adequacy and Leverage Ratio.

Stress tests

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

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

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

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

Risk reporting and documentation

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

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

CREDIT RISK

Definition and causes

Credit risk denotes the risk of losses from the default or deterioration in creditworthiness of counterparties (borrowers, issuers, counterparties, including specialised funds). The credit risk of the Schwäbisch Hall Group (in line with MaRisk) is at a comparatively 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 *Bau-*

sparkassen Regulation, according to which the proportion of loans that serve to finance construction projects that are commercial in nature may only make up a maximum of 3% of the overall loan portfolio. The German *Bausparkassen* Act imposes restrictive requirements in the area of own investments in order to safeguard customer deposits. In general, with regard to new investments only credit ratings of A– or above according to the rating classifications of Standard & Poor's are permitted. A minimum rating of AA– is required for securities issued by regional/local public authorities, public bodies, state banks, development banks, supranational institutions (multilateral development banks and international organisations), agencies, as well as covered bonds and government bonds. In addition, Bausparkasse Schwäbisch Hall can also make own investments in *Pfandbriefe* with an issue rating of at least AA–, regardless of the issuer rating. The majority of securities are invested in covered securities or in securities in the AAA to AA– rating classes. A portion of our own investments is invested in foreign bank bonds, government bonds and corporate bonds as well as a specialised fund. For these investments as well, the defined minimum rating of A– was observed, which in the case of the specialised fund relates to the fund level. In addition, there is a fund to cover pension obligations. For this purpose, Bausparkasse Schwäbisch Hall is using the options within the framework of section 4(3a) of the German *Bausparkassen* Act.

Reporting

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

Internal rating systems

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

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

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

Economic credit portfolio management

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

Reconciliation of lending volume with consolidated financial statements

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

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

Credit risk mitigation

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

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

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

Collateral

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

Of the traditional lending business in the amount of €52,267.7 million (2019: €47,401.8 million), €49,283.0 million (2019: €44,330.6 million) is secured by real property and €253.0 million (2019: €301.6 million) by other securities.

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		Scope of consolidation				
in € million	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	
Traditional lending business	52,267.7	47,401.8	8,374.7	7,516.0	1,350.6	1,416.5	–	0.1	Loans and advances to banks
							55,851.4	50,526.7	Loans and advances to customers
							6,141.6	5,807.5	Loan commitments
Own investments	23,879.2	25,737.5	483.7	294.2	605.8	478.3	3,192.5	3,505.0	Loans and advances to customers
							8,936.9	11,209.3	Loans and advances to banks
							30.9	2.6	Positive fair values of hedging instruments
							12,808.4	11,793.1	Bonds and other fixed-income securities
Total	**76,146.9**	**73,139.3**	**8,858.4**	**7,810.2**	**1,956.4**	**1,894.8**	**86,961.7**	**82,844.3**	**Total**

Collateralised lending volume by collateral type

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Guarantees/warranties/risk sub-participations	166.7	164.4	6,765.6	8,488.9	–	–	6,932.3	8,653.3
Land charges/mortgages/registered liens	49,283.0	44,330.6	–	–	–	–	49,283.0	44,330.6
Chattel mortgages/assignments/ pledging of receivables	–	–	–	–	–	–	–	–
Financial collateral	–	–	–	–	–	–	–	–
Other collateral	86.3	137.2	–	–	–	–	86.3	137.2
Total	**49,536.0**	**44,632.2**	**6,765.6**	**8,488.9**	**–**	**–**	**56,301.6**	**53,121.1**

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 2020 reporting date, 66% of securities were covered or invested in the credit rating classes 0a and 0b.

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 €521 million (2019: €414 million) as at the end of the financial year. The limit from an economic perspective was €560 million (2019: €720 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. In the case of loans, open commitments and banking book securities, the gross lending volume is based on nominal values, while in the case of derivative transactions it is based on credit equivalent amounts.

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 finance sector was down by around 29% on the 2019 figure at €13.0 billion. The lending volume in corporates declined by 8% to €214 million. The lending volume in the core retail business grew by a significant 10% to €51,904.3 million due to the expansion of the immediate financing business.

The "Lending volume by country group" figure presents the geographic distribution of the credit portfolio broken down by the country risk groups. As at 31 December 2020, the loans in the customer lending business and securities investments were concentrated in Germany, with a share of 96% (2019: 97%) 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 97% at year end (2019: 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 1.0% of the customer lending business as at 31 December 2020 and were therefore slightly below the level of the previous year.

Lending volume by sector

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Financial sector	15.0	0.1	12,595.9	18,203.1	388.8	80.6	12,999.7	18,283.8
Public sector (administration/state)	68.2	37.9	10,680.5	7,254.8	–	–	10,748.7	7,292.7
Corporates	32.3	–	214.0	199.0	–	–	246.3	199.0
Retail	51,904.3	47,120.0	–	–	–	–	51,904.3	47,120.0
Commercial	243.6	232.7	–	–	–	–	243.6	232.7
Retail customers	51,660.7	46,887.3	–	–	–	–	51,660.7	46,887.3
Miscellaneous	247.9	243.8	–	–	–	–	247.9	243.8
Total	**52,267.7**	**47,401.8**	**23,490.4**	**25,656.9**	**388.8**	**80.6**	**76,146.9**	**73,139.3**

Lending volume by country group

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Germany	51,936.0	47,128.1	21,087.1	23,461.2	345.7	42.5	73,368.8	70,631.8
Industrialised countries	318.0	258.7	2,403.3	2,195.7	43.1	38.1	2,764.4	2,492.5
Advanced economies	3.9	4.1	–	–	–	–	3.9	4.1
Emerging markets	9.8	10.9	–	–	–	–	9.8	10.9
Total	**52,267.7**	**47,401.8**	**23,490.4**	**25,656.9**	**388.8**	**80.6**	**76,146.9**	**73,139.3**

Lending volume by residual maturity

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
≤ 1 year	123.6	416.5	1,980.8	2,507.4	300.0	–	2,404.4	2,923.9
> 1 year to ≤ 5 years	1,451.5	1,478.2	6,368.3	7,420.7	40.4	40.3	7,860.2	8,939.2
> 5 years	50,692.6	45,507.1	15,141.3	15,728.8	48.4	40.3	65,882.3	61,276.2
Total	**52,267.7**	**47,401.8**	**23,490.4**	**25,656.9**	**388.8**	**80.6**	**76,146.9**	**73,139.3**

Lending volume by credit rating (BVR II)

in € million	Lending volume by credit rating (BVR II)		Securities business		Derivative and money market business		Total	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
0a	–	–	10,433.1	11,290.4	–	–	10,433.1	11,290.4
0b	–	–	205.2	221.2	–	–	205.2	221.2
0c	83.1	38.0	7,424.6	8,893.0	310.3	2.2	7,818.0	8,933.2
0d	–	–	135.9	177.1	–	–	135.9	177.1
0e	–	–	342.9	160.7	–	–	342.9	160.7
1a	1.1	–	571.9	1,077.6	5.0	–	578.0	1,077.6
1b	0.1	–	3,972.3	3,094.8	–	–	3,972.4	3,094.8
1c	26.9	29.6	25.4	53.2	–	38.1	52.3	120.9
1d	280.7	289.9	74.1	316.6	38.1	–	392.9	606.5
1e	1,645.1	1,496.2	305.0	295.9	–	40.3	1,950.1	1,832.4
2a	10,307.2	9,374.9	–	76.4	–	–	10,307.2	9,451.3
2b	13,879.4	12,751.2	–	–	–	–	13,879.4	12,751.2
2c	12,912.6	11,531.0	–	–	–	–	12,912.6	11,531.0
2d	6,302.5	5,613.9	–	–	–	–	6,302.5	5,613.9
2e	2,619.2	2,352.8	–	–	35.4	–	2,654.6	2,352.8
3a	1,264.5	1,144.0	–	–	–	–	1,264.5	1,144.0
3b	624.8	535.6	–	–	–	–	624.8	535.6
3c	478.9	453.8	–	–	–	–	478.9	453.8
3d	253.5	235.1	–	–	–	–	253.5	235.1
3e	800.5	775.0	–	–	–	–	800.5	775.0
4a	325.6	301.4	–	–	–	–	325.6	301.4
4b	213.6	235.6	–	–	–	–	213.6	235.6
Miscellaneous	248.4	243.8	–	–	–	–	248.4	243.8
Total	**52,267.7**	**47,401.8**	**23,490.4**	**25,656.9**	**388.8**	**80.6**	**76,146.9**	**73,139.3**

Structure of credit portfolio with impeccable creditworthiness

Own investments were not overdue in 2020 and appropriate loss allowances were recognized in accordance with IFRS. As in the previous year, the lending volume from the traditional lending business with impeccable creditworthiness dominated with a 98% share (2019: 97%).

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 to take account of the currently available macroeconomic outlook in particular. Prompted by the COVID-19 pandemic, these modification factors were adjusted to reflect the economic and BSH-specific consequences of the pandemic.

- In 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.

This means that loss allowances will not be disclosed in the report on opportunities and risks. This also applies to the lending volume to be disclosed in relation to loss allowances pursuant to IFRS 9, with said lending volume to be based on carrying amounts.

This information is now only reported in the consolidated financial statements.

MARKET RISK

Definition and causes

Market risk at Bausparkasse Schwäbisch Hall is composed of the original market risk as well as spread and migration risk arising from the own investments of Bausparkasse Schwäbisch Hall AG. 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.

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

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

Market risk strategy

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

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

Management of market risks

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

On the basis of an internal model, a Value at Risk (VaR) is calculated that takes into account the interest-dependent cash flows from the collective. Operating VaR is quantified daily using a historical simulation with the following parameters:

- Six-year history
- Ten-day holding period
- Confidence level of 99%.

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

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

The Bausparkasse Schwäbisch Hall portfolio contains interest rate swaps amounting to €730 million in order to reduce interest rate risk in the overall interest book. There is high sensitivity to falling interest rates due to the existing long duration on the liabilities side of the balance sheet (*Bauspar* deposits). Entering into receiver swaps reduces the sensitivity to falling interest rates and only takes place for hedging purposes within the framework of risk management in the Schwäbisch Hall Group (in line with MaRisk).

Limiting

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

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

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

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

Reporting

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

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

Backtesting

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

Stress testing

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

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

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

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

Analysis of market risks

As at 31 December 2020, the capital requirements for original market risks of the Schwäbisch Hall Group (in line with MaRisk) amounted to €470 million (2019: €564 million) under the economic perspective (VaR, 99.9% confidence level, one-year holding period), with a limit of €967 million (2019: €1,017 million) Operating VaR (99% confidence level, ten-day holding period) amounted to €75 million (2019: €84 million) as at 31 December 2020. 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 (CVaR, 99.9% confidence level, one-year holding period) amounted to €799 million as at 31 December 2020 (2019: €968 million) with a limit of €1,200 million (2019: €1,125 million).

LIQUIDITY RISK

Definition and causes

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

Liquidity risk strategy and management of liquidity risk

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

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

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

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

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

Reporting

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

Backtesting

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

Stress testing

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

The minimum liquidity surplus in the respective stress scenarios fluctuated between €64 million and €1,622 million in 2020.

Analysis of liquidity risk

The liquidity risk limits were adhered to at all times in 2020. The LCR fluctuated between 257% and 708% and was therefore clearly above the 100% regulatory minimum value in force for 2020.

BAUSPAR TECHNICAL RISK

Definition and causes

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

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

Risk strategy for *Bauspar* technical risk

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

Management of *Bauspar* technical risk

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

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

Limiting

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

Analysis of *Bauspar* technical risk

The capital requirements for *Bauspar* technical risk as at 31 December 2020 amounted to €545 million (2019: €397 million), with a limit of €550 million. The risk capital requirement remained within the limit at all times during the financial year.

Reporting

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

Stress testing

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

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

EQUITY INVESTMENT RISK

Definition and causes

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

Equity investment risk strategy and management of equity investment risk

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

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

Limiting

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

Reporting

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

Stress testing

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

Analysis of equity investment risk

As at 31 December 2020, the economic capital requirement for equity investment risk amounted to €192 million (2019: €196 million). This includes a capital buffer requirement of €2.9 million for foreign currency risks and a capital buffer requirement of €8.6 million for real estate risk. The limit set as at 31 December 2020 was €250 million (2019: €250 million) under the economic perspective. The limit was not exceeded at any point during the year. The volume of the equity investments for which equity investment risk is measured amounted to €299 million (2019: €302 million) as at 31 December 2020.

OPERATIONAL RISK

Definition and causes

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

Operational risk strategy

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

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

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

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

Management of operational risk

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

Management of operational risks in the financial year increasingly focused on the main risk subtypes. The new focus is designed to deliver a more differentiated view of operational risk and contribute to improved 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 behavioural risk,
- legal risk,
- information risk, including I(C)T risk,
- security risk,
- outsourcing risk,
- project risk,
- other operational risk.

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

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

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

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

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

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

Risk subtypes

- **Compliance risk, including behavioural 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 (behavioural risk) is part of compliance risk.

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

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

- **Security risk**
  Security risk can arise because of inadequate protection for people, property, tangible assets or time-critical processes. Examples include epidemics or pandemics due to the

widespread spread of pathogens, restricted access to workplaces due to natural disasters or demonstrations, or the limited availability of operating resources due to a power supply interruption or failure. Climate change could lead to an increase in the frequency and severity of natural disasters.

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

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

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

Impact of subrisk types

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

Measures

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

Limiting

Operational risk is integrated into the overall bank limit system.

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

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

Reporting

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

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

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

Stress testing

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

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

Analysis of operational risk

On 31 December 2020, a capital requirement of €148 million (2019: €155 million) was calculated under the economic perspective to cover the operational risks of the Schwäbisch Hall Group (in line with MaRisk). At no time has the value exceeded the applicable limit. On 31 December 2020, the limit for operational risks amounted to €200 million (2019: €230 million).

REPUTATIONAL RISK

Definition and causes

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

Risk strategy for reputational risk

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

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

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

Management of reputational risk

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

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

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

Limiting

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

Reporting

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

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

Stress testing

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

ENHANCEMENT OF RISK MEASUREMENT METHODS AND THE RISK MONITORING SYSTEM

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

MEASUREMENT OF OVERALL RISK PROFILE

In 2020 the Schwäbisch Hall Group (in line with MaRisk) saw some movement as regards risk capital utilisation within its economic risk-bearing capacity. The risk capital requirement for each risk type only moved within the defined limits in the financial year under review.

The regulatory capital ratios of Bausparkasse Schwäbisch Hall are shown in the Report on economic conditions on page 6f.

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

Consolidated financial statements as at 31 December 2020

Income statement and Statement of comprehensive income

Income statement

in € thousand	(Notes)	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Net interest income	(29)	531,300	462,177 [1]
Interest income calculated using the effective interest method		1,496,572	1,584,918
Current income		1,318	997
Interest expense		– 971,204	– 1,137,002
Income from investments in joint ventures using the equity method		4,614	13,264 [1]
Net fee and commission income	(30)	– 9,025	– 27,568
Fee and commission income		103,417	93,768
Fee and commission expenses		– 112,442	– 121,336
Gains or losses on investments	(31)	55,681	150,644 [1]
Other gains or losses on valuation of financial instruments	(32)	5,277	17,569
Gains or losses on derecognition of financial assets measured at amortised cost	(33)	14,875	18,259
Loss allowances	(34)	– 28,943	– 3,652
Administrative expenses	(35)	– 525,959	– 486,436
Other net operating income	(36)	37,476	57,953
Profit/loss before taxes		**80,682**	**188,946**
Income taxes	(37)	– 21,817	– 23,276
Net profit		**58,865**	**165,670**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		52,971	154,584
Non-controlling interest shareholders		5,894	11,086

[1] Amount adjusted, see Note 2.

Statement of comprehensive income

in € thousand	(Notes)	1 Jan – 31 Dec 2020	1 Jan – 31 Dec 2019
Net profit		**58,866**	**165,670**
Other comprehensive income/loss		**317,864**	**396,564**
Items that may be reclassified to the income statement		**324,829**	**417,763**
Gains and losses on debt instruments at fair value through other comprehensive income		496,170	631,270
Gains (+)/losses (–) arising during the reporting period		551,851	695,323
Gains (+)/losses (–) reclassified to the income statement on disposal		– 55,681	– 64,053
Exchange differences on currency translation of foreign operations		– 14,488	– 4,059
Share of other comprehensive income/loss of equity-accounted joint ventures		– 1,750	– 12,111
Income taxes	(38)	– 155,103	– 197,337
Items that will not be reclassified to the income statement		**– 6,965**	**– 21,199**
Gains and losses on equity instruments for which the fair value OCI option has been exercised		152	1,010
Gains and losses arising from remeasurements of defined benefit plans		– 9,466	– 33,441
Share of other comprehensive income/loss of equity-accounted joint ventures		– 109	– 5
Income taxes	(38)	2,458	11,237
Total comprehensive income		**376,730**	**562,234**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		377,898	553,126
Non-controlling interest shareholders		– 1,168	9,108

Balance sheet

Assets

in € thousand	(Notes)	31 Dec 2020	31 Dec 2019
Cash and cash equivalents	(13, 40)	542,499	137,718
Loans and advances to banks	(14, 41)	8,936,933	11,209,373
Loans and advances to customers	(14, 42)	59,043,913	54,031,730
Positive fair values of hedging instruments	(15, 43)	30,869	2,603
Investments	(17, 44)	12,824,991	11,803,025
Investments accounted for using the equity method	(18, 44)	105,755	103,000
Intangible assets	(19, 45)	210,497	183,191
Property, plant and equipment and right-of-use assets	(20, 46 – 48)	123,077	131,093
Current income tax assets	(21, 49)	3,704	1,854
Deferred tax assets	(21, 49)	2,600	2,527
Other assets	(22, 50)	34,137	27,739
Loss allowances	(23, 51)	– 185,638	– 164,874
Total assets		**81,673,337**	**77,468,979**

Equity and liabilities

in € thousand	(Notes)	31 Dec 2020	31 Dec 2019
Deposits from banks	(24, 52)	7,775,640	6,141,799
Deposits from customers	(24, 53)	65,073,718	63,607,293
Fair value changes of hedged items in portfolio hedges of interest rate risk	(8)	23,038	– 3,623
Issued bonds	(25, 54)	513,208	–
Negative fair values of hedging instruments	(15, 55)	–	4,529
Provisions	(26, 56)	1,766,312	1,699,607[1]
Current income tax liabilities	(21, 49)	13,588	24,492
Deferred tax liabilities	(21, 49)	269,270	109,498
Other liabilities	(22, 57)	173,718	185,679[1]
Equity	(58)	6,064,845	5,699,705
Subscribed capital		310,000	310,000
Capital reserves		1,486,964	1,486,964
Retained earnings		3,390,264	3,258,762
Reserve from fair value OCI equity instruments		– 3,005	– 3,122
Reserve from fair value OCI debt instruments		777,306	436,239
Currency translation reserve		– 15,860	– 6,686
Non-controlling interests		74,205	78,964
Net profit		44,971	138,584
Total equity and liabilities		**81,673,337**	**77,468,979**

[1] Amount adjusted, see Note 2.

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
Equity as at 1 Jan 2019	**310,000**	**1,486,964**	**3,288,800**	**– 11,961**	**1,921**
Net profit	**–**	**–**	**154,584**	**–**	**–**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	433,933
Gains and losses on equity instruments for which the fair value OCI option has been exercised			– 7,836	8,846	
Exchange differences on currency translation of foreign operations	–	–	–	–	–
Remeasurements of defined benefit plans	–	–	– 22,204	–	
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	2	– 7	385
Total comprehensive income	**–**	**–**	**124,546**	**8,839**	**434,318**
Dividends paid	–	–	–	–	–
Profit transferred due to profit and loss transfer agreement	–	–	– 16,000	–	–
Equity as at 31 Dec 2019	**310,000**	**1,486,964**	**3,397,346**	**– 3,122**	**436,239**
Net profit	**–**	**–**	**52,971**	**–**	**–**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	341,067
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	152	–
Exchange differences on currency translation of foreign operations	–	–	–	–	–
Remeasurements of defined benefit plans	–	–	– 7,008	–	–
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	– 74	– 35	–
Total comprehensive income	**–**	**–**	**45,889**	**117**	**341,067**
Dividends paid	–	–	–	–	–
Profit transferred due to profit and loss transfer agreement	–	–	– 8,000	–	–
Equity as at 31 Dec 2020	**310,000**	**1,486,964**	**3,435,235**	**– 3,005**	**777,306**

The composition of equity is explained in Note 58.

Currency translation reserve	Shareholders' equity	Non-controlling interests	Total equity	in € thousand
7,891	**5,083,615**	**73,702**	**5,157,317**	**Equity as at 1 Jan 2019**
–	**154,584**	**11,086**	**165,670**	**Net profit**
–	433,933	–	433,933	Gains and losses on debt instruments at fair value through other comprehensive income
–	1,010	–	1,010	Gains and losses on equity instruments for which the fair value OCI option has been exercised
– 2,081	– 2,081	– 1,978	– 4,059	Exchange differences on currency translation of foreign operations
–	– 22,204	–	– 22,204	Remeasurements of defined benefit plans
– 12,496	– 12,116	–	– 12,116	Share of other comprehensive income/loss of equity-accounted joint ventures
– 14,577	**553,126**	**9,108**	**562,234**	**Total comprehensive income**
–	–	– 3,846	– 3,846	Dividends paid
–	– 16,000	–	– 16,000	Profit transferred due to profit and loss transfer agreement
– 6,686	**5,620,741**	**78,964**	**5,699,705**	**Equity as at 31 Dec 2019**
–	**52,971**	**5,894**	**58,865**	**Net profit**
–	341,067	–	341,067	Gains and losses on debt instruments at fair value through other comprehensive income
–	152	–	152	Gains and losses on equity instruments for which the fair value OCI option has been exercised
– 7,425	– 7,425	– 7,063	– 14,488	Exchange differences on currency translation of foreign operations
–	– 7,008	–	– 7,008	Remeasurements of defined benefit plans
– 1,750	– 1,859	–	– 1,859	Share of other comprehensive income/loss of equity-accounted joint ventures
– 9,175	**377,899**	**– 1,169**	**376,730**	**Total comprehensive income**
–	–	– 3,590	– 3,590	Dividends paid
–	– 8,000	–	– 8,000	Profit transferred due to profit and loss transfer agreement
– 15,860	**5,990,640**	**74,205**	**6,064,845**	**Equity as at 31 Dec 2020**

Cash flow statement

in € thousand	2020	2019
Net profit	**58,865**	**165,670**
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	31,741	6,738 [1]
Non-cash changes in provisions	370,649	400,947
Other non-cash income and expenses	197,158	128,485
Gains and losses on the disposal of assets and liabilities	– 15,321	– 133,092
Other adjustments (net)	– 536,880	– 467,756 [1]
Subtotal	**106,212**	**100,992**
Cash changes in assets and liabilities from operating activities		
Loans and advances to banks	2,246,423	1,235,198
Loans and advances to customers	– 5,068,068	– 6,099,306
Other assets from operating activities	– 34,672	– 17,825
Positive and negative fair values of derivative financial instruments	28,414	22,715
Deposits from banks	1,626,827	1,667,448
Deposits from customers	1,362,090	3,243,747
Issued bonds	513,441	–
Other liabilities from operating activities	– 307,932	– 155,085
Interest, dividends and income received from equity-accounted joint ventures	1,597,864	1,658,816 [1]
Interest paid	– 871,750	– 1,068,792
Income taxes paid	– 3,922	– 6,003
Cash flows from operating activities	**1,194,927**	**581,905** [1]
Proceeds from disposals of investments	1,573,057	2,602,451 [1]
Proceeds from disposals of property, plant and equipment	3,011	11,736
Proceeds from disposal of intangible assets	2,061	4,269
Payments to acquire investments	– 2,239,261	– 2,936,961
Payments to acquire property, plant and equipment	– 21,539	– 25,825
Payments to acquire intangible assets	– 64,058	– 68,223
Cash flows from investing activities	**– 746,729**	**– 412,553** [1]
Dividends paid to non-controlling interest shareholders	3,591	3,846
Profit transfer	– 16,000	– 16,000
Net change in cash and cash equivalents from other financing activities	– 31,008	– 56,243
Cash flows from financing activities	**– 43,417**	**– 68,397**

in € thousand	2020	2019
Cash and cash equivalents as at 1 Jan	**137,718**	**36,763**
Cash flows from operating activities	1,194,927	581,905 [1]
Cash flows from investing activities	– 746,729	– 412,553 [1]
Cash flows from financing activities	– 43,417	– 68,397
Cash and cash equivalents as at 31 Dec	**542,499**	**137,718**

[1] Amount adjusted, see Note 2.

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

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

Cash flow from financing activities contains payments by lessees to repay lease liabilities amounting to €2,807 thousand (previous year: €2,336 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 2020 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 2020 reporting date.

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

The consolidated financial statements of Bausparkasse Schwäbisch Hall have been released for publication by the Management Board following approval by the Supervisory Board on 3 March 2021.

02 ACCOUNTING POLICIES AND ESTIMATES

Changes in accounting policies

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

The consolidated financial statements as at 31 December 2020 were prepared in accordance with IFRSs effective as at 31 December 2020 and required to be applied in the EU to the IFRS consolidated financial statements as at 31 December 2020.

Amendments to IFRSs applied for the first time in financial year 2020

The consolidated financial statements of Bausparkasse Schwäbisch Hall for financial year 2020 apply the following amended financial reporting standards, amendments to IFRSs, interpretations issued by the IFRS Interpretations Committee and Improvements to IFRSs for the first time:

- Amendments to References to the Conceptual Framework in IFRSs,
- Amendments to IFRS 3 – *Definition of a Business*,
- Amendments to IAS 1 and IAS 8 – *Definition of Material*,
- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform – Phase 1*,
- Amendments to IFRS 16: Leases – *COVID-19-Related Rent Concessions*.

The changes contained in the Amendments to References to the Conceptual Framework in IFRS Standards were necessary as a result of the revision of the Conceptual Framework, because many standards and other IASB pronouncements contain quotations from or references to the Framework. In addition to these in part editorial amendments, the amendments also contain clarifications about which version of the Framework should be used in individual cases. This means that, depending on the accounting item concerned, the 2001, 2010, or 2018 version of the Framework must be applied. If necessary, it contains an initial application date for the amendments, which is defined consistently as annual periods beginning on or after 1 January 2020. Implementation of the amendments did not have any impact on the consolidated financial statements.

The amendments to IFRS 3 – *Definition of a Business* aim to make a sharper distinction between the acquisition of a business and the acquisition of a group of assets. To be considered a business, an acquisition must, under the new definition of the term "business", consist of inputs and a substantive process that together contribute to the ability to create outputs. The amended definition is applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. There was no impact on the consolidated financial statements.

The amendments to IAS 1 and IAS 8 – *Definition of Material* are designed to tighten the definition of materiality without fundamentally altering the application of the principle of materiality. In particular, the amendments introduce the new aspect of obscuring information, and put obscuring on an equal footing with omitting or misstating information. The amendments must be applied prospectively for financial years beginning on or after 1 January 2020. They did not impact the consolidated financial statements.

The amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform – Phase 1* provide temporary relief when accounting for hedging relationships in the run-up to the reform of key interest rate benchmarks such as EURIBOR, LIBOR or EONIA (IBOR reform). The scope of the relief covers hedging relationships that are directly affected by the reform of those interest rate benchmarks. A hedging relationship is only affected directly if the reform gives rise to uncertainties about the interest rate benchmark designated as a hedged risk or the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

If an entity assesses in accordance with IFRS 9 or IAS 39 whether the cash flows from a forecast transaction in a cash flow hedge are highly probable, it can assume for the purpose of applying the relief that the interest rate benchmark on which these cash flows are based is not affected by the reform. When assessing whether it is necessary to reclassify the amount accumulated in the cash flow hedge reserve to profit or loss, the entity must continue to assume that the hedged cash flows will occur after the hedging relationship has been discontinued. If an entity hedges a component of interest rate risk, an entity must ensure that the risk component is separately identifiable only at the time of initial designation as a hedged item. When assessing the economic relationship between the hedged item and the hedging instrument under IFRS 9, it must also be assumed that the interest rate benchmark on which the designated cash flows and/or the hedged risk of the hedged item are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not affected by the interest rate benchmark reform.

In the course of the assessment of the prospective effectiveness of a hedging relationship under IAS 39, an unchanged interest rate benchmark must be used. If ineffectiveness above or below the range of 80–125% is identified in the course of the retrospective measurement of a hedging relationship under IAS 39, this does not result in the discontinuation of the hedging relationship.

The amendment requires disclosures on the extent to which the interest rate benchmark reform affects existing hedging relationships. The reliefs must be applied until the uncertainty due to the change in the interest rate benchmark no longer exists or (if earlier) the hedging relationship is terminated. In addition, the relief relating to the reclassification of the cash flow hedge reserve is no longer applicable once the reserve has been reclassified in full to profit or loss. These requirements must be applied for the first time for annual periods beginning on or after 1 January 2020.

At Bausparkasse Schwäbisch Hall, the IBOR transition is being managed as part of a project. Only fair value hedges of interest rate risk are used. The IAS 39 requirements are applied to portfolio hedges. The hedging instruments are exclusively plain vanilla interest rate swaps with DZ BANK that reference the EURIBOR group. EURIBOR will remain as an interest rate benchmark in its current form. There was no impact on the consolidated financial statements.

The Amendments to IFRS 16 – *COVID-19-Related Rent Concessions* offer lessees a practical expedient that simplifies the accounting for concessions such as deferred rental payments or reduced rents granted in connection with the COVID-19 pandemic. Exercising this option means that rent concessions are accounted for as if they are not a lease modification. In particular, this means that the reporting entity no longer has to examine all of its leases, to make an assessment of any rent concession in light of the relevant contractual arrangements and, if necessary, to determine new discount rates. These amendments can be retrospectively applied in full to reporting periods beginning on or after 1 June 2020. Bausparkasse Schwäbisch Hall Group will not apply this practical expedient.

Changes in IFRSs endorsed by the EU but not yet adopted

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

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

The Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform – Phase 2* follow on from the 2019 amendments and apply if a reporting entity replaces an interest rate benchmark by an alternative benchmark due to the reform.

The amendments contain a practical expedient in the case of changes in contractual terms or changes in cash flows that are a direct consequence of the IBOR reform and the new basis is economically equivalent. Under these conditions, any modification attributable to the IBOR reform must be accounted for as a change in a floating rate in line with IFRS 9.B5.4.5 and not in modification gains or losses. Instead, accounting under IFRS 9.B5.4.5 allows subsequent measurement on the basis of the updated effective interest rate and hence recognition of the gain or loss of the economically equivalent adjustment over the remaining term. For all other modifications that were made at the same time and that are not a direct consequence of the IBOR reform, an analysis is necessary to determine the derecognition effects of the modifications. Substantial modifications result in derecognition. If a modification is not substantial, the updated effective interest rate is used to remeasure the carrying amount of the financial instrument.

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

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

Bausparkasse Schwäbisch Hall only accounts for fair value hedges of interest rate risk. The Schwäbisch Hall Group does not apply these amendments prior to the effective date. It should be presumed that the existing hedging relationships will be retained. No material effects are expected from the contractual transition of interest rate swaps from EONIA to €STR planned for 2021.

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

New and amended IFRS standards that have not been endorsed by the EU
The EU has not yet endorsed the following new financial reporting standard and the following amendments to several financial reporting standards:

- IFRS 17 – *Insurance Contracts*,
- Amendments to IFRS 17 – *Insurance Contracts*,
- Amendments to IAS 1 – *Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current*,
- Amendments to IFRS 3 – *Business Combinations*,
- Amendments to IAS 16 – *Property, Plant and Equipment*,
- Amendments to IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*,
- Annual Improvements to IFRSs 2018 – 2020 Cycle.

IFRS 17 – *Insurance Contracts* supersedes IFRS 4 – *Insurance Contracts* and aims to ensure the consistent, principle-based accounting for all insurance contracts. It contains principles for the recognition, measurement and presentation of insurance contracts as well as disclosure requirements, and requires insurance contracts to be measured at the current fulfilment value. As a rule, insurance contracts are measured in a general model that uses a three-part approach. Insurance contracts with a term of less than one year can be accounted for using a simplified method (Premium Allocation Approach).

The amendments to IFRS 17 relate to a range of specific changes with which the IASB aims to offer relief to entities when the standard is introduced without any significantly loss in useful information. The amendments deferred the effective date of IFRS 17 by two years to 1 January 2023.

The IAS 1 amendments clarifies that classification of liabilities as current or non-current must be based on the entity's existing rights at the reporting date. The amendments must be applied retrospectively for financial years beginning on or after 1 January 2023.

The IFRS 3 amendments update its references to the revised IFRS Conceptual Framework. These amendments also set out that, for the recognition of assumed liabilities within the scope of IAS 37 or IFRIC 21, the definitions in those pronouncements should be applied instead of the definitions in the revised Conceptual Framework. It also clarified requirements relating to contingent assets. The amendments to IAS 16 – *Property, Plant and Equipment* clarifies that proceeds from selling items produced while bringing an asset to the location and condition necessary for it to be capable of operating must be recognised in profit or loss.

The IAS 37 amendments clarify which costs must be included in the assessment of whether a contract is onerous. All costs that relate directly to the contract must be included in calculating the cost of fulfilling a contract.

Based on the Annual Amendments, the IFRS 9 "10% test" for derecognition of financial liabilities may only include fees paid or received by the entity and the lender. If the derecognition test for modified or exchanged financial liabilities results in an extinguishment, any costs or fees incurred must be recognised in profit or loss. By contrast, if the modification or exchange does not result in an extinguishment, any costs or fees must be amortised over the remaining term of the modified liability by adjusting the carrying amount and the effective interest rate, unless they are compensation for the modification of the cash flows of the liability (for example a fee as compensation for an interest rate cut). The latter must be recognised in profit or loss as part of the modification entry.

The IFRS 3, IAS 16 and IAS 37 amendments and the Annual Improvements to IFRSs are effective for financial years beginning on or after 1 January 2022.

Bausparkasse Schwäbisch Hall is currently examining the impact on the consolidated financial statements of the standard, amendments and Improvements 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.

Change in presentation

To enhance transparency and improve the provision of reliable, relevant information, impairment losses on and reversals of impairment losses on investments in joint ventures using the equity method are reported in gains or losses on investments, starting in financial year 2020. Income/loss from investments using the equity method net of impairment losses and reversals of impairment losses continues to be reported in income/loss from investments using the equity method within net interest income. The adjusted amounts in the comparative information are indicated by means of a footnote "amount adjusted".

in € thousand	2019 before adjustment	Adjustment	2019 after adjustment
Net interest income	449,830	12,347	462,177
(…)			
Gains or losses on investments	917	12,347	13,264
(…)			
Gains or losses on derecognition of financial assets measured at amortised cost	162,991	– 12,347	150,644
(…)			
Profit/loss before taxes	**188,946**	–	**188,946**
Income taxes	– 23,276	–	– 23,276
Net profit	**165,670**	–	**165,670**

Disclosure of prior period errors

Maximum credit risk

Disclosures on collateral were adjusted due to the correction of an error in Note 65 (Nature and extent of risks arising from financial instruments). Only assets (tangible assets and rights) that protect the creditor from credit risk from extending a loan serve as collateral. The adjustments were made mainly by not recognising collateral that is based solely on the counterparty's credit rating and by reclassifying the collateral for public-sector *Pfandbriefe* and covered bonds in accordance with the DG Bank Transformation Act. The adjustments made for financial year 2019 are presented in the following table; there was no impact on the consolidated balance sheet, net profit and the statement of comprehensive income.

Balance as at 31 Dec 2019 before adjustments in € thousand	Maximum credit risk	of which secured by Warranties, guarantees	Land charges, mortgages	Transfers of title, cession, pledge of receivables	Financial collateral	Other collateral
Financial assets measured at fair value	**9,262,750**	**–**	**170,276**	**–**	**50**	**5,259,873**
Financial assets measured at fair value through profit or loss	2,603	–	–	–	50	–
Financial assets measured at fair value through other comprehensive income	9,260,147	–	170,276	–	–	5,259,873
Financial assets measured at amortised cost	**67,751,994**	**20,103**	**41,525,378**	**–**	**7,310,633**	**9,668,848**
of which: credit-impaired	–	–	74,309	–	3,942	–
Financial guarantee contracts and loan commitments	**5,807,524**	**–**	**5,704,784**	**–**	**–**	**3,869**
of which: credit-impaired		–	172	–	–	9

Adjustments as at 31 Dec 2019 in € thousand	Maximum credit risk	of which secured by Warranties, guarantees	Land charges, mortgages	Transfers of title, cession, pledge of receivables	Financial collateral	Other collateral
Financial assets measured at fair value	**–**	**–**	**–**	**291,015**	**–**	**– 4,712,444**
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	–	–	–	291,015	–	– 4,712,444
Financial assets measured at amortised cost	**–**	**–**	**40,258**	**2,272,260**	**–**	**– 5,611,759**
of which: credit-impaired	–	–	–	–	– 3,942	3,942
Financial guarantee contracts and loan commitments	**–**	**–**	**–**	**–**	**–**	**–**
of which: credit-impaired		–	–	–	–	–

Balance as at 31 Dec 2019 after adjustments in € thousand	Maximum credit risk	of which secured by Warranties, guarantees	Land charges, mortgages	Transfers of title, cession, pledge of receivables	Financial collateral	Other collateral
Financial assets measured at fair value	**9,262,750**	**–**	**170,276**	**291,015**	**50**	**547,429**
Financial assets measured at fair value through profit or loss	2,603	–	–	–	50	–
Financial assets measured at fair value through other comprehensive income	9,260,147	–	170,276	291,015	–	547,429
Financial assets measured at amortised cost	**67,751,994**	**20,103**	**41,565,636**	**2,272,260**	**7,310,633**	**4,057,089**
of which: credit-impaired	–	–	74,309	–	–	3,942
Financial guarantee contracts and loan commitments	**5,807,524**	**–**	**5,704,784**	**–**	**–**	**3,869**
of which: credit-impaired		–	172	–	–	9

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 value of the *Bausparkasse*. These agreements are classified as share-based payment transactions, which are required by IFRS 2 to be disclosed in the notes. Previously, the remuneration was disclosed exclusively in accordance with Article 450 of Regulation (EU) 575/2013 (CRR) in conjunction with section 16 of the German Remuneration Regulation for Institutions.

The prior-year disclosure in the information on personnel expenses (Note 35) (reclassification of €2,297 thousand) and on provisions (Note 56) and accruals (Note 57) (reclassification of €4,924 thousand) has been adjusted accordingly.

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

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

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

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

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

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

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

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 2020 include all subsidiaries that are directly or indirectly controlled by Bausparkasse Schwäbisch Hall AG, including structured entities. Subsidiaries are generally included in the basis of consolidation from the date on which Bausparkasse Schwäbisch Hall obtains control of the investee. In assessing whether control exists, judgement is required in some cases, whereby all relevant facts and circumstances are taken into account. This applies in particular to the consideration of principal-agent relationships in which the Schwäbisch Hall Group acts as the initiator.

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

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

The equity-accounted joint venture Českomoravská stavební spořitel’na, a. s., Prague (MSS), was sold on 31 May 2019.

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

04 CONSOLIDATION METHODS

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

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

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

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

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

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

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

Interests in joint ventures 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.

05 CURRENCY TRANSLATION

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

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

06 *BAUSPAREN*

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

Embedded derivatives

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

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

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

Bauspar deposits

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

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

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

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

Bauspar loans, advance financing and bridge financing loans

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

Bauspar loans are issued if the conditions for allocation are met. The *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 for bonuses for *Bauspar* customers in the form of a refund of parts of the contract fee or in the form of bonus interest on deposits. The bonuses constitute separate payment obligations and must be measured and recognized in accordance with IAS 37.

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

Unconditional bonuses in the form of additional interest credits are accounted for as a component of the amortised cost of *Bauspar* deposits under IFRS 9.5.2.1 in conjunction with IFRS 9.4.2.1.

Fees and commissions

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

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

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

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

Fair value

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

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

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

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

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

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

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

Significant restrictions

The business activity of *Bausparkassen* is subject to a special legal framework (BauSpkG, Hungarian Act CXIII/1996), which leads to the fact that, in addition to business activities, assets, liabilities and, to a limited extent, retained earnings accounted for in the context of *Bausparen* (see Note 58) are subject to restrictions in the form of earmarking. Restrictions also exist due to earmarking of non-collective refinancing funds and assignments of assets as collateral.

07 FINANCIAL INSTRUMENTS

Classes of financial instruments

Financial assets measured at fair value through profit or loss (fair value PL)
Financial assets that are not measured at amortised cost or at fair value through other comprehensive income are classified as “financial assets measured at fair value through profit or loss”.

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

Financial assets measured at fair value through other comprehensive income (fair value OCI)
Financial assets are classified in this category 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.

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

Financial liabilities measured at amortised cost (AC)
Financial liabilities are classified as "financial liabilities measured at amortised cost" for measurement subsequent to initial recognition. Exception: "financial liabilities measured at fair value through profit or loss", financial liabilities that arise if a transfer of a financial asset does not meet the condition for derecognition or is accounted for based on continuing involvement. Also excluded are 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.

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

Finance lease receivables and liabilities
Finance lease receivables and liabilities are governed by IFRS 16.

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. Consolidated investment funds and issues of certain securities are also recognised at the trade date. 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 including transaction costs that are directly attributable to the acquisition or issuance of the financial asset or liability.

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

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

Impairments under IFRS 9

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

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

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

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

For the sake of simplification, it can be assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if the financial instrument has a low credit risk at the reporting date (low credit risk exemption).

The low credit risk exemption cannot be applied to loans and hence also to borrower’s note loans.

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

Financial assets subject to IFRS 9 impairment requirements must be reviewed at every reporting date to establish whether one or more events have occurred that have a sustained impact on the estimated future cash flows of that financial asset. Purchased or originated credit-impaired assets (POCI) are initially recognised at their carrying amount less the lifetime expected credit losses and amortised using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes to the lifetime expected credit losses since initial recognition are recognised as an impairment loss. No stage transfer is intended for these assets. More detailed explanations on the impairment of financial assets can be found in Note 65.

Classes of financial instruments

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

Classes of financial assets

Financial assets measured at fair value

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

- “Financial assets mandatorily measured at fair value through profit or loss”.
- “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 loans and advances to banks and customers measured at amortised cost, investments measured at amortised cost and trade receivables.

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.

Financial guarantee contracts and loan commitments
This class comprises provisions for financial guarantee contracts and provisions for loan commitments within the scope of IAS 37 that are subject to the derecognition and impairment provisions of IFRS 9.

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 in accordance with the IFRS 9 hedge accounting requirements 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 continue to be accounted for under IAS 39.

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

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

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

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

09 SECURITIES REPURCHASE AGREEMENTS

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

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

Interest income from reverse repos and interest expenses for repos are reported in net interest income.

10 COLLATERAL

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

11 LEASES

The Schwäbisch Hall Group as lessor

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

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

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

The Schwäbisch Hall Group as lessee
The lessee recognises a right-of-use asset and a corresponding lease liability for all leases. Exceptions apply only to short-term leases and leases of low-value assets, for which the lease payments are recognised as expenses.

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

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

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

12 INCOME

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

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

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

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

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

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

13 CASH AND CASH EQUIVALENTS

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

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

14 LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

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

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

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

15 POSITIVE AND NEGATIVE FAIR VALUES OF HEDGING INSTRUMENTS

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

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

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

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

16 POSITIVE AND NEGATIVE FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

17 INVESTMENTS

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

Investments are measured at fair value at initial recognition. Other ownership interests, investments in subsidiaries and interests in joint ventures 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”.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

If there are indications that the interest in an equity-accounted entity is impaired, the interest is tested for impairment and an impairment loss is recognised if necessary. An impairment loss is reversed if the reasons for impairment no longer apply. Starting in the reporting period, impairment losses and reversals of impairment losses are reported in “Gains or losses on investments” (see Note 2). Gains from the disposal of investments accounted for using the equity method are also reported in “Gains or losses on investments”.

19 INTANGIBLE ASSETS

Intangible assets are recognised at cost. In the course of subsequent measurement, software and other intangible assets with finite useful lives are reduced by accumulated amortisation and accumulated impairment losses.

Amortisation charges on intangible assets are recognised as administrative expenses. Impairment losses and reversals are reported in other net operating income.

Software is amortised over a useful life of one to twelve years.

20 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

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

Property, plant and equipment is measured at cost and reduced by accumulated depreciation and accumulated impairment losses in subsequent reporting periods.

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 requirements governing accounting for leases and measured using the cost model.

Depreciation charges on property, plant and equipment and right-of-use assets are recognised as administrative expenses. Impairment losses and reversals of impairment losses are reported in other net operating income.

21 INCOME TAX ASSETS AND LIABILITIES

Current and deferred income tax assets are reported in the “Income tax assets” item, while current and deferred tax liabilities are reported in the “Income tax liabilities” item.

Current income tax assets and liabilities are recognised in the amount of any expected refund or future payment.

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

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

22 OTHER ASSETS AND LIABILITIES

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

23 LOSS ALLOWANCES

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

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

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

24 DEPOSITS FROM BANKS AND CUSTOMERS

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

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

Deposits from banks and customers are generally measured at amortised cost using the effective interest method. Interest expenses on deposits from banks and customers are recognised separately in net interest income. Interest expenses include in particular early redemption gains and losses and the amortisation of fair value changes of hedged items in portfolio hedges of interest rate risk.

25 ISSUED BONDS

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

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

26 PROVISIONS

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

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

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

The occupational retirement arrangements agreed with the employees of the Schwäbisch Hall Group comprise both defined contribution and defined benefit pension plans.

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

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

The discount rate is derived in line with the liability structure (duration) on the basis of a portfolio of investment-grade corporate bonds that must meet defined quality characteristics. The quality characteristics are in particular a minimum AA rating by 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 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 value of the *Bausparkasse*. These agreements are classified as share-based payment transactions.

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

Provisions for share-based payment transactions are also measured in subsequent years at their nominal amount, with changes in the nominal amount recognised in profit or loss.

Other provisions

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

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

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

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

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

27 CONTINGENT LIABILITIES

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

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

Disclosures on the income statement and the statement of comprehensive income

28 SEGMENT REPORTING

Financial year 2020 in € thousand	*Bausparen* Domestic	*Bauspar* and loan processing	*Bausparen* Non-domestic	Consolidation	Total
Net interest income	473,633	2,163	59,279	– 3,775	531,300
Net fee and commission income	– 13,528	–	4,503	–	– 9,025
Gains or losses on investments	55,681	–	–	–	55,681
Other gains or losses on valuation of financial instruments	5,277	–	–	–	5,277
Gains or losses on derecognition of financial assets measured at amortised cost	12,933	–	1,942	–	14,875
Loss allowances	– 23,083	–	– 5,860	–	– 28,943
Administrative expenses	– 472,344	– 140,703	– 36,950	124,038	– 525,959
Other net operating income	19,948	144,631	– 3,065	– 124,038	37,476
Profit/loss before taxes	**58,517**	**6,091**	**19,849**	**– 3,775**	**80,682**

Financial year 2019 in € thousand	*Bausparen* Domestic	*Bauspar* and loan processing	*Bausparen* Non-domestic	Consolidation	Total
Net interest income	381,487	2,152	82,582[1]	– 4,044	462,177[1]
Net fee and commission income	– 32,284	–	4,716	–	– 27,568
Gains or losses on investments	296,751	–	– 12,347[1]	– 133,760	150,644[1]
Other gains or losses on valuation of financial instruments	17,569	–	–	–	17,569
Gains or losses on derecognition of financial assets measured at amortised cost	18,108	–	151	–	18,259
Loss allowances	– 2,284	–	– 1,368	–	– 3,652
Administrative expenses	– 416,214	– 120,522	– 42,097	92,397	– 486,436
Other net operating income	40,904	112,367	– 2,921	– 92,397	57,953
Profit/loss before taxes	**304,037**	**– 6,003**	**28,716**	**– 137,804**	**188,946**

[1] Amount adjusted, see Note 2.

General information on segment reporting

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

Definition of segments

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

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

The *Bauspar* and Loan Processing segment comprises SHK's processing and IT services.

The activities of FLK and the PSS and SGB foreign joint ventures (ČMSS until 31 May 2019), are reflected in the *Bausparen* Non-domestic segment.

Segment presentation

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

Measurement

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

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

The key indicator used to assess segment performance is profit or loss before taxes. A detailed description of the segments can be found in the Combined Management Report starting on page 18.

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.

The deconsolidation of ČMSS was included in gains or losses on investments in the previous year.

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

Schwäbisch Hall Group-wide disclosures
Information about geographical areas: information on geographical areas is implicitly contained in the information provided by segment.

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

29 NET INTEREST INCOME

in € thousand	2020	2019
Interest income	**1,496,572**	**1,584,918**
calculated using the effective interest method	**1,496,572**	**1,584,918**
Bauspar loans	68,249	70,473
Advance and bridge financing loans	925,778	939,753
Other building loans	72,966	62,422
Lending and money market transactions	292,406	362,951
Fixed-income investment securities	144,433	149,607
Finance leases	23	11
Financial assets with other immaterial modifications	– 6,475	–
Financial assets with negative effective yield	– 808	– 299
Current income	**1,318**	**997**
Current income from FVOCI equity instruments held at the reporting date	1,318	997
Interest expense on	**– 971,204**	**– 1,137,002**
Deposits from banks and customers	– 987,350	– 1,148,137
of which: for *Bauspar* deposits	– 984,223	– 1,145,355
Financial liabilities with positive effective yield	13,753	8,950
Provisions	– 10	– 9
Losses on other immaterial modifications of financial liabilities	– 74	–
Leases	– 669	– 610
Fair value changes of hedged items in portfolio hedges of interest rate risk	3,146	720
Net interest income from derivative financial instruments	–	2,084
Profit or loss of equity-accounted joint ventures	**4,614**	**13,264**[1]
Total	**531,300**	**462,177**

[1] Amount adjusted, see Note 2.

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

30 NET FEE AND COMMISSION INCOME

in € thousand	2020	2019
Fee and commission income	**103,417**	**93,768**
Bauspar business	38,545	34,358
Other fees	38,545	34,358
Fee and commission income from cross-selling (previous year: “Other”)	64,872	59,410
Fee and commission expenses	**– 112,442**	**– 121,336**
Bauspar business	– 72,088	– 84,109
Commissions for contract conclusion and brokerage	– 72,088	– 84,109
Other	– 40,354	– 37,227
Total	**– 9,025**	**– 27,568**

Fee and commission income during the reporting period contains revenue of €103,284 thousand (previous year: €93,768 thousand) from contracts with customers under IFRS 15.

Revenue from contracts with customers 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. In principle, the total amount of fee and commission income would have to be recognised when the contract is concluded. However, this concerns variable consideration depending on the insured amount or the fund assets. The uncertainty about the variable consideration is only removed at a later stage. Accordingly, this revenue can only be calculated and recognised subsequently, on a monthly basis. Fee and commission receivables include normal maturities without financing components.

Disclosures on revenue from contracts with customers by operating segment

in € thousand	*Bausparen* domestic	*Bausparen* non-domestic	Total	*Bausparen* domestic	*Bausparen* non-domestic	Total
	2020	**2020**	**2020**	**2019**	**2019**	**2019**
Revenue types	**94,518**	**8,766**	**103,284**	**83,755**	**10,013**	**93,768**
Fee and commission income from the *Bauspar* business	32,530	6,015	38,545	27,384	6,974	34,358
Fee and commission income from cross-selling (previous year: “Other”)	61,988	2,751	64,739	56,371	3,039	59,410
Primary geographical markets	**94,518**	**8,766**	**103,284**	**83,755**	**10,013**	**93,768**
Germany	94,518	–	94,518	83,755	–	83,755
Rest of Europe	–	8,766	8,766	–	10,013	10,013
Type of revenue recognition	**94,518**	**8,766**	**103,284**	**83,755**	**10,013**	**93,768**
At a point in time	94,518	8,766	103,284	83,755	10,013	93,768

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

31 GAINS OR LOSSES ON INVESTMENTS

in € thousand	2020	2019
Net income from the sale of bonds at fair value through other comprehensive income	55,681	64,053
Net income from the sale of interests in joint ventures	–	86,591
Loss allowances	–	– 12,347[1]
Disposal	–	98,938
Total	**55,681**	**150,644**

[1] Amount adjusted, see Note 2.

Of the loss allowances on interests in joint ventures presented for financial year 2019, €10.9 million was attributable to PSS and €1.4 million to SGB.

A gain of €98.9 million was recognised in the previous year on the sale of the interest in the ČMSS joint venture.

32 OTHER GAINS OR LOSSES ON VALUATION OF FINANCIAL INSTRUMENTS

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

in € thousand	2020	2019
Gains or losses from hedge accounting	**– 414**	**– 90**
Gains or losses on hedging instruments (portfolio fair value hedges)	27,863	– 3,445
Gains or losses on hedged items (portfolio fair value hedges)	– 28,277	3,355
Gains or losses on derivative financial instruments used for purposes other than trading	**5,691**	**17,659**
Measurement gains or losses	5,691	1,265
Disposal gains or losses	–	16,394
Total	**5,277**	**17,569**

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

33 GAINS OR LOSSES ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

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

in € thousand	2020	2019
Gains on derecognition of financial assets measured at amortised cost	**14,903**	**18,458**
Loans and advances to banks and customers	12,033	17,038
Bonds and fixed-income securities	2,870	1,420
Losses on derecognition of financial assets measured at amortised cost	**– 28**	**– 199**
Loans and advances to banks and customers	–	– 199
Investments	– 28	–
Total	**14,875**	18,259

Gains or losses on derecognition of financial assets measured at amortised cost, are attributable mainly to the transfer of registered bonds and bearer bonds of DZ BANK to DZ BANK (€8.6 million, previous year: €11.1 million). All sales from these portfolios were below the materiality threshold, so there was no violation of the business model.

34 LOSS ALLOWANCES

in € thousand	2020	2019
Loss allowances for loans and advances to banks	**– 3,965**	**249**
Additions	– 4,788	– 87
Reversals	823	336
Loss allowances for loans and advances to customers	**– 21,262**	**– 2,159**
Additions	– 165,578	– 126,025
Reversals	143,558	124,818
Directly recognised impairment losses	– 4,823	– 6,531
Recoveries on loans and advances to customers previously impaired	5,581	5,579
Loss allowances for investments	**– 1,771**	**– 253**
Additions	– 2,316	– 1,057
Reversals	545	804
Loss allowances for other assets	**– 24**	**– 35**
Additions	– 58	– 73
Reversals	67	65
Directly recognised impairment losses	– 38	– 31
Recoveries on other assets previously impaired	5	4
Other loss allowances	**– 1,921**	**– 1,454**
Change in provisions for loan commitments	– 1,921	– 1,454
Total	**– 28,943**	**– 3,652**

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 €29 million in the financial year, €20 million is related to the effects of the COVID-19 pandemic. The need for additions due to the COVID-19 pandemic is a result of the adjusted macroeconomic projects used to determine expected losses. In the case of an extreme weighting of 100% of the basic and risk scenarios used to calculate the risk allowance, loss allowances (Note 51) due to the COVID-19 pandemic would reduce by approximately 0.17% or increase by approximately 0.67%, respectively.

35 ADMINISTRATIVE EXPENSES

in € thousand	2020	2019
Personnel expenses	**– 255,728**	**– 224,561**
Wages and salaries	– 206,039	– 175,630 [1]
Social security contributions	– 28,800	– 27,719
Post-employment benefit expenses	– 18,774	– 18,915
Expenses arising from share-based payment transactions	– 2,115	– 2,297 [1]
General administrative expenses	**– 210,907**	**– 210,209**
Contributions and fees	– 20,170	– 18,903
Consulting	– 20,007	– 15,992
Office expenses	– 59,065	– 66,696
IT expenses	– 79,785	– 69,034
Property and occupancy costs	– 8,596	– 10,476
Public relations/marketing	– 18,500	– 23,580
Other general administrative expenses	– 4,784	– 5,528
Depreciation and amortisation	**– 59,324**	**– 51,666**
Property, plant and equipment	– 26,703	– 22,984
of which: right-of-use assets	– 2,778	– 2,876
Intangible assets	– 32,621	– 28,682
Total	**– 525,959**	**– 486,436**

[1] Amount adjusted, see Note 2.

The net pension expense comprises the following items:

in € thousand	2020	2019
Net pension expense	**– 14,051**	**– 13,809**
Current service cost	– 10,645	– 9,622
Past service cost and settlement gains or losses	– 1,806	27
Net interest	– 1,600	– 4,214
of which: interest expense	– 8,228	– 13,131
of which: return on plan assets	6,628	8,917
Other post-employment benefit expenses	**– 4,723**	**– 5,106**
Total	**– 18,774**	**– 18,915**

Other post-employment benefit expenses include expenses for defined contribution plans amounting to €62 thousand (previous year: €64 thousand).

36 OTHER NET OPERATING INCOME

in € thousand	2020	2019
Income from loan processing and administration	9,400	9,282
Income from IT application service and IT application development	937	919
Other changes in provisions and accruals	6,913	29,740
Expenses for other taxes	– 3,794	– 3,779
Remaining other net operating income	24,020	21,791
Total	**37,476**	**57,953**

37 INCOME TAXES

in € thousand	2020	2019
Current income tax expense	– 14,997	– 26,806
Deferred income tax income/expense	– 6,820	3,530
Total	**– 21,817**	**– 23,276**

Deferred taxes include income of €6,820 thousand (previous year: income of €3,529 thousand) relating to the origination and reversal of temporary differences. Deferred taxes do not include any income attributable to changes in tax rates (previous year: €1 thousand). Of the current taxes, income of €1,368 thousand (previous year: €3,051 thousand) is attributable to previous years.

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

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

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

Tax reconciliation

in € thousand	2020	2019
Profit/loss before taxes	**80,683**	**188,946**
Group income tax rate	31.260%	31.260%
Expected income taxes	**–25,221**	**–59,064**
Income tax effects	**3,404**	**35,788**
Impact of tax-exempt income and non-deductible expenses	–219	25,019
Adjustments resulting from other types of income tax or trade tax multipliers and changes in tax rates	3,702	7,096
Tax rate differences relating to components of income subject to taxation in other countries	–	–1
Current and deferred income taxes relating to prior years	–75	4,358
Other effects	–4	–684
Reported income taxes	**–21,817**	**–23,276**

38 INCOME TAXES RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/LOSS

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

in € thousand	Amount before taxes 2020	Income taxes 2020	Amount after taxes 2020	Amount before taxes 2019	Income taxes 2019	Amount after taxes 2019
Items that may be reclassified to the income statement	**479,932**	**– 155,103**	**324,829**	**615,100**	**– 197,337**	**417,763**
Gains and losses on debt instruments at fair value through other comprehensive income	496,170	– 155,103	341,067	631,270	– 197,337	433,933
Exchange differences on currency translation of foreign operations	– 14,488	–	– 14,488	– 4,059	–	– 4,059
Share of other comprehensive income/loss of equity-accounted joint ventures	– 1,750	–	– 1,750	– 12,111	–	– 12,111
Items that will not be reclassified to the income statement	**– 9,423**	**2,458**	**– 6,965**	**– 32,436**	**11,237**	**– 21,199**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	152	–	152	1,010	–	1,010
Gains and losses arising from remeasurements of defined benefit plans	– 9,466	2,458	– 7,008	– 33,441	11,237	– 22,204
Share of other comprehensive income/loss of equity-accounted joint ventures	– 109	–	– 109	– 5	–	– 5
Other comprehensive income/loss	**470,509**	**– 152,645**	**317,864**	**582,664**	**– 186,100**	**396,564**

39 RECLASSIFICATIONS TO THE INCOME STATEMENT

A gain of €11,895 thousand from the share of other comprehensive income/loss of equity-accounted joint ventures was reclassified from other comprehensive income/loss to the income statement in the previous year.

Balance sheet disclosures

40 CASH AND CASH EQUIVALENTS

in € thousand	31 Dec 2020	31 Dec 2019
Cash on hand	9	21
Balances with central banks and other government institutions	542,490	137,697
Total	**542,499**	**137,718**

The average target minimum reserve for the financial year was €3,077 thousand (previous year: €2,849 thousand).

41 LOANS AND ADVANCES TO BANKS

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

in € thousand	31 Dec 2020	31 Dec 2019
Other building loans	–	85
Registered bonds	8,465,683	11,042,647
Money market transactions	354,343	69,838
Other loans secured by mortgages	35,420	40,262
Other loans and advances	81,487	56,541
Total	**8,936,933**	**11,209,373**

Registered bonds include *öffentliche Namenspfandbriefe* (registered German public sector covered bonds) amounting to €216 million (previous year: €589 million) and *HypothekenNamenspfandbriefe* (registered German mortgage covered bonds) amounting to €1,051 million (previous year: €1,218 million).

	Repayable on demand		Other loans and advances		Total	
in € thousand	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Domestic banks	72,822	49,427	8,799,598	11,082,994	8,872,420	11,132,421
Non-domestic banks	8,452	7,114	56,061	69,838	64,513	76,952
Total	**81,274**	**56,541**	**8,855,659**	**11,152,832**	**8,936,933**	**11,209,373**

42 LOANS AND ADVANCES TO CUSTOMERS

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

in € thousand	31 Dec 2020	31 Dec 2019
Building loans by the *Bausparkasse*	55,698,193	50,372,427
from allocations (*Bauspar* loans)	2,578,256	2,562,952
for advance and bridge financing	46,739,530	44,382,235
other	6,380,407	3,427,240
Other loans and advances	3,345,720	3,659,303
Total	**59,043,913**	**54,031,730**

in € thousand	31 Dec 2020	31 Dec 2019
Loans and advances to domestic customers	57,663,185	52,617,738
Loans and advances to non-domestic customers	1,380,728	1,413,992
Total	**59,043,913**	**54,031,730**

43 POSITIVE FAIR VALUES OF HEDGING INSTRUMENTS

As at 31 December 2020, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €730 million, previous year: €160 million) with a fair value of €30,869 thousand (previous year: €2,603 thousand) in its portfolio.

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

The swaps are offset by a liability (collateral) of €30,640 thousand (previous year: €50 thousand), which is reported in deposits from banks.

44 INVESTMENTS AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in € thousand	31 Dec 2020	31 Dec 2019
Bonds and other fixed-income securities	**12,808,416**	**11,793,102**
Mandatorily measured at fair value through other comprehensive income	10,320,620	9,260,147
Measured at amortised cost	2,487,796	2,532,955
Shares and other variable-yield securities	**2,681**	**2,685**
Fair value OCI option	2,681	2,685
Shares in subsidiaries	**13,894**	**7,238**
Fair value OCI option	13,894	7,238
Interests in equity-accounted joint ventures	**105,755**	**103,000**
Total	**12,930,746**	**11,906,025**

Bonds and other fixed-income securities include *öffentliche Inhaberpfandbriefe* (German public sector bearer covered bonds) amounting to €621 million (previous year: €607 million), *Hypothekeninhaberpfandbriefe* (German mortgage bearer covered bonds) amounting to €887 million (previous year: €875 million) and bonds from public-sector issuers amounting to €4,888 million (previous year: €4,444 million).

Investments include shares and other variable-yield securities as well as interests in subsidiaries with a carrying amount of €16,575 thousand (previous year: €9,923 thousand) for which the fair value OCI option has been exercised.

The interest in the equity-accounted joint venture ČMSS was sold for strategic reasons in the previous year. The sale resulted in a gain of €98,938 thousand, which is reported in gains or losses on investments.

In the financial year, there was a fair value increase of €156 thousand in connection with the revision of the articles of association of Schwäbisch Hall Wohnen GmbH and the resumption of business activities. There was also an addition of €6,500 thousand to capital reserves. This company brokers financial products for residential purposes, primarily to private clients, using electronic platforms and other digital sales channels. It also serves to provide related support services.

The fair value of ownership interests designated at fair value through other comprehensive income declined by €4 thousand as at the reporting date.

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

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

Financial data for interests in equity-accounted joint ventures

Interests in joint ventures relate to the credit institutions PSS and SGB (see Note 78), which operate *Bauspar* business in accordance with German principles in Slovakia and China (see *Bausparen* Non-domestic segment in the Combined Management Report). 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 2020	SGB 2020	PSS 2019	SGB 2019
Current assets	**570**	**1,105**	**625**	**578**
of which: cash and cash equivalents	76	417	13	502
Non-current assets	**2,414**	**2,017**	**2,405**	**2,331**
Current liabilities	**664**	**2,062**	**690**	**1,931**
of which: current financial liabilities	650	1,883	670	1,743
Non-current liabilities	**2,053**	**685**	**2,082**	**602**
of which: non-current financial liabilities	2,027	680	2,068	598
Underlying net assets[1]	**233**	**121**	**225**	**120**
Shareholding	32.5%	24.9%	32.5%	24.9%
Equity-accounted carrying amount	**76**	**30**	**73**	**30**

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

in € million	PSS 2020	SGB 2020	PSS 2019	SGB 2019
Net interest income	**62**	**63**	**63**	**37**
Interest income	95	107	101	84
Interest expense	–33	–44	–38	–47
Net fee and commission income	**12**	**–9**	**15**	**–4**
Fee and commission income	13	5	16	9
Fee and commission expenses	–1	–14	–1	–13
Administrative expenses	**–36**	**–34**	**–34**	**–36**
of which depreciation/amortisation	–6	–2	–5	–3
Income taxes	**–4**	**–3**	**–5**	**–2**
Profit or loss after tax from continuing operations	**8**	**8**	**15**	**6**
Other comprehensive income or loss	**–**	**–10**	**–**	**3**
Total comprehensive income or loss	**8**	**–2**	**15**	**9**
Dividend received	–	–	–	–

45 INTANGIBLE ASSETS

in € thousand	31 Dec 2020	31 Dec 2019
Internally generated intangible assets	16,788	15,876
Other intangible assets	193,709	167,315
Total	**210,497**	**183,191**

€150.8 million (previous year: €124.1 million) of other intangible assets is attributable to Project NEXT.

46 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

in € thousand	31 Dec 2020	31 Dec 2019
Land and buildings	52,670	57,530
Office furniture and equipment	54,104	54,555
Right-of-use assets	16,303	19,008
Right-of-use assets for land and buildings	15,978	18,192
Right-of-use assets for office furniture and equipment	325	816
Total	**123,077**	**131,093**

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 1 Jan 2019	**21,086**	**127,471**	**63,069**	**54,852**
Costs as at 1 Jan 2019	97,050	264,188	259,772	165,492
Additions	4,753	63,470	280	26,052
Transfers	– 3,012	3,018	– 49	– 99
Disposals	–	– 7,307	–	– 25,638
Changes attributable to currency translation	–	– 914	–	– 522
Costs as at 31 Dec 2019	**98,791**	**322,455**	**260,003**	**165,285**
Depreciation, amortisation and impairment losses as at 1 Jan 2019	– 75,964	– 136,717	– 196,703	– 110,640
Additions	– 6,951	– 21,731	– 5,770	– 14,338
Disposals	–	3,037	–	13,999
Changes attributable to currency translation	–	271	–	249
Depreciation, amortisation and impairment as at 31 Dec 2019	**– 82,915**	**– 155,140**	**– 202,473**	**– 110,730**
Carrying amount as at 31 Dec 2019	**15,876**	**167,315**	**57,530**	**54,555**
Costs as at 1 Jan 2020	98,791	322,455	260,003	165,285
Additions	10,832	53,226	1,135	20,405
Transfers	– 1,093	1,093	– 143	143
Disposals	– 22	– 5,158	–	– 9,209
Changes attributable to currency translation	– 533	– 2,706	–	– 1,848
Costs as at 31 Dec 2020	**107,975**	**368,910**	**260,995**	**174,776**
Depreciation, amortisation and impairment as at 1 Jan 2020	– 82,915	– 155,140	– 202,473	– 110,730
Additions	– 8,426	– 24,195	– 5,852	– 18,073
Disposals	19	3,100	–	7,500
Changes attributable to currency translation	135	1,034	–	631
Depreciation, amortisation and impairment as at 31 Dec 2020	**– 91,187**	**– 175,201**	**– 208,325**	**– 120,672**
Carrying amount as at 31 Dec 2020	**16,788**	**193,709**	**52,670**	**54,104**

The carrying amount of buildings includes prepayments of €559 thousand (previous year: €143 thousand). The carrying amount of office furniture and equipment includes prepayments of €3 thousand (previous year: €1,495 thousand), and the carrying amount of other intangible assets includes prepayments of €44,455 thousand (previous year: €38,117 thousand).

48 LEASE DISCLOSURES

Schwäbisch Hall Group as lessee

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

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

	Right-of-use assets	
in € thousand	**Land and buildings**	**Office furniture and equipment**
Carrying amounts as at 1 Jan 2019	**1,466**	**1,420**
Additions	20,061	–
Remeasurements	– 215	– 58
Depreciation	– 2,333	– 543
Disposals	– 787	– 3
Carrying amounts as at 31 Dec 2019	**18,192**	**816**
Additions	1,398	–
Remeasurements	– 671	– 58
Depreciation	– 2,345	– 433
Disposals	– 596	–
Carrying amount as at 31 Dec 2020	**15,978**	**325**

Other liabilities include lease liabilities of €19,210 thousand (previous year: €20,584 thousand). Interest expense on lease liabilities is disclosed in net interest income (Note 29).

The contractual maturities of lease liabilities are structured as follows:

in € thousand	**31 Dec 2020**	**31 Dec 2019**
Up to 1 year	3,438	2,549
More than 1 year and up to 3 years	6,171	5,808
More than 3 years and up to 5 years	5,767	5,199
More than 5 years	8,348	10,609

Total cash outflows from lease liabilities amounted to €2,762 thousand in the reporting period (previous year: €2,507 thousand).

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

in € thousand	31 Dec 2020	31 Dec 2019
Expense from short-term leases	477	597
Expense from variable lease payments not included in the lease liability	632	591
Income from subleasing right-of-use assets	157	275

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

The Schwäbisch Hall Group as lessor

The Schwäbisch Hall Group acts as lessor in finance lease arrangements for subleases of office and business premises. The total term of these leases is up to ten years.

The contractual maturities of lease receivables are structured as follows:

in € thousand	31 Dec 2020	31 Dec 2019
Lease payments		
Up to 1 year	174	91
More than 1 year and up to 2 years	174	93
More than 2 years and up to 3 years	174	91
More than 3 years and up to 4 years	174	85
More than 4 years and up to 5 years	174	85
More than 5 years	523	355
Gross investment in leases	**1,393**	**800**
less unrealised finance income	160	101
Net investment in leases	**1,233**	**699**

Finance income from the net investment in leases amounts to €23 thousand (previous year: €11 thousand).

49 INCOME TAX ASSETS AND LIABILITIES

in € thousand	31 Dec 2020	31 Dec 2019
Current income tax assets	3,704	1,854
Deferred tax assets	2,600	2,527
Income tax assets	**6,304**	**4,381**
Current income tax assets	13,588	24,492
Deferred tax liabilities	269,270	109,498
Income tax liabilities	**282,858**	**133,990**

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 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Loans and advances to banks and customers	425	–	131,775	100,958
Loss allowances	40,579	34,470	–	–
Positive and negative fair values of derivative financial instruments/hedging instruments	–	–	1,981	375
Investments	6	–	346,045	194,004
Property, plant and equipment	1,609	1,018	–	4
Intangible assets	–	–	2,582	2,144
Deposits from banks and customers	3,810	4,182	141,375	146,238
Provisions for employee benefits	145,472	136,612	–	–
Other provisions	160,894	157,353	1,603	1,791
Other balance sheet items	6,035	4,908	139	–
Total (gross)	**358,830**	**338,543**	**625,500**	**445,514**
Netting of deferred tax assets and liabilities	– 356,230	– 336,016	– 356,230	– 336,016
Total (net)	**2,600**	**2,527**	**269,270**	**109,498**

There are deferred tax assets recognised in other comprehensive income of €88,108 thousand (previous year: €85,650 thousand) relating to provisions for employee benefits, and deferred tax liabilities recognised in other comprehensive income of €353.486 thousand (previous year: €198,383 thousand) relating to investments.

Furthermore, there are deferred tax liabilities recognised in other comprehensive income of €1,889 thousand (previous year: €2,081 thousand) relating to the FLK settlement provision.

Deferred tax assets that are only expected to be realised after twelve months or more amount to €2,600 thousand (previous year: €2,527 thousand). Deferred tax liabilities that are only expected to be realised after twelve months or more amount to €269,270 thousand (previous year: €109,498 thousand).

No deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries and joint ventures amounting to €13,674 thousand (previous year: €10,827 thousand), as it is unlikely that these differences will reverse through realisation in the foreseeable future.

50 OTHER ASSETS

in € thousand	**31 Dec 2020**	**31 Dec 2019**
Other financial receivables	8,470	5,784
Payments in advance and accruals	19,162	18,301
Remaining other assets	6,505	3,654
Total	**34,137**	**27,739**

Other financial receivables primarily include trade receivables.

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		Total
in € thousand	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 1 Jan 2019	**834**	**–**	**25,301**	**51,085**	**92,861**	**757**	**57**	**–**	**170,895**
Additions	87	–	8,347	72,868	44,810	143	73	–	126,328
Utilisations	–	–	–	–	– 6,690	–	–	–	– 6,690
Reversals	– 336	–	– 70,356	– 32,058	– 22,404	– 573	– 65	–	– 125,792
Change due to stage transfer	–	–	60,368	– 43,283	– 17,085	–	–	–	–
Transfer from Stage 1	–	–	– 1,726	1,598	128	–	–	–	–
Transfer from Stage 2	–	–	58,674	– 67,663	8,989	–	–	–	–
Transfer from Stage 3	–	–	3,420	22,782	– 26,202	–	–	–	–
Other changes	–	–	– 59	– 15	230	– 22	– 1	–	133
Balance as at 31 Dec 2019	**585**	**–**	**23,601**	**48,597**	**91,722**	**305**	**64**	–	**164,874**
Additions	482	4,306	28,404	97,754	39,420	230	58	–	170,654
Utilisations	–	–	–	–	– 3,030	–	–	–	– 3,030
Changes due to contract modifications	–	– 1,425	–	–	–	–	–	–	– 1,425
Reversals	– 151	– 672	– 67,493	– 42,795	– 33,270	– 158	– 67	–	– 144,606
Change due to stage transfer	– 50	50	56,892	– 46,689	– 10,203	–	– 15	15	–
Transfer from Stage 1	– 50	50	– 2,265	2,135	130	–	–	–	–
Transfer from Stage 2	–	–	53,302	– 61,458	8,156	–	– 15	15	–
Transfer from Stage 3	–	–	5,855	12,634	– 18,489	–	–	–	–
Other changes	–	5	– 195	– 7	– 592	– 29	– 11	–	– 829
Balance as at 31 Dec 2020	**866**	**2,264**	**41,209**	**56,860**	**84,047**	**348**	**29**	15	**185,638**

52 DEPOSITS FROM BANKS

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

in € thousand	31 Dec 2020	31 Dec 2019
Bauspar deposits	1,575,773	1,652,421
Current business accounts	426,000	403,523
Promissory note loans	2,078,990	778,209
Money market transactions	1,698,616	3,167,176
Repurchase agreements	1,855,991	–
KfW subsidised loans	135,270	135,472
Hypothekenpfandbriefe (German mortgage covered bonds)	5,000	4,998
Total	**7,775,640**	**6,141,799**

Deposits from banks have the following maturities:

in € thousand	31 Dec 2020	31 Dec 2019
Deposits from domestic banks	7,775,640	6,141,799
of which: repayable on demand	426,000	403,523
with agreed maturity or notice period	5,773,867	4,085,855
with indefinite maturity	1,575,773	1,652,421
Total	**7,775,640**	**6,141,799**

53 DEPOSITS FROM CUSTOMERS

in € thousand	31 Dec 2020	31 Dec 2019
Deposits from domestic customers	**62,567,365**	**61,147,313**
Bauspar deposits	62,167,737	60,768,581
Other deposits	399,628	378,732
of which: repayable on demand	349,377	330,590
with agreed maturity or notice period	50,251	48,142
Deposits from non-domestic customers	**2,506,353**	**2,459,980**
Bauspar deposits	2,504,821	2,457,596
Other deposits	1,532	2,384
of which: repayable on demand	1,532	2,384
Total	**65,073,718**	**63,607,293**

54 ISSUED BONDS

As at the reporting date, this item contained issued *Hypothekenpfandbriefe* in the amount of €513,208 thousand (previous year: €0 thousand), for which transferable registered certificates were issued.

55 NEGATIVE FAIR VALUES OF HEDGING INSTRUMENTS

As at 31 December 2019, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €265 million) with a negative fair value of €4,529 thousand in its portfolio.

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

56 PROVISIONS

in € thousand	31 Dec 2020	31 Dec 2019
Provisions for employee benefits	**230,790**	**209,243**
Defined benefit obligations	170,446	174,793
Long-term employee benefits	7,978	8,070
Termination benefits	52,366	26,380
of which: Loyalty bonus	16,574	16,655
Early retirement arrangements	3,123	3,331
Other provisions	32,669	6,394
Liabilities arising from share-based payment transactions	**4,335**	**4,924**[1]
Other provisions	**1,531,187**	**1,485,440**
Bauspar-specific provisions	1,443,431	1,405,911
Other provisions	79,808	73,473
Provisions for loan commitments	7,948	6,056
Total	**1,766,312**	**1,699,607**[1]

[1] Amount adjusted, see Note 2.

Other provisions include provisions in connection with the lending and *Bauspar* business amounting to €52,744 thousand (previous year: €51,193 thousand).

Provisions for defined benefit plans

Provisions for defined benefit obligations primarily result from plans with benefit obligations that are no longer accepting any further employees (closed plans). There are other defined benefit plans for members of the Management Board or Managing Directors. New employees are almost exclusively offered defined contribution pension plans, for which no provision generally has to be recognised.

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

in € thousand	31 Dec 2020	31 Dec 2019
Defined benefit obligations	**868,352**	**837,524**
of which: active participants	315,044	309,987
departed participants	97,579	90,670
retirees	455,729	436,867

in € thousand	31 Dec 2020	31 Dec 2019
Defined-benefit obligation	**868,352**	**837,524**
of which: final-salary pension commitments	837,550	806,053
capital commitments	30,802	31,471

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

The predominantly final salary plans involve pension commitments by the employer to employees whose amount depends on the final remuneration before retirement (x% of the remuneration for each year of service) and that are expected to result in a lifelong payment obligation in most cases. Under section 16(1) of the German Occupational Pensions Act (BetrAVG), the amount of the pension must be realigned with consumer prices or net wages every three years. Significant risk factors affecting final salary benefit plans are longevity, salary trends, inflation risk and the discount rate.

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	2020	2019
Present value of defined benefit obligations as at 1 Jan	**837,524**	**764,864**
Current service cost	10,645	9,622
Past service cost	1,806	– 27
Interest expenses	8,228	13,131
Pension benefits paid	– 28,495	– 27,715
Actuarial gains (losses)	38,706	77,633
of which: from changes in financial assumptions	34,291	80,018
from changes in demographic assumptions	–	– 488
Experience adjustments	4,415	– 1,897
Plan settlements (previous year: transfer payments)	– 62	16
Present value of defined benefit obligations as at 31 Dec	**868,352**	**837,524**

The measurement of defined benefit obligations applies the following actuarial assumptions:

in %	31 Dec 2020	31 Dec 2019
Discount rate	0.75	1.00
Salary increase	1.80	1.80
Pensions increase	1.60	1.60

Sensitivity analysis

The need for a risk assessment using sensitivity analyses of the significant actuarial measurement parameters becomes apparent from the change in the present value of defined benefit obligations (DBO). It shows what the hypothetical impact on profit/loss and equity would have been if a change had occurred on the reporting date. It is assumed that the portfolio on the reporting date is representative of the entire year and that the assumed change would have been possible on the reporting date.

The following table shows the sensitivity of defined benefit obligations to the change in the actuarial parameters. The effects presented are based on an isolated observation of the change of one parameter, with the other parameters remaining constant. Correlation effects between individual parameters are therefore not taken into account.

Change in the present value of defined benefit obligations as at the reporting date if	Impact on defined benefit obligations 31 Dec 2020		Impact on defined benefit obligations 31 Dec 2019	
	in € thousand	in %	in € thousand	in %
the discount rate were 50 basis points higher	– 66,491	– 7.66	– 120,399[1]	– 14.38[1]
the discount rate were 50 basis points lower	75,571	8.70	155,497[1]	18.57[1]
future salary increases were 50 basis points higher	9,313	1.07	10,259	1.22
future salary increases were 50 basis points lower	– 9,440	– 1.09	– 9,762	– 1.17
future pension increases were 25 basis points higher	27,918	3.22	26,448	3.16
future pension increases were 25 basis points lower	– 26,620	– 3.07	– 25,203	– 3.01
future life expectancy were 1 year higher	51,013	5.87	37,602	4.49
future life expectancy were 1 year lower	– 50,660	– 5.83	– 37,256	– 4.45
the future financing maturity age were 1 year higher	– 8,481	– 0.98	– 8,765	– 1.05
the future financing maturity age were 1 year lower	6,887	0.79	7,815	0.93

[1] The prior-year amounts are based on an interest rate sensitivity of 100 basis points.

The calculations were performed on an isolated basis for the actuarial parameters classified as material in order to separately present the effects on the present value of defined benefit obligations calculated as at 31 December.

The discount rate is determined on the basis of investment grade fixed-income corporate bonds and should match the expected maturity of the benefits to be paid. It is derived averaged over the total portfolio. The method for deriving the discount rate was refined in June 2020 due to a change in the Bloomberg bond classification system. This change did not result in any material effects.

The economic measurement parameters “salary increases” and “pension increases” represent a sensitivity to the long-term salary trends, including career tendencies, and an assessment of future pension adjustments under section 16(1) of the BetrAVG.

In the case of demographic actuarial assumptions, the “life expectancy” of a 65-year-old man born in 1955 on the one hand, and the earliest possible “financing maturity age”, usually 63 years of age, on the other were each modified by one year to reflect the change in the payout phase. In the example cited, the mortality rates were changed by approximately 12%.

Macaulay Duration

The weighted average maturity of defined benefit obligations as at 31 December 2020 was 16.45 years (previous year: 16.44 years).

Plan assets

The defined benefit obligations are offset by the plan assets of Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH. €692,616 thousand of these assets (previous year: €657,413 thousand) is attributable to DZ BANK’s and Bausparkasse Schwäbisch Hall’s Contractual Trust Arrangements (CTAs), 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.

Plan assets also include a building valued at €5,290 thousand (previous year: €5,318 thousand) that is managed by Bausparkasse Schwäbisch Hall's *Unterstützungskasse* (pension fund).

The following table shows the funded status of the defined benefit obligations:

in € thousand	31 Dec 2020	31 Dec 2019
Present value of defined benefit obligations funded by plan assets	868,352	837,524
Present value of defined benefit obligations	**868,352**	**837,524**
less fair value of plan assets	– 697,906	– 662,731
Provisions for defined benefit pension obligations	**170,446**	**174,793**

Plan assets changed as follows:

in € thousand	2020	2019
Fair value of plan assets as at 1 Jan	**662,731**	**509,503**
Employer contributions to plan assets	–	100,870
Interest income	6,628	8,917
Return on plan assets (excluding interest income)	29,240	44,193
Pension benefits paid	– 693	– 752
Fair value of plan assets as at 31 Dec	**697,906**	**662,731**

No contributions to plan assets are planned for financial year 2021 (financial year 2019: €937 thousand). All additions to plan assets are made by the employer.

Plan assets (CTA) are primarily invested in fixed-income assets (approximately 83%; previous year approximately 85%). This takes account of the interest rate sensitivity of the defined benefit obligations. Plan assets are primarily invested in the eurozone. Plan assets are divided into the "core portfolio" and "income portfolio" segments.

The core portfolio (approximately 60%, previous year: approximately 62%) is primarily invested in fixed-income investments in the form of *Pfandbriefe*, covered bonds, and government and corporate bonds. The investments have a minimum investment grade rating (AAA to BBB).

The second segment (approximately 40%; previous year: approximately 38%) 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 Dec 2020			31 Dec 2019		
	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	–	17,025	17,025	–	18,516	18,516
Bonds and other fixed-income securities	554,067	–	554,067	531,922	–	531,922
Shares	104,787	–	104,787	77,689	–	77,689
Derivative financial instruments	– 65	–	– 65	– 69	–	– 69
Land and buildings	–	5,020	5,020	–	5,020	5,020
Other assets	–	17,072	17,072	29,355	298	29,653
Total	**658,789**	**39,117**	**697,906**	**638,897**	**23,834**	**662,731**

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

Other provisions

Other provisions changed as follows:

in € thousand	*Bauspar*-specific provisions	Other provisions	Provisions for loan commitments	Total
Balance as at 1 Jan 2019	**1,071,978**	**86,023**	**4,609**	**1,162,610**
Additions	479,923	17,904	4,138	501,965
Utilisation	– 145,911	– 13,861	–	– 159,772
Reversals	– 79	– 16,456	– 2,684	– 19,219
Interest expense	–	9	–	9
Other changes	–	– 146	– 7	– 153
Balance as at 31 Dec 2019	**1,405,911**	**73,473**	**6,056**	**1,485,440**
Additions	325,929	18,616	12,462	357,007
Utilisation	– 288,023	– 10,656	–	– 298,679
Reversals	– 353	– 1,370	– 10,541	– 12,264
Interest expense	–	10	–	10
Other changes	– 33	– 265	– 29	– 327
Balance as at 31 Dec 2020	**1,443,431**	**79,808**	**7,948**	**1,531,187**

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. In the reporting period, Bausparkasse Schwäbisch Hall recognised a special allocation of €115 million (previous year: €280 million) to the interest bonus provision, €53 million of which (previous year: €57 million) was attributable to portfolio measures in the previous year (change in estimates).

The expected maturities of other provisions are classified as follows:

Balance as at 31 Dec 2020 in € thousand	**≤ 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**> 5 years**
Bauspar-specific provisions	5,328	949,475	426,276	62,352
Other provisions	584	54,585	24,566	73
Provisions for loan commitments	212	–	7,736	–
Total	**6,124**	**1,004,060**	**458,578**	**62,425**

Balance as at 31 Dec 2019 in € thousand	**≤ 3 months**	**> 3 months – 1 year**	**> 1 year – 5 years**	**> 5 years**
Bauspar-specific provisions	5,735	884,026	453,522	62,628
Other provisions	504	52,821	20,148	–
Provisions for loan commitments	308	–	5,748	–
Total	**6,547**	**936,847**	**479,418**	**62,628**

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 1 Jan 2019	**4,603**	**2**	**4**
Additions	4,129	1	8
Reversals	– 2,465	– 211	– 8
Other changes	– 213	208	– 2
Balance as at 31 Dec 2019	**6,054**	**–**	**2**
Additions	12,458	–	4
Reversals	– 10,201	– 332	– 8
Other changes	– 364	332	3
Balance as at 31 Dec 2020	**7,947**	**–**	**1**

57 OTHER LIABILITIES

in € thousand	31 Dec 2020	31 Dec 2019
Accruals	94,366	98,797[1]
Liabilities to DZ BANK AG from profit and loss transfer agreement	8,000	16,000
Other tax liabilities to taxation authorities	41,373	41,197
Lease liabilities	19,210	20,584
Other financial liabilities	8,062	4,105
Remaining other liabilities	2,707	4,996
Total	**173,718**	**185,679**[1]

[1] Amount adjusted, see Note 2.

58 EQUITY

in € thousand	31 Dec 2020	31 Dec 2019
Subscribed capital	310,000	310,000
Capital reserves	1,486,964	1,486,964
Retained earnings	3,390,264	3,258,762
Reserve from fair value OCI equity instruments	– 3,005	– 3,122
Reserve from fair value OCI debt instruments	777,306	436,239
Currency translation reserve	– 15,860	– 6,686
Non-controlling interests	74,205	78,964
Net profit	44,971	138,584
Total	**6,064,845**	**5,699,705**

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

in € thousand	2020	2019
Balance as at 1 Jan	**967**	**854**
Additions	2,086	914
Utilisation	– 561	– 517
Reversals	– 387	– 231
Other changes	– 355	– 53
Balance as at 31 Dec	**1,750**	**967**

Subscribed capital
The subscribed capital (share capital) of Bausparkasse Schwäbisch Hall is composed of 6,000,000 no-par value shares. Each share conveys one vote. All issued shares are outstanding and fully paid-up.

Disclosures on shareholders
The interest in the share capital held by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, was 97.053% at the end of the financial year. The remaining 2.947% is mainly held by primary banks.

Capital reserves
The capital reserves contain an amount of €45 million, representing the premium paid on the nominal amount of Bausparkasse Schwäbisch Hall's shares on issuance.

Retained earnings
Retained earnings contain the Group's accumulated, undistributed capital and the actuarial gains and losses from defined benefit plans, net of deferred taxes. Accumulated actuarial gains and losses amount to €– 194.4 million (previous year: €– 187.3 million).

Retained earnings include undistributed profits of €277.8 million (previous year: €277.8 million) that are allocated to the technical security reserve in accordance with section 6 of the *Bausparkassen* Act (BauSparkG), as well as €25.5 million (previous year: €25.5 million) that was recognised for the same purpose on the basis of the Hungarian Act CXIII/1996 on *Bausparkassen*.

Reserve from fair value OCI equity instruments
The reserve from fair value OCI equity instruments presents changes in the fair values of equity instruments that were designated irrevocably in the "Fair value through other comprehensive income" measurement category (fair value OCI option) in accordance with IFRS 9.4.1.4. After the disposal of equity instruments for which the fair value OCI option was exercised, accumulated gains and losses are reclassified from other comprehensive income to retained earnings.

Reserve from fair value OCI debt instruments
The reserve from fair value OCI debt instruments presents changes in the fair values of financial assets in the "Fair value through other comprehensive income" measurement category, net of deferred taxes. Gains and losses are only recognised in profit or loss if the corresponding asset has been derecognised. Loss allowances are included in the reserve from fair value OCI debt instruments.

Currency translation reserve
The currency translation reserve results from the translation of foreign currency financial statements of subsidiaries and joint ventures into the euro, which is the Group reporting currency.

Non-controlling interests
Non-controlling interests comprise interests in the equity of subsidiaries that are not attributable to the Group.

Capital management
Bausparkasse Schwäbisch Hall AG manages equity using the following key indicators:

	Bausparkasse Schwäbisch Hall Group	
in %	**31 Dec 2020**	**31 Dec 2019**
RORAC	3.0	7.1
Overall capital ratio under the German Solvency Regulation (SolvV)	31.6	31.4
Tier 1 capital ratio	31.6	31.4

Please refer to the Report on Risks and Opportunities for information on capital management.

Financial instruments disclosures

59 DISCLOSURES ON FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Carrying amount	
in € thousand	**31 Dec 2020**	**31 Dec 2019**
Financial assets measured at fair value	**10,368,064**	**9,272,673**
Financial assets measured at fair value through other comprehensive income	10,337,195	9,270,070
Debt instruments	10,320,620	9,260,147
Equity instruments	16,575	9,923
Positive fair values of hedging instruments	30,869	2,603
Financial assets measured at amortised cost	**70,832,768**	**67,751,994**
Cash and cash equivalents	542,490	137,697
Loans and advances to banks	8,933,803	11,208,788
Loans and advances to customers	58,860,601	53,867,139
Investments	2,487,448	2,532,650
Other assets	8,426	5,720
Finance leases	**1,196**	**671**

	Carrying amount	
in € thousand	**31 Dec 2020**	**31 Dec 2019**
Financial liabilities measured at fair value	**–**	**4,529**
Negative fair values of hedging instruments	–	4,529
Financial liabilities measured at amortised cost	**72,865,420**	**69,769,197**
Deposits from banks	7,775,640	6,141,799
Deposits from customers	65,073,718	63,607,293
Issued bonds	513,208	–
Other liabilities	16,062	20,105
Financial guarantee contracts and loan commitments (provisions)	**7,948**	**6,056**
Finance leases	**19,210**	**20,584**

IFRS 7.25 requires disclosure of the fair value of each class of financial assets and liabilities, and hence also of *Bauspar* deposits and *Bauspar* loans. In principle, the contracts would have to be measured separately in this case.

Due to the complex structure of a *Bauspar* contract and the great variety of tariff structures, no suitable method for calculating fair value on a single contract basis in line with the reporting date principle is available at this time. Consequently, fair values under IFRS 7.25 cannot be determined using either comparative market prices or suitable option pricing models. The models developed in practice to manage *Bausparkassen* only serve comprehensive bank management and likewise do not offer any sufficient basis for measurement based on fair values as defined in IFRS (see Note 6). Accordingly, Bausparkasse Schwäbisch Hall does not disclose fair value and does not classify the relevant financial instruments into the levels of the fair value hierarchy.

The portfolio fair value hedge accounting used to hedge interest rate risk for *Bauspar* deposits leads to a €23,038 thousand (previous year: €–3,623 thousand) change in the carrying amount of the portfolio of hedged items. The hedged portfolio of hedged items amounts to €725 million (€425 million).

Although any potential hidden liabilities are not disclosed, they are taken into account as a deduction in the course of calculating the risk coverage potential (RCP). Hidden reserves are not included to increase the RCP for reasons of prudence. There are no hidden liabilities to be taken into account in the determination of the RCP at the reporting date.

On the basis of the *Bausparkasse's* comprehensive bank management models, which comprise both the collective and non-collective business including financial investments, the *Bauspar* business produced an overall positive amount during the financial year.

60 FAIR VALUE HIERARCHY

Financial instruments accounted for at fair value are categorised within the hierarchy in line with the fair value measurement method and the underlying assumptions.

Financial instruments are transferred between Level 1 and 2 due to the disappearance or emergence of active markets. They are transferred when there is a change in the inputs relevant for categorisation in the fair value hierarchy. Financial instruments are transferred between Level 1 and Levels 2 and 3 of the fair value hierarchy on the basis of a change in the estimated market observability of the inputs used in the valuation techniques. There were no transfers in the reporting period.

Fair values in Level 1 of the hierarchy are calculated by reference to prices in active markets for the financial instrument in question (quoted market prices). In the reporting period, investments in the category "Financial assets mandatorily measured at fair value through other comprehensive income" amounting to €10,320,620 thousand (previous year: €9,260,147 thousand) were accounted for at the quoted market price in Level 1 of the hierarchy.

The fair value of financial instruments categorised within Level 2 of the measurement hierarchy is measured by reference to prices in active markets for similar, but not identical, financial instruments, or by using valuation techniques that are predominantly based on observable measurement inputs. The fair value of derivative financial instruments is calculated using standard industry models customary that use observable inputs. Cash flows relating to derivative financial instruments are discounted using a yield curve that takes collateralisation into account. In the reporting period, interest rate swaps used for hedging with a positive fair value of €30,869 thousand (previous year: €2,603 thousand) in the "Financial instruments at fair value through profit or loss" category were accounted for in Level 2 of the hierarchy. There were no swaps used for hedging with a negative fair value in the portfolio at the reporting date (previous year: €4,529 thousand).

The fair value of equity instruments such as shares and other variable-yield securities and interests in subsidiaries 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 based on projected figures and estimates are discounted using risk parameters.

The carrying amount of equity instruments in the fair value OCI category categorised within Level 3 increased from €9,923 thousand to €16,575 thousand in the financial year due to a €156 thousand increase in fair value, a €4 thousand reduction in fair value and a €6,500 thousand capital contribution.

61 REPURCHASE AGREEMENTS

Transfers in which the transferred assets remain on the balance sheet were performed in the Schwäbisch Hall Group in the financial year exclusively under genuine repurchase agreements between Bausparkasse Schwäbisch Hall AG and DZ Bank on the basis of a International Capital Market Association (ICMA) standard industry master agreement at standard market conditions. The *Bausparkasse* acts exclusively as a securities provider. The master agreement provides for the unrestricted availability of the securities for the transferee or their transfer as collateral in absence of default by the counterparty, as well as the return of the same class. If the fair value of the securities transferred under the repurchase agreements increases or decreases, the relevant entity may be required to provide further collateral or require the provision of collateral.

Debt securities in the class of financial assets measured at fair value and financial assets measured at amortised cost are transferred in repurchase agreements (repos). The carrying amounts of the securities sold under repurchase agreements and the related liabilities are as follows at the reporting date:

Balance as at 31 Dec 2020 in € thousand	Financial assets sold under repurchase agreements Carrying amount	Related financial liabilities measured at amortised cost Carrying amount
Financial assets measured at fair value	**797,706**	**794,222**
Financial assets mandatorily measured at fair value through other comprehensive income	797,706	794,222
Investments	797,706	794,222
Financial assets measured at amortised cost	**953,811**	**1,061,769**
Investments	953,811	1,061,769
Total	**1,751,517**	**1,855,991**

The master agreement does not meet the IAS 32 offsetting criteria because the right of set-off is contingent on the occurrence of a future event.

DZ Bank provided additional cash collateral for repurchase agreements in the amount of €16,370 thousand at the reporting date, which was recognised in deposits from banks. The fair value of securities sold under repurchase agreements amounted to €1,873,730 thousand as at the reporting date, so the net amount in the event of offsetting would be €0 thousand.

62 COLLATERAL

On the reporting date, loans and advances to customers amounting to €135,625 thousand (previous year: €135,734 thousand) were provided as collateral for building loans extended under KfW Group development loan programmes. KfW Group's receivables from Bausparkasse Schwäbisch Hall are secured by the assignment of receivables arising from transmission of the earmarked loan and the fiduciary holding of collateral made available for this purpose.

Bausparkasse Schwäbisch Hall AG also has receivables secured by mortgages and bearer bonds in the cover pool under sections 12 and 19 of the German *Pfandbrief* Act. As at 31 December 2020, the cover pool amounted to €746 million, with mortgage *Pfandbriefe* with a nominal value of €506 million outstanding.

63 ITEMS OF INCOME, EXPENSE, PROFIT AND LOSS

The influence of financial instruments on the earnings positions of the Schwäbisch Hall Group in accordance with IFRS 7 is presented in the following by means of supplementary disclosures.

Net gains and losses

Net gains and losses on financial instruments by IFRS 9 category are attributable to financial assets and financial liabilities in the amounts shown:

in € thousand	2020	2019
Derivative financial instruments mandatorily measured at fair value through profit or loss	**5,691**	**19,743**
Financial assets measured at fair value through other comprehensive income	**662,194**	**806,200**
Financial assets mandatorily measured at fair value through other comprehensive income	660,724	804,193
Net gains and losses recognised in profit or loss	164,554	172,923
Net gains and losses recognised in other comprehensive income	496,170	631,270
Financial assets designated at fair value through other comprehensive income	1,470	2,007
Net gains and losses recognised in profit or loss	1,318	997
Net gains and losses recognised in other comprehensive income	152	1,010
Financial assets measured at amortised cost	**1,375,537**	**1,492,125**
Financial liabilities measured at amortised cost	**–972,055**	**–1,138,919**

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	2020	2019
Interest income	**1,496,572**	**1,584,918**
from financial assets measured at cost, including finance leases	1,385,999	1,475,365
from financial assets measured at fair value through other comprehensive income	110,573	109,553
Interest expense on financial liabilities measured at amortised cost, including finance leases	**– 972,724**	**– 1,139,528**

Income and expense items from commissions

Net fee and commission income includes fee and commission expenses of €112,442 thousand (previous year: €121,336 thousand) and fee and commission income of €38,545 thousand (previous year: €34,358 thousand) from financial assets and financial liabilities that are not measured at fair value through profit or loss.

64 HEDGE ACCOUNTING

Risk management strategy

Fair value hedges are recognised as part of the risk management strategy to eliminate or mitigate accounting mismatches.

Hedged items

Fair value hedged accounting is used in hedges of interest rate risk. Risk of interest rate changes in this context means the risk that the fair value or a fixed-income financial instruments will be adversely affected by a change in market interest rates. The hedged financial liabilities are deposits from customers measured at amortised cost. Liability-side interest rate risk portfolios of selected tariff versions of the *Bausparkasse* are identified and designated as hedged items in portfolio hedge accounting (portfolio fair value hedges). During the term of the hedging relationship, these portfolios are exposed to changes in the volume and number of included contracts, which are taken into account as part of the regular hedging cycle.

The hedging relationships are normally designated for one month. They are then closed and redesignated on the basis of the changed overall portfolio.

Hedging instruments

Interest rate swaps are designated as hedging instruments to account for hedges of the fair value of financial liabilities.

The hedging instruments are reported in positive and negative fair values of hedging instruments.

Effectiveness test

Hedge accounting requires the hedge to be effective both prospectively and retrospectively. The entity seeks to establish an effective hedging relationship for each maturity band to which at least one hedging instrument has been allocated. For this purpose, changes in the fair values of the hedging items, including the attributable future contractual cash flows, must almost fully offset changes in the fair values of the hedging instruments.

In the case of portfolio hedges, there is no direct economic relationship between the hedged item and the hedging instruments. The approximate offsetting of the changes in fair value is ensured by determining an individual hedge ratio based on the sensitivities of the hedged item and the hedging instruments.

Hedge effectiveness is tested and demonstrated at each month-end.

Portfolio hedges that continue to be accounted for in accordance with IAS 39 are deemed to be effective if changes in the fair values of the hedged items and the hedging instruments offset each other within the range of 80% to 125% defined by IAS 39. If this test establishes that the hedge is not sufficiently effectively, it must be terminated retrospectively as at the date of the most recent effective test.

In fair value hedges, prospective and retrospective effectiveness is tested using a regression model.

To do this, the accumulated changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments.

Gains and losses and ineffectiveness of hedge accounting

Hedge ineffectiveness results from opposing changes in the fair value of hedging instruments and hedged items that do not fully offset each other.

Hedge ineffectiveness is recognised in “Other gains or losses on valuation of financial instruments” in the income statement. Hedge ineffectiveness may arise in fair value hedges of interest rate risk. This is because the changes in the fair values of hedged items and hedging instruments may not fully offset each other because of differences relating to maturities, cash flows and discount rates.

Scope of risks managed using hedges and impact on cash flows

Information on the volume of hedged items and hedging instruments that were designated in hedging relationships to hedge risk in interest rate changes is presented in the following:

Balance as at 31 Dec 2020 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	
Assets	**30,869**	**730,000**	**–**	**–**	**27,863**
Positive fair values of hedging instruments	30,869	730,000			27,863
Liabilities	**725,202**	**–**	**23,038**	**–**	**– 28,277**
Deposits from customers	725,202		23,038	–	– 28,277
Negative fair values of hedging instruments	–	–			–

Balance as at 31 Dec 2019 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	
Assets	**2,603**	**160,000**	**–**	**–**	**1,800**
Positive fair values of hedging instruments	2,603	160,000			1,800
Liabilities	**429,804**	**265,000**	**– 3,623**	**–**	**– 1,891**
Deposits from customers	425,275		– 3,623	–	3,354
Negative fair values of hedging instruments	4,529	265,000			– 5,245

The notional amounts of hedging instruments amounting to €730,000 thousand (previous year: €425,000 thousand) are attributable to the > 5 years (previous year: > 5 years) maturity band.

65 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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 included in the Opportunity and risk report in the Combined management report. The selected data under IFRS 7.35–36 and the maturity analysis (Note 66) are disclosed in the notes to the consolidated financial statements.

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.
- 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.
- 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 Bausparkasse Schwäbisch Hall Group. Loss allowances are likewise recognised in the amount of the lifetime expected credit losses. In addition, interest income is calculated on the amortised cost after loss allowances using the effective interest method.
- POCI: financial assets that are credit-impaired on initial recognition are not assigned to the three-stage model and are measured separately. POCI financial assets are not measured at their gross carrying amount, but rather at their fair value. Accordingly, interest income for POCI financial assets is recognised using a risk-adjusted effective interest rate.

No financial assets that are credit-impaired on initial recognition (purchased or originated credit-impaired assets, POCI) were identified during the reporting period.

The review of whether there has been a significant increase in the credit risk of financial assets or financial guarantee contracts and loan commitments compared with the credit risk at acquisition date is performed monthly, with a special focus at every reporting date. The assessment is made at the level of the financial asset with the aid of quantitative and qualitative analyses.

The quantitative analyses are usually performed by reference to the expected credit risk over the entire residual life of the financial instruments under review. Macroeconomic information is also taken into account. The credit risk at the reporting date for the residual maturity is generally compared with the credit risk of the asset estimated at the acquisition date for the relevant maturity. The threshold values that indicate a significant increase in credit risk are generally calculated separately for each portfolio in relation to its historical probability of default migration. Internal risk measurement systems and risk forecasts are also used to assess the credit risk of financial assets. This review is supplemented with qualitative criteria that increase credit risk, insofar as these are not already reflected in the probability of default. In principle, a transfer into Stage 2 is assumed at the latest in the case of a default of 30 days. Depending on the business segment, the criterion is defined as a supplementary backstop criterion or payments past due are already part of the rating and scoring system and are reflected in this way.

No review of any significant increase in credit risk is performed for securities with a low credit risk. Securities with an investment grade rating are therefore assigned to Stage 1. This exception does not apply to loans and advances.

If it is established on the reporting date that there is no longer a significant increase in credit risk compared with earlier reporting dates, the financial assets concerned are transferred back to Stage 1 and the loss allowances are returned to the level of the expected 12-month expected credit loss. For retransfer from Stage 3, the default status is not lifted until after a corresponding good behaviour period in line with the regulatory definition.

Expected losses are calculated as the probability-weighted present value of expected defaults over the entire expected maturity from default events within the next twelve months for assets assigned to Stage 1 of the credit loss model and from default events over the entire residual life for assets assigned to Stages 2 or 3. 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).

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. These scenarios include, for example, future labour market trends. 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 (for example by disclosing an insolvency ratio). Directly recognised impairment losses are usually recognised after the completion of all recovery and enforcement measures. Directly recognised impairment losses are also recognised for immaterial minor amounts.

Effects from COVID-19

The established models and processes for determining expected losses under IFRS 9 were generally retained during the COVID-19 pandemic.

Current economic developments in the era of COVID-19 are primarily taken into account by updating the macroeconomic forecasts. In doing so, Bausparkasse Schwäbisch Hall used the macroeconomic forecasts for the years 2020–2024 from the DZ BANK's Research division that are taken into account when determining expected losses.

Due to the extreme macroeconomic changes, which were not be observed to this extent in the past, and the extensive government support measures, an expert-based override of the shift factors statistically determined on the basis of DZ BANK's macroeconomic forecasts was performed for the portfolio segments affected by the pandemic. This ensures that the shift factors used correspond to the technical expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

Expected macroeconomic trends are reflected by adjusting the model-based default probability profiles used in economic and regulatory risk management. The shift factors are used to include current economic trends ("point-in-time focus") as well as forecasts of future economic conditions for the years in the macroeconomic forecast horizon in the calculation of loss allowances. These shift factors are derived through existing stress testing models from macroeconomic inputs for various levels of probability of default. These PD shift factors are based on DZ BANK's macroeconomic forecasts.

The baseline scenario is based on the assumption of a renewed recession in the winter half-year 2020/2021, which is then superseded by an increasingly dynamic recovery in the course of 2021. A condition for this is that an effective vaccine is developed in the very short term (which actually happened), which can then be rolled out on a broad front in 2021. The resulting recovery in consumption, investment and foreign trade will continue to drive strong growth in 2022. In the period thereafter, economies return to their trend growth. The 80% weighted baseline scenario corresponds to DZ BANK's November 2020 forecasts, which are approximately the same as the ECB's December 2020 scenarios.

The risk scenario is based on the assumption that serious problems arise with the developed vaccines that fundamentally into question call their effectiveness. Such problems could include unforeseen side effects of the vaccines or new mutations of the virus against which the available vaccines are not effective. This will initially lead to a "disappointment shock" in the economy and among consumers in financial year 2021. This will slow down the macroeconomic recovery substantially. In light of sharp increases in unemployment and massive declines in incomes, a positive economic rebound in financial years 2021 and 2022 is unlikely in this scenario. Instead, the economy is expected to recover gradually over several years. Leverage ratios will rise again sharply in this scenario.

In particular, the following macroeconomic forecasts for the years 2020 to 2024 are also included in the calculation of expected loss as at the reporting date:

		2020		2021		2022		2023		2024	
		Baseline	Risik	Baseline	Risik	Baseline	Risik	Baseline	Risik	Baseline	Risik
Unemployment, Germany	in %	6.0	6.0	7.0	7.3	6.5	7.3	6.0	7.0	5.5	6.8
Real GDP growth, Germany (seasonally and calendar-adjusted)	% compared with previous year	– 5.0	– 5.0	3.0	1.0	4.5	1.3	1.8	1.5	1.3	2.0

The calculated values were validated using Group-wide expert surveys and supplemented by management's estimates. This ensures that the shift factors used correspond to the technical expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

At Bausparkasse Schwäbisch Hall, the short-term, foreseeable, portfolio-specific, idiosyncratic effects of the support measures beyond the determined shift factors were also identified and quantified separately. These are default expectations, derived from payment behaviour, of deferrals that were granted within the framework of the statutory moratorium or the moratorium of the Association of Private *Bausparkassen*. These effects, which are specific to the Schwäbisch Hall Group, were covered by updating other model parameters with an effect on the probabilities of default beyond the shift factors determined for the entire sector.

The adjustments described represent adjustments to inputs in the models for reflecting the COVID-19 pandemic. It was not therefore necessary to develop additional post-model adjustments in the Schwäbisch Hall Group.

To mitigate the effects of COVID-19, individual support measures were agreed between borrowers, including a temporary deferral of repayments of principal. In addition to the individual measures, there were also measures under general payment holidays, both statutory and voluntary. In the Schwäbisch Hall Group, payment holidays were or are used for consumer loans under legislative moratoria in Germany (until 30 June 2020) and Hungary (until 30 June 2021). Consumer loans were also deferred under the moratorium of the Association of Private *Bausparkassen*. In accordance with the EBA Guidelines on legislative and non-legislative moratoria on loan payments applied in the light of the COVID 19 crisis (EBA/GL/2020/02 and EBA/GL/2020/15), the general legislative and non-legislative payment moratoria are not considered to be forbearance measures if the borrower is in financial difficulties and therefore do not lead to a forbearance-related step transfer within the credit loss model. A step transfer is performed if other transfer criteria are met. This exception does not apply to individual support measures.

No significant deterioration of the value of collateral held in the form of real estate liens is currently being observed as a result of the COVID-19 pandemic. Any valuation haircuts on real estate held as collateral are subject to continuous monitoring, taking into account the further development of the COVID-19 pandemic. No decreases in real estate collateral as a result of the pandemic have currently been identified.

To date, the COVID-19 pandemic has not led to any significant transfers between the stages of the credit loss model for the gross carrying amounts of financial instruments in the classes “Financial assets measured at fair value”, “Financial assets measured at amortised cost” and the nominal amounts of the class “Financial guarantee contracts and loan commitments”.

Additions to loss allowances, which are presented in the statement of changes in loss allowances and include the effects of the COVID-19 pandemic, are also attributable to the changes in the macro-economic 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” and “Financial guarantee contracts and loan commitments”. Trade receivables form part of the class “Financial assets measured at amortised cost”.

Financial assets measured at fair value

	Stage 1	
in € thousand	**Loss allowances**	**Fair value**
Balance as at 1 Jan 2019	**854**	**8,055,642**
Additions/increase in credit utilisation	914	2,788,097
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	– 517	–
Reversals and repayments	– 231	– 2,212,115
Amortisation, changes in fair value	–	628,523
Other changes	– 53	–
Balance as at 31 Dec 2019	**967**	**9,260,147**
Additions/increase in credit utilisation	2,086	2,045,740
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	– 561	–
Reversals and repayments	– 387	– 1,469,685
Amortisation, changes in fair value	–	484,418
Other changes	– 355	–
Balance as at 31 Dec 2020	**1,750**	**10,320,620**

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 1 Jan 2019	**26,892**	**58,515,617**	**51,142**	**4,013,226**	**92,861**	**611,781**
Additions/increase in credit utilisation	5,934	20,256,661	1,336	99,351	–	–
Change to financial assets due to stage transfer	60,368	– 331,380	– 43,283	184,994	– 17,085	146,386
Transfer from stage 1	– 1,726	– 1,424,869	1,598	1,283,647	128	141,222
Transfer from stage 2	58,674	1,074,197	– 67,663	– 1,338,739	8,989	264,542
Transfer from stage 3	3,420	19,292	22,782	240,086	– 26,202	– 259,378
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	– 2	–	– 31	– 6,690	– 6,528
Reversals and repayments	– 3,814	– 14,870,996	– 5,889	– 473,830	– 10,854	– 119,697
Changes in risk parameters	– 64,834	–	45,372	–	33,260	–
Additions	2,616	–	71,605	–	44,810	–
Reversals	– 67,450	–	– 26,233	–	– 11,550	–
Amortisation	–	– 106,622	–	47,700	–	– 258
Currency translation differences and other changes	– 83	– 46,427	– 17	– 2,312	230	– 793
Balance as at 31 Dec 2019	**24,463**	**63,416,851**	**48,661**	**3,869,098**	**91,722**	**630,891**
Additions/increase in credit utilisation	7,189	27,358,387	1,681	307,840	–	–
Change to financial assets due to stage transfer	56,842	– 791,418	– 46,654	643,040	– 10,188	148,378
Transfer from stage 1	– 2,315	– 1,757,084	2,185	1,614,420	130	142,664
Transfer from stage 2	53,302	935,112	– 61,473	– 1,068,104	8,171	132,992
Transfer from stage 3	5,855	30,554	12,634	96,724	– 18,489	– 127,278
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	– 38	– 3,030	– 4,823
Reversals and repayments	– 1,908	– 23,426,201	– 6,541	– 752,981	– 12,072	– 139,055
Changes in risk parameters	– 43,974	–	63,444	–	18,222	–
Additions	21,878	–	100,437	–	39,420	–
Reversals	– 65,852	–	– 36,993	–	– 21,198	–
Changes due to contract modifications	–	– 5,471	– 1,425	– 2,263	–	– 166
Amortisation	–	– 94,267	–	34,485	–	784
Currency translation differences and other changes	– 226	– 165,505	– 13	– 6,550	– 592	– 2,648
Balance as at 31 Dec 2020	**42,386**	**66,292,376**	**59,153**	**4,092,631**	**84,062**	**633,361**

Financial guarantee contracts and loan commitments

in € thousand	Stage 1		Stage 2		Stage 3	
	Loss allowances	Nominal amount	Loss allowances	Nominal amount	Loss allowances	Nominal amount
Balance as at 1 Jan 2019	**4,603**	**4,806,565**	**2**	**26**	**4**	**298**
Additions/increase in credit utilisation	4,129	1,474,215	–	–	–	–
Change to financial assets due to stage transfer	– 206	– 868	208	856	– 2	12
Transfer from Stage 1	– 210	– 922	210	890	–	32
Transfer from Stage 2	3	42	– 3	– 42	–	–
Transfer from Stage 3	1	12	1	8	– 2	– 20
Reversals and repayments	– 2,456	– 472,037	– 211	– 882	– 8	– 70
Changes in risk parameters	– 9	–	1	–	8	–
Currency translation differences and other changes	– 7	– 582	–	–	–	– 9
Balance as at 31 Dec 2019	**6,054**	**5,807,293**	**–**	**–**	**2**	**231**
Additions/increase in credit utilisation	8,813	3,357,160	–	–	–	–
Change to financial assets due to stage transfer	– 335	– 32,342	332	32,017	3	325
Transfer from stage 1	– 336	– 32,433	332	32,028	4	405
Transfer from stage 2	–	11	–	– 11	–	–
Transfer from Stage 3	1	80	–	–	– 1	– 80
Reversals and repayments	– 6,810	– 2,987,356	– 332	– 32,017	– 8	– 422
Changes in risk parameters	254	–	–	–	4	–
Additions	3,645	–	–	–	4	–
Reversals	– 3,391	–	–	–	–	–
Currency translation differences and other changes	– 29	– 3,250	–	–	–	– 22
Balance as at 31 Dec 2020	**7,947**	**6,141,505**	**–**	**–**	**1**	**112**

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 €126,704 thousand (previous year: €0 thousand) before contract adjustments. Modification losses on these assets amounted to €2,429 thousand (previous year: €0 thousand).

Maximum exposure to credit risk

The Bausparkasse Schwäbisch Hall Group is exposed to credit risk arising from financial instruments. The maximum exposure to credit risk constitutes the fair values, amortised cost or nominal amounts of financial instruments. Collateral is not taken into account. The following collateral is held to hedge the maximum exposure to credit risk:

		of which secured by				
Balance as at 31 Dec 2020 in € thousand	**Maximum credit risk**	**Warranties, guarantees**	**Land charges, mortgages**	**Transfers of title, cession, pledge of receivables**	**Financial collateral**	**Other collateral**
Financial assets measured at fair value	**10,351,489**	**–**	**182,271**	**304,565**	**30,640**	**745,967**
Financial assets measured at fair value throughprofit or loss	30,869	–	–	–	30,640	–
Financial assets measured at fair value throughother comprehensive income	10,320,620	–	182,271	304,565	–	745,967
Financial assets measured at amortised cost	**70,832,767**	**118,080**	**45,560,221**	**1,364,300**	**8,205,060**	**3,266,760**
of which: credit-impaired	–	–	789,379	–	147,846	6,196
Financial guarantee contracts and loan commitments	**6,141,617**	**–**	**5,672,557**	**–**	**974**	**–**
of which: credit-impaired		–	111	–	–	–

		of which secured by				
Balance as at 31 Dec 2019 in € thousand [1]	**Maximum credit risk**	**Warranties, guarantees**	**Land charges, mortgages**	**Transfers of title, cession, pledge of receivables**	**Financial collateral**	**Other collateral**
Financial assets measured at fair value	**9,262,750**	**–**	**170,276**	**291,015**	**50**	**547,429**
Financial assets measured at fair value throughprofit or loss	2,603	–	–	–	50	–
Financial assets measured at fair value throughother comprehensive income	9,260,147	–	170,276	291,015	–	547,429
Financial assets measured at amortised cost	**67,751,994**	**20,103**	**41,565,636**	**2,272,260**	**7,310,633**	**4,057,089**
of which: credit-impaired	–	–	74,309	–	–	3,942
Financial guarantee contracts and loan commitments	**5,807,524**	**–**	**5,704,784**	**–**	**–**	**3,869**
of which: credit-impaired		–	172	–	–	9

[1] Amount adjusted, see Note 2.

For further analyses of the credit portfolio, please refer to the Opportunity and risk report in the Combined management report.

Credit concentration risk

The Bausparkasse Schwäbisch Hall Group's credit risk exposure attributable to financial instruments is broken down by sector using the Bundesbank industrial sector codes and geographically using the annually updated International Monetary Fund (IMF) country group classification. The volume, measured using fair values and gross carrying amounts of financial assets or the credit risk arising from financial guarantee contracts and loan commitments, is classified based on the following rating classes:

- investment grade: equivalent to internal rating grades 1A–2A
- non-investment grade: equivalent to internal rating grades 2B–3E
- default: equivalent to internal rating grades 4A–4B
- not rated: no rating necessary or not rated.

A detailed overview of internal rating grades can be found in the Opportunity and risk report in the Combined management report. The "not rated" category comprises counterparties for which no rating classification is required.

Credit risk concentrations by sector

		31 Dec 2020			
in € thousand		**Financial sector**	**Public sector (administration/ government**	**Corporates**	**Retail**
Investment grade		**14,843,892**	**8,691,104**	**1,965,466**	**21,001,822**
Fair value	Stage 1	3,906,639	4,501,758	1,912,223	–
Gross carrying amount	Stage 1	10,936,039	4,186,806	38,046	14,595,626
	Stage 2	244	640	3,497	401,440
Nominal amount	Stage 1	970	1,900	11,700	6,004,756
Non-investment grade		**74,607**	**200**	**843,027**	**39,417,945**
Gross carrying amount	Stage 1	38,879	200	686,728	35,797,730
	Stage 2	35,180	–	51,326	3,598,614
	Stage 3	–	–	47	4,784
Nominal amount	Stage 1	548	–	104,926	16,705
	Stage 3	–	–	–	112
Default		**–**	**–**	**7,436**	**620,929**
Gross carrying amount	Stage 3	–	–	7,436	620,929
Not rated		**11,865**	–	**3,008**	**537**
Gross carrying amount	Stage 1	11,833	–	1,237	485
	Stage 2	32	–	1,646	12
	Stage 3	–	–	125	40

in € thousand		31 Dec 2019			
		Financial sector	Public sector (administration/ government	Corporates	Retail
Investment grade		**16,438,901**	**8,613,101**	**1,630,340**	**19,236,104**
Fair value	Stage 1	3,540,239	4,113,185	1,606,723	–
Gross carrying amount	Stage 1	12,897,641	4,499,276	8,512	13,072,666
	Stage 2	–	640	70	392,450
Nominal amount	Stage 1	1,021	–	15,035	5,770,988
Non-investment grade		**27,049**	**2,501**	**577,288**	**35,841,977**
Gross carrying amount	Stage 1	26,251	2,501	536,852	32,372,777
	Stage 2	798	–	39,464	3,434,337
	Stage 3	–	–	220	15,135
Nominal amount	Stage 1	–	–	752	19,497
	Stage 3	–	–	–	231
Default		**–**	**–**	**8,089**	**607,448**
Gross carrying amount	Stage 3	–	–	8,089	607,448
Not rated		**194**	**–**	**1,808**	**410**
Gross carrying amount	Stage 1	–	–	703	370
	Stage 2	194	–	1,105	40

Credit risk concentrations by country

		31 Dec 2020				
in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets	Supranational institutions
Investment grade		**39,094,927**	**7,183,070**	**29**	**47**	**224,211**
Fair value	Stage 1	4,421,677	5,674,732	–	–	224,211
Gross carrying amount	Stage 1	28,288,541	1,467,900	29	47	–
	Stage 2	382,218	23,603	–	–	–
Nominal amount	Stage 1	6,002,491	16,835	–	–	–
Non-investment grade		**39,638,868**	**682,260**	**4,205**	**10,446**	**–**
Gross carrying amount	Stage 1	35,982,880	528,410	3,745	8,502	–
	Stage 2	3,573,642	109,899	348	1,231	–
	Stage 3	–	4,831	–	–	–
Nominal amount	Stage 1	82,346	39,008	112	713	–
	Stage 3	–	112	–	–	–
Default		**609,737**	**18,161**	**–**	**467**	**–**
Gross carrying amount	Stage 3	609,737	18,161	–	467	–
Not rated		**–**	**15,410**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	13,555	–	–	–
	Stage 2	–	1,690	–	–	–
	Stage 3	–	165	–	–	–

in € thousand		31 Dec 2019 Germany	Other industrialised nations	Advanced economies	Emerging markets
Investment grade		**39,534,138**	**6,381,991**	**909**	**1,408**
Fair value	Stage 1	4,144,694	5,115,453	–	–
Gross carrying amount	Stage 1	29,333,287	1,144,682	54	72
	Stage 2	387,541	5,619	–	–
Nominal amount	Stage 1	5,668,616	116,237	855	1,336
Non-investment grade		**35,444,605**	**987,922**	**4,207**	**12,081**
Gross carrying amount	Stage 1	32,058,769	865,213	3,584	10,815
	Stage 2	3,385,836	86,874	623	1,266
	Stage 3	–	15,355	–	–
Nominal amount	Stage 1	–	20,249	–	–
	Stage 3	–	231	–	–
Default		**595,622**	**19,597**	**6**	**312**
Gross carrying amount	Stage 3	595,622	19,597	6	312
Not rated		**–**	**2,412**	**–**	**–**
Gross carrying amount	Stage 1	–	1,073	–	–
	Stage 2	–	1,339	–	–

66 MATURITY ANALYSIS

Balance as at 31 Dec 2020 in € thousand	≤ 1 month	> 1 month – 3 months	> 3 months – 1 Jahr	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Financial assets	**1,812,339**	**1,954,171**	**3,610,062**	**25,846,348**	**56,455,809**	**16,575**	**89,695,304**
Cash and cash equivalents	542,490	–	–	–	–	–	542,490
Loans and advances to banks	634,616	704,318	550,535	3,703,515	4,069,472	–	9,662,456
Loans and advances to customers	466,583	1,223,023	2,758,595	18,914,570	42,553,996	–	65,916,767
Positive fair values of hedging instruments[1]	595	538	3,681	18,583	8,393	–	31,790
Investments	160,515	26,292	297,159	3,209,648	9,823,142	16,575	13,533,331
Other assets	7,540	–	92	32	806	–	8,470
Financial liabilities	**– 1,540,641**	**– 509,131**	**– 2,576,866**	**– 1,068,595**	**– 1,456,641**	**– 66,336,814**	**– 73,488,688**
Deposits from banks	– 1,183,366	– 501,112	– 2,575,048	– 1,044,157	– 929,528	– 1,575,773	– 7,808,984
Deposits from customers	– 350,909	– 19	– 241	– 23,134	– 26,798	– 64,761,041	– 65,162,142
Issued bonds	–	–	– 50	– 1,200	– 500,250	–	– 501,500
Other liabilities	– 6,366	– 8,000	– 1,527	– 104	– 65	–	– 16,062
Financial guarantee contracts and loan commitments	**– 6,140,621**	**–**	**–**	**–**	**– 996**	**–**	**– 6,141,617**

[1] Net values

Balance as at 31 Dec 2019 in € thousand	≤ 1 month	> 1 month – 3 months	> 3 months – 1 Jahr	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Financial assets	**905,789**	**1,569,226**	**4,765,038**	**25,379,450**	**55,122,526**	**9,923**	**87,751,952**
Cash and cash equivalents	137,697	–	–	–	–	–	137,697
Loans and advances to banks	132,270	685,897	1,514,736	4,767,766	5,128,756	–	12,229,425
Loans and advances to customers	451,017	855,091	2,762,059	17,633,952	40,553,117	–	62,255,236
Positive fair values of hedging instruments[1]	–	–	980	2,482	– 62	–	3,400
Other assets	4,989	8	7	27	804	–	5,835
Financial liabilities	**– 1,636,172**	**– 858,778**	**– 1,881,218**	**– 375,196**	**– 164,831**	**– 65,441,194**	**– 70,357,389**
Deposits from banks	– 1,303,774	– 840,512	– 1,881,889	– 363,254	– 123,350	– 1,652,421	– 6,165,200
Deposits from customers	– 330,590	– 19	– 539	– 14,668	– 34,640	– 63,788,773	– 64,169,229
Negative fair values of hedging instruments[1]	–	48	1,210	2,726	– 6,841	–	– 2,857
Other liabilities	– 1,808	– 18,295	–	–	–	–	– 20,103
Financial guarantee contracts and loan commitments	**– 5,806,616**	**–**	**–**	**– 12**	**– 896**	**–**	**– 5,807,524**

[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. Liquidity risk management is presented in the Opportunity and risk report within the Combined management report.

Other disclosures

67 FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

in € thousand	31 Dec 2020	31 Dec 2019
Loan commitments to customers	**6,140,332**	**5,805,621**
Financial guarantee contracts	**1,285**	**1,903**
Loan guarantees	322	601
Other guarantees and warranties	963	1,302
Total	**6,141,617**	**5,807,524**

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

68 REVENUE FROM CONTRACTS WITH CUSTOMERS

The income statement does not contain any revenue from contracts with customers other than the revenue from contracts with customers in net fee and commission income presented in Note 30.

69 EMPLOYEES

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

	31 Dec 2020	31 Dec 2019
Female employees	**1,997**	**1,972**
Full-time employees	1,083	1,082
Part-time employees	914	890
Male employees	**1,306**	**1,287**
Full-time employees	1,179	1,159
Part-time employees	127	128
Total employees	**3,303**	**3,259**

	31 Dec 2020	31 Dec 2019
Female junior employees	74	80
Male junior employees	122	111
Total junior employees	**196**	**191**

70 GROUP AUDITORS AND CONSULTING FEES

The total fees charged by Group auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, classified by type of service, are as follows:

in € thousand	31 Dec 2020	3 Dec 2019
Audit services	591	518
Other assurance services	65	13
Other services	19	40
Total	**675**	**571**

The audit fees comprise expenses for the audit of the consolidated financial statements and the Group management report of Bausparkasse Schwäbisch Hall as well as for the statutory audits of the annual financial statements and management report of Bausparkasse Schwäbisch Hall and the subsidiaries included in the consolidated financial statements and audited by the Group auditor.

71 REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF BAUSPARKASSE SCHWÄBISCH HALL

The remuneration of the Management Board of Bausparkasse Schwäbisch Hall in the Group under IAS 24.17 amounted to €6,319 thousand in the reporting period (previous year: €4,659 thousand) under IFRSs. This is classified into current employee benefits of €3,446 thousand (previous year: €3,375 thousand) and post-employment benefits of €2,873 thousand (previous year: €1,284 thousand). The remuneration of the Supervisory Board amounts to €301 thousand (previous year: €321 thousand) and consists of current benefits.

There are defined benefit obligations of €11,332 thousand (previous year: €11,448 thousand) for members of the Management Board. Provisions of €62,280 thousand (previous year: €56,441 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 €3,446 thousand in the reporting period (previous year: €3,375 thousand), and €301 thousand (previous year: €321 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 €3,454 thousand (previous year: €3,257 thousand). Provisions of €51,693 thousand (previous year: €46,709 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 €357 thousand on an arm's length basis (previous year: €52 thousand).

72 SHARE-BASED PAYMENT TRANSACTIONS

Bausparkasse Schwäbisch Hall has entered into agreements with the members of its Management Board, the managing directors of Schwäbisch Hall Kreditservice GmbH, the divisional managers and selected executives (risk takers) on the payment of multi-year variable remuneration.

The amount of the variable remuneration depends on the achievement of agreed targets. All targets have a multi-year assessment basis and include the core goals of the corporate strategy. 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 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. Variable remuneration does not vest during the deferral period. The Supervisory Board is responsible for determining the remuneration system for the members of the Management Board.

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 1 Jan 2019	**1,725**	**508**
Share-based remuneration granted in reporting period	684	67
Share-based remuneration paid out that was granted in financial year 2018	– 181	– 71
Share-based remuneration paid out that was granted in financial year 2017	– 169	– 36
Share-based remuneration paid out that was granted in earlier financial years	– 326	– 59
Share-based remuneration not paid out as at 31 Dec 2019	**1,733**	**409**
Share-based remuneration granted in reporting period	695	101
Share-based remuneration paid out that was granted in financial year 2019	– 171	– 17
Share-based remuneration paid out that was granted in financial year 2018	– 182	– 71
Share-based remuneration paid out that was granted in earlier financial years	– 335	– 94
Share-based remuneration not paid out as at 31 Dec 2020	**1,740**	**328**

73 EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period required to be reported under IAS 10.

74 RELATED PARTY DISCLOSURES

Transactions are entered into with related parties in the course of usual business activity. Related party transactions involve typical Bauspar products and financial services that were concluded on an arm’s length basis.

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 are deemed to be key management personnel for the purposes of IAS 24. There were loans to related persons of €357 thousand at the end of the financial year (previous year: €52 thousand) in the Schwäbisch Hall Group.

The following table shows the relationships with majority shareholders, unconsolidated subsidiaries, affiliates and joint ventures:

in € thousand	31 Dec 2020	31 Dec 2019
Interest income and current income	**124,855**	**159,731**
Majority shareholder	84,673	106,319
Affiliates	40,182	53,412
Interest expense	**11,511**	**9,401**
Majority shareholder	11,770	9,644
Subsidiaries	– 259	– 243
Fee and commission income	**18,333**	**20,025**
Affiliates	18,333	20,025
Fee and commission expenses	**– 1,395**	**– 1,203**
Majority shareholder	– 145	– 60
Affiliates	– 1,250	– 1,143
Gains or losses on derecognition of financial assets measured at amortised cost	**8,623**	**11,072**
Majority shareholder	8,623	11,072
Loans and advances to banks	**4,787,131**	**5,692,558**
Majority shareholder	3,677,803	4,330,907
Affiliates	1,109,328	1,361,651
Positive fair values of hedging instruments	**30,869**	**2,603**
Majority shareholder	30,869	2,603
Investments	**2,101,810**	**2,201,764**
Majority shareholder	1,080,837	1,181,058
Affiliates	1,020,973	1,020,706
Other assets	**3,070**	**1,984**
Majority shareholder	1,086	188
Subsidiaries	786	65
Affiliates	1,198	1,731
Deposits from banks	**6,049,216**	**3,871,797**
Majority shareholder	6,049,216	3,871,797
Deposits from customers	**50,251**	**48,150**
Subsidiaries	50,251	48,150
Negative fair values of hedging instruments	**–**	**4,529**
Majority shareholder	–	4,529
Other liabilities	**256**	**66**
Subsidiaries	256	66
Financial guarantee contracts	**413**	**882**
Subsidiaries	413	882

75 MANAGEMENT BOARD

Reinhard Klein
Chief Executive Officer

Responsible for Communication,
Human Resource, Internal Audit,
Marketing and Corporate Strategy,
Board Staff/Policy/Non-domestic

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

Mike Kammann
Responsible for Product Process Management,
IT Control, Purchasing and Supplier
Management, Savings Activities

Peter Magel
Responsible for Sales, Regional Offices,
Trading

General Executive Managers

Claudia Klug

Kristin Seyboth
(since 1 July 2020)

76 SUPERVISORY BODIES

Supervisory Board

Dr Cornelius Riese
– Chairman of the Supervisory Board –
Co-Chief Executive Officer
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank

Ninon Kiesler
– Deputy Chair
of the Supervisory Board –
Employee
Bausparkasse Schwäbisch Hall AG

Ulrike Brouzi
Member of the Management Board
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank

Bernhard Hallermann
Member of the Management Board
Volksbank Süd-Emsland eG

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Frank Hawel
Regional Head of Financial Services
ver.di – Regional district of Baden-Württemberg

Roland Herhoffer
Employee
Schwäbisch Hall Kreditservice GmbH

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

Manfred Klenk
Employee
Schwäbisch Hall Facility Management GmbH

Olaf Klose
Former member of the Management Board
Deutsche Apotheker- und Ärztebank eG
(Member of the Supervisory Board until
31 July 2020)

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

Dr Volker Kreuziger
Member of the Management Board
Prvá stavebná sporiteľňa, a.s.

Sascha Monschauer
Chief Executive Officer
Volksbank RheinAhrEifel eG
(Member of the Supervisory Board until
30 April 2020)

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

Silvia Ofori
Employee
Schwäbisch Hall Kreditservice GmbH

Frank Overkamp
Chief Executive Officer
Volksbank Gronau-Ahaus eG
(Member of the Supervisory Board since
30 Apr 2020)

Ingmar Rega
Chief Executive Officer
Genossenschaftsverband
– Verband der Regionen e.V.
(Member of the Supervisory Board since
30 Apr 2020)

Heiko Schmidt
Employee
Bausparkasse Schwäbisch Hall AG

Jörg Stahl
Spokesman of the Management Board
Volksbank Herrenberg-Nagold-Rottenburg eG

Werner Thomann
Chief Executive Officer
Volksbank Rhein-Wehra eG

Susanne Wenz
Deputy Regional District Manager
ver.di – Regional district of Baden-Württemberg

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

Carsten Schneider
Member of the *Bundestag*, Berlin

77 SUPERVISORY BODY OFFICES HELD BY MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

Within Bausparkasse Schwäbisch Hall AG

As at the reporting date, members of the Management Board and employees also held offices on the statutory supervisory bodies of large corporations. These and other significant offices are listed in the following. Offices at companies included in the consolidated financial statements are indicated with an asterisk (*).

Members of the Management Board

Reinhard Klein (Chief Executive Officer)	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)
	Sino-German Bausparkasse Co. Ltd., Tianjin (*)
	V-Bank AG, München
Jürgen Gießler	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Mike Kammann	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Peter Magel	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*)
	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

Employees

Claudia Klug (General Executive Manager)	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall
Christian Oestreich	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)

Also within the Group

As at the reporting date, offices were also held on the statutory supervisory bodies of the following large corporations in Germany.

Andrea Hartmann	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

78 LIST OF SHAREHOLDINGS

Name	Location of registered office	Country	Ownership interest (%)	Share of voting rights (%)	Equity in € thousand	Profit or loss in € thousand
Consolidated subsidiaries						
Schwäbisch Hall Kreditservice GmbH	Schwäbisch Hall	Germany	100.00	100.00	2,733	16,799
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.	Budapest	Hungary	51.25	51.25	144,562	9,085
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.	Budapest	Hungary	51.25	51.25	8,353	3,499
Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft.	Budapest	Hungary	51.25	51.25	– 700	– 493
Consolidated structured subsidiaries						
UIN Union Investment Institutional Fonds Nr. 817	Frankfurt/Main	Germany	–	–	3,138,622	– 1,818
Equity-accounted joint ventures						
Prvá stavebná sporiteľ ňa, a. s.	Bratislava	Slowakei	32.50	32.50	266,198	8,277
Sino-German Bausparkasse Co. Ltd.	Tianjin	China	24.90	24.90	375,019	7,726
Unconsolidated subsidiaries						
Schwäbisch Hall Facility Management GmbH	Schwäbisch Hall	Germany	51.00	51.00	6,820	– 1,213
Schwäbisch Hall Wohnen GmbH	Schwäbisch Hall	Germany	100.00	100.00	5,800	– 1,302
SHT Schwäbisch Hall Training GmbH	Schwäbisch Hall	Germany	100.00	100.00	4,671	362
BAUFINEX GmbH	Schwäbisch Hall	Germany	70.00	70.00	1,856	197
BAUFINEX Service GmbH	Berlin	Germany	35.00	52.50	25	–
VR Kreditservice GmbH	Hamburg	Germany	100,00	100,00	25	–

79 INFORMATION ON THE *BAUSPAR* COLLECTIVE OF BAUSPARKASSE SCHWÄBISCH HALL AG

The following table provides an overview of the development and movements of the *Bauspar* contract portfolio over the course of financial year 2020:

	Not allocated		Allocated		Total	
	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand
A. Portfolio at end of previous year	**7,689,391**	**298,605,995**	**549,269**	**14,772,936**	**8,238,660**	**313,378,931**
B. Additions in financial year by						
1. New business honoured (contracts) [1]	442,328	23,350,507	–	–	442,328	23,350,507
2. Transfer	19,198	618,311	465	13,570	19,663	631,881
3. Allocation waiver and revocation of allocation	7,146	285,565	–	–	7,146	285,565
4. Splitting	127,268	–	37	–	127,305	–
5. Allocation or acceptance of allocation	–	–	476,568	12,042,080	476,568	12,042,080
6. Other	57,039	2,044,280	8	420	57,047	2,044,700
Total	**652,979**	**26,298,663**	**477,078**	**12,056,070**	**1,130,057**	**38,354,733**
C. Disposals in financial year by						
1. Allocation or acceptance of allocation	476,568	12,042,080	–	–	476,568	12,042,080
2. Reduction	–	959,627	–	–	–	959,627
3. Dissolution	270,904	8,161,957	387,203	9,303,945	658,107	17,465,902
4. Transfer	19,198	618,311	465	13,570	19,663	631,881
5. Merging [1]	49,663	–	–	–	49,663	–
6. Contract expiration	–	–	105,464	2,750,141	105,464	2,750,141
7. Allocation waiver and revocation of allocation	–	–	7,146	285,565	7,146	285,565
8. Other	57,039	2,044,280	8	420	57,047	2,044,700
Total	**873,372**	**23,826,255**	**500,286**	**12,353,641**	**1,373,658**	**36,179,896**
D. Net additions/disposals	**– 220,393**	**2,472,408**	**– 23,208**	**– 297,571**	**– 243,601**	**2,174,837**
E. Portfolio at end of financial year	**7,468,998**	**301,078,403**	**526,061**	**14,475,365**	**7,995,059**	**315,553,768**

[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	**61,593,248,994.16**
II. Additions in financial year	
1. Savings amounts (including offset house-building premiums)	9,578,010,254.79
2. Repayment amounts[1] (including offset house-building premiums)	1,210,870,444.02
3. Interest on *Bauspar* deposits	827,041,145.86
4. Technical security reserve	–
Total	**73,209,170,838.83**
B. Withdrawals	
I. Withdrawals in financial year	
1. Allocated sums, where disbursed	
a) *Bauspar* deposits	7,380,961,118.23
b) Building loans	1,243,886,574.68
2. Repayment of *Bauspar* deposits on as yet unallocated *Bauspar* contracts	1,657,551,571.75
3. Technical security reserve	51,787,043.02
II. Surplus of additions	
(amounts not yet disbursed) at end of the financial year[2]	**62,874,984,531.15**
Total	**73,209,170,838.83**

Comments:
[1] Repayment amounts are the portion of repayment instalments attributable solely to repayment.
[2] Among other things, the surplus of additions includes

a) *Bauspar* deposits of allocated *Bauspar* contracts not yet disbursed	€ 114,863,055.43
b) *Bauspar* loans from allocations not yet disbursed	€2,891,625,932.64

Schwäbisch Hall, 15 February 2021

Bausparkasse Schwäbisch Hall Aktiengesellschaft
Bausparkasse der Volksbanken und Raiffeisenbanken

Management Board

Klein Gießler Kammann Magel

Independent Auditor's Report

To Bausparkasse
Schwäbisch Hall Aktiengesellschaft
– Bausparkasse der Volksbanken und Raiffeisenbanken –

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall (the Company), and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the financial year from 1 January 2020 to 31 December 2020, and the consolidated balance sheet as at 31 December 2020, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken, which was combined with the management report of the Company, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in the "Non-financial statement" section of the management report or the statement on corporate governance included in the "Other" section of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020, and

- the accompanying 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 opinion on the group management report does not cover the content of the statement on corporate governance referred to in the "Other" section or the non-financial statement referred to in the "Non-financial statement" section.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [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 Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 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 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 judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon.

Below, we describe what we consider to be the key audit matters:

1. MEASUREMENT OF BAUSPAR-SPECIFIC PROVISIONS (PROVISIONS RELATING TO BUILDING SOCIETY OPERATIONS)

Reasons why the matter was determined to be a key audit matter:
Bauspar-specific provisions (provisions relating to building society operations) comprised provisions for interest bonuses to Bauspar customers (particularly loyalty bonuses). The amount of the provisions to be recognized is determined based on the results of the collective simulation (Bauspar-specific simulation models for forecasting). The determination of the underlying probabilities of customer behaviour (e.g., with regard to claiming of a loyalty bonus) is based on assumptions relating to the Bauspar customers’ future behaviour on the basis of historical data and the forecast capital market rate; these assumptions have a significant effect on the measurement of the provisions. The plausibility of the amount of the provisions determined in this way is verified using a supplementary process simulation. The forecast quality of the collective simulation model is subject to annual validation checks using backtesting, among other things.

In light of the complexity of the simulation models and the necessary use of assumptions and estimates subject to uncertainty with a significant effect on the amount of the provisions, the measurement of Bauspar-specific provisions was a key audit matter.

Auditor’s response:
We assessed the design and operating effectiveness of the internal control system with regard to the process for determining the amount of the provisions for interest bonuses.

We checked the methodology and the clerical accuracy of the calculations of the amount of the provisions using the collective simulation. In so doing, we examined the model used to determine whether the relevant contract portfolio was included in full in the calculation, whether the significant estimation inputs are included in the model and whether the model chosen with the related model assumptions appropriately determines the provision amounts within the scope of estimation accuracies customary in the industry for mathematically similar models.

In order to validate the estimation inputs, we analysed the current calculations by reference to historical data and the periods used and their weighting in the model by comparing the results of the current validation report with the inputs estimated in previous years, allowing for the historical forecast accuracy.

For the review of the Bauspar-specific simulation model, we used specialists in the audit team who have particular expertise in the area of building society mathematics.

Our audit procedures did not lead to any reservations relating to the measurement of Bauspar-specific provisions.

Reference to related disclosures:
Information on the measurement of Bauspar-specific provisions is provided in notes 6, 26 and 56 of the notes to the consolidated financial statements.

2. DETERMINING THE AMOUNT OF LOSS ALLOWANCES FOR BUILDING LOANS (HOME SAVINGS LOANS) TO PRIVATE CUSTOMERS IN STAGE 2

Reasons why the matter was determined to be a key audit matter:
Non-defaulted financial instruments are recognized using an expected credit loss model in accordance with the regulations of IFRS 9.

Impairments of financial instruments not in default measured at amortised cost or at fair value through other comprehensive income are now accounted for, depending on the change in credit quality since initial recognition, either at an amount equal to the 12-month expected credit loss (stage 1) or, if there has been a significant increase in credit risk since initial recognition, at an amount equal to the lifetime expected credit loss (stage 2). Bausparkasse calculates the significant increase in credit risk based on the changes in credit quality since initial recognition, derived from the ratings.

For the purpose of determining the amount of loss allowances for building loans (home savings loans) to private customers in stage 2, Bausparkasse uses complex internal procedures to determine the credit risk. Based on these procedures, Bausparkasse automatically calculates impairments at an individual transaction level for risk provisioning.

For each transaction, Bausparkasse calculates the credit risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD) over the residual term of the relevant contract. These parameters form the basis for calculating the loss allowance.

The estimated probability of default used in calculating the general bad debt allowance is based in part on historical information. It is also based on current economic developments and forward-looking macroeconomic assumptions in the form of shift factors in the statistical probabilities of default (in the rating models).

As, from the Management Board's point of view, the statistical shift factors do not adequately reflect the macroeconomic repercussions of the COVID-19 pandemic (due, among other things, to moratoria on payments and government aid) on borrowers' probabilities of default as of the reporting date, Bausparkasse adjusted the statistical shift factors. These adjusted input parameters were considered in the parameter-based calculation of the loss allowance.

In light of the fact that the allocation to the loss allowance is the highest in the non-defaulted stage 2, and due to the heightened uncertainties in relation to the macroeconomic forecasts as a result of the COVID-19 pandemic and the increased use of judgement in relation to the shift factors used, we classified the audit of the loss allowances for building loans (home savings loans) to private customers in stage 2 to be a key audit matter.

Auditor's response:
We assessed the design and effectiveness of the internal control system with regard to the significant accounting-related lending processes for appropriateness and effectiveness. Focus was placed on the process for automated impairment calculations, which is based on the internal rating models. In particular, we obtained an understanding of the method used to determine the loss allowances in the impairment process as well as with regard to the requirements resulting from IFRS 9.

Furthermore, we checked whether the validation of the models used to calculate the loss allowances were appropriate under IFRS 9. In particular, this involved reviewing the internal PD and LGD models using the validation concepts available as well as the effectiveness of the validations performed (including backtesting). We checked the automatically calculated loss allowances against the loss allowances posted in the accounting system.

We assessed the appropriateness of the calculation of Bausparkasse's macroeconomic forecasts underlying the shift factors by comparing them with macroeconomic forecasts by leading economic research institutes and, with the assistance of internal specialists, we recalculated the model-based shift factors derived from the macroeconomic forecasts.

Furthermore, we obtained an understanding of the method used to make adjustments to the statistical shift factors on account of the COVID-19 pandemic and assessed their appropriateness. In this connection, we analysed whether the adjustments to the shift factors duly reflect the impact of COVID-19 in substance and amount. In addition, we verified that the adjusted shift factors were appropriately considered in the parameter-based calculation of the loss allowances.

Our procedures did not lead to any reservations relating to the loss allowances for building loans (home savings loans) to private customers in stage 2.

Reference to related disclosures:
Information on loss allowances for building loans (home savings loans) to private customers in stage 2 in the balance sheet item “Loss allowances” is provided in notes 23, 34, 51 and 65 of the notes to the consolidated financial statements.

Other information:
The Supervisory Board is responsible for the report of the supervisory board. In all other respects, the executive directors are responsible for the other information. The other information comprises the non-financial statement contained in the “Non-financial statement” section of the group management report and the statement on corporate governance contained in the “Other” section of the group management report. This also includes additional reporting sections in the annual report, of which we received a copy by the time this independent auditor’s report was issued, in particular the “At a glance” key performance indicators, the letter from the Management Board, the report of the Supervisory Board, information on the advisory board, addresses, memberships, the DZ BANK Group and the legal notice.

Our 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 opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the 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 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 Sec. 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 judgement and maintain professional scepticism 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 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 control.

- 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 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 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 Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express 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 opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 30 April 2020. We were engaged by the Supervisory Board on 11 May 2020. We have been the auditor of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall, without interruption since financial year 2003.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or entities controlled by it the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Review of the IFRS reporting packages for the period from 1 January to 30 June 2020 of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall (annual and subgroup consolidated financial statements), Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall, and Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Report on the review of the IFRS reporting packages for the period from 1 January to 31 December 2019 of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall, to meet the requirements for regulatory reports pursuant to Art. 24 (2) CRR (Capital Requirements Regulation) in conjunction with the ECB Guide on the options and discretions available in European Union law.

- Quality assurance/project-related audit within the framework of the “NEXT” IT project of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall.

- Audit of the Bauspar-specific simulation model 2020 pursuant to Sec. 8 (5) BausparkG [“Bausparkassengesetz”: German Building and Loan Associations Act] of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall.

- Agreed-upon review procedures in connection with determining the assessment basis for the 2020 contribution to the protection scheme of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), Bonn, for Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall.

- Reporting on our audit pursuant to Sec. V No. 11 (1) AGB/BBk (KEV [“Krediteinreichungsverfahren”: loan submission program] at Deutsche Bundesbank) for 2019 of Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall.

- Review pursuant to Article 50 (1) Sentence 4b) of the articles of incorporation of BVR Institutssicherung GmbH, Berlin, regarding compliance with the duties under Sec. 7 (8) EinSiG [“Einlagensicherungsgesetz”: German Deposit Protection Act] in the period from 1 April 2020 to 30 June 2020 by Bausparkasse Schwäbisch Hall Aktiengesellschaft – Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall.

- Voluntary audits of annual financial statements of VR Kreditservice GmbH, Hamburg, and SHT Schwäbisch Hall Training GmbH, Schwäbisch Hall.

- Audit procedures with regard to the regulatory banking provisions to be complied with by the Luxembourg branch of Bausparkasse Schwäbisch Hall AG.

- Agreed-upon review procedures with regard to the remuneration strategy of Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Separate reporting to the Hungarian National Bank particularly with regard to the compliance of Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Audit and certification of the tax information of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main, calculated in accordance with Sec. 51 (1) InvStG ["Investmentsteuergesetz": German Investment Tax Act].

- Audit of the annual reports/interim reports/liquidation reports/merger audits of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main.

- Audit of the calculation of risk weightings and actual currency composition of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Elfriede Eckl.

Eschborn/Frankfurt, 15 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Eckl	Müller
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

Supervisory Board and committees

In financial year 2020, 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 Supervisory Board's discussions focussed on the strategic direction of Bausparkasse Schwäbisch Hall AG and, in particular, its strategic transformation into a leading private housing finance provider. The Supervisory Board also dealt comprehensively with the business development and the impact of the low-interest phase on the business activity of Bausparkasse Schwäbisch Hall AG.

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 2020, the Supervisory Board performed a self-evaluation in accordance with the requirements of the German Banking Act (KWG). It found that the structure, size, composition and performance of the Supervisory Board, and the knowledge, skills and experience of both the individual members of the Supervisory Board and the board as a whole met the legal requirements and the requirements of the Articles of Association. The simultaneous evaluation of the Management Board and the individual members of the Management Board by the Supervisory Board led to the same conclusion.

Insofar as there were indications of relevant conflicts of interest among members of the Supervisory Board in individual cases, those members of the Supervisory Board concerned abstained from voting.

Based on its own assessment, the Supervisory Board had adequate financial and human resources at its disposal in the reporting period to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. For example, Bausparkasse Schwäbisch Hall AG offers to cover the costs for participation by the members of the Supervisory Board in an external provider's modular advanced training programme tailored specifically to the needs of Supervisory Board members, which they can make use of on an individual basis as needed (including topics such as comprehensive bank management, corporate strategy, bank regulation and corporate governance). In addition, the Supervisory Board also organised an internal specialist workshop in financial year 2020 that focused in particular on *Bauspar*-specific and regulatory issues relating to the duties of the Supervisory Board (including topics such as credit risk and structure and credit processes for "Lean Credit Plus", the first *Pfandbrief* issue by Bausparkasse Schwäbisch Hall AG, and changes and amendments to the EBA Guidelines that are relevant for the *Bausparkasse*).

Cooperation with the Management Board

The Management Board reported regularly, promptly and comprehensively, both in writing and verbally, to the Supervisory Board about the position and development of the *Bausparkasse* and the Schwäbisch Hall Group, and the general course of business. Furthermore, the Management Board informed the Supervisory Board about strategic developments on an ongoing basis. Additionally, the Management Board reported in detail about the earnings position, operational and medium-term planning, the modernisation of the IT infrastructure and the performance of domestic and non-domestic investees. It also addressed the risk report, the audit report and the compliance report.

The Supervisory Board discussed the aforementioned issues with the Management Board, advised it and monitored its management activities. The Supervisory Board was at all times involved in decisions of fundamental importance.

Meetings of the Supervisory Board and its committees

The Supervisory Board held three meetings in financial year 2020. The joint Risk and Audit Committee met twice. The Nomination Committee and the Remuneration Committee each held two meetings. It was not necessary for the Mediation Committee to meet during financial year 2020. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2020 and participated in the written resolution procedures of the relevant bodies.

In its meetings, the Supervisory Board primarily discussed the report by the Management Board on current business performance, the earnings and risk position, and the strategic outlook. The Supervisory Board examined the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG as well as the consolidated financial statements and the Group management report as at 31 December 2019, 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 30 April 2020, 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.

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 dealt with the structure of the employee remuneration systems, the Remuneration Report and the determination of the total amount of variable remuneration for financial year 2019. The Supervisory Board also addressed the nomination for the election of three replacement shareholder representatives to the Supervisory Board of the *Bausparkasse* in accordance with section 25d of the KWG as well as the regulatory requirements that are also applicable to this process, and submitted in two cases the corresponding proposal for a resolution to the Annual General Meeting in line with the recommendations by the Nomination Committee and agreed in one case of appointment by court until the next ordinary General Meeting.

In the course of its duties, the joint Risk and Audit Committee also focused on the election of the auditor for financial year 2020, supervised the engagement for non-audit services and preparations for rotating the (Group-wide) auditor.

In urgent cases, the Supervisory Board approved significant transactions via the written resolution procedure. Furthermore, the Chairman of the Supervisory Board was also kept informed about significant developments and decisions outside of the meetings. Additionally, the Chairman of the Supervisory Board and the Chief Executive Officer of Bausparkasse Schwäbisch Hall AG, as well as the chairs of the Supervisory Board's committees and the responsible members of the Management Board, had regular discussions ahead of key decisions and significant transactions.

Cooperation with the auditors

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart audited the annual financial statements and consolidated financial statements prepared by the Management Board for financial year 2020 as well as the management report and Group management report, including the accounting, and issued an unqualified auditor's opinion in each case. The audit reports were submitted to the members of the Supervisory Board in a timely manner and discussed in detail. The Supervisory Board concurred with the findings of the audit.

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. 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 a further five years in February 2016.

In the course of its audit of the 2020 annual financial statements, the auditor did not find any indications that transactions were carried out with affiliated companies that were not at arm's length during the reporting period.

At its meeting on 3 March 2021, the Supervisory Board approved the annual financial statements of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements as at 31 December 2020 that were prepared by the Management Board. The annual financial statements are therefore adopted.

Changes in the Supervisory Board and Management Board
Sascha Monschauer stepped down from the Supervisory Board at the end of the Annual General Meeting on 30 April 2020. Olaf Klose resigned his seat as at 31 July 2020 and Ralf W. Barkey already resigned his seat as at 31 December 2019. The Supervisory Board thanked the former members for their positive collaboration and many years of commitment. Frank Overkamp and Ingmar Rega were elected to the Supervisory Board effective the end of the Annual General Meeting on 30 April 2020. Manfred Stang was nominated by the shareholders as the successor to Mr Klose and appointed by the court effective 13 January 2021.

The Supervisory Board would like to thank the Management Board and all of the Company's employees for their work in 2020.

Schwäbisch Hall, March 2021

Bausparkasse Schwäbisch Hall AG
– *Bausparkasse der Volksbanken und Raiffeisenbanken* –

Dr Cornelius Riese
Chairman of the Supervisory Board

Advisory Board of Bausparkasse Schwäbisch Hall AG

The task of the Advisory Board is to advise the Management Board as part of an active exchange of views.

Bausparkasse Schwäbisch Hall's Advisory Board consists of up to 40 members, at least 75% of whom are full-time members of the management boards of cooperative banks. The remaining members may be representatives of cooperative associations, central banks and other network companies or customer groups:

Christoph Ochs
– Chairman of the Advisory Board –
Chief Executive Officer
VR Bank Südpfalz eG,
Landau

Jochen Kerschbaumer
– Deputy Chairman of the Advisory Board –
Member of the Management Board
Wiesbadener Volksbank eG,
Wiesbaden

Uwe Abel
Chief Executive Officer
Mainzer Volksbank eG,
Mainz
(Member of the Advisory Board since
30 April 2020)

Kurt Abele
Chief Executive Officer
VR-Bank Ostalb eG,
Aalen
(Member of the Advisory Board since
30 April 2020)

Uwe Arendt
Member of the Management Board
Bank 1 Saar eG,
Saarbrücken

Jürgen Beerkircher
Chief Executive Officer
Volksbank Backnang eG,
Backnang

Dr Thomas Brakensiek
Former member of the Management Board
Hamburger Volksbank eG,
Hamburg
(Member of the Advisory Board until
30 September 2020)

Werner Braun
Former member of the Management Board
VR Bank HessenLand eG,
Alsfeld
(Member of the Advisory Board until
30 April 2020)

Markus Dauber
Chief Executive Officer
Volksbank in der Ortenau eG,
Offenburg
(Member of the Advisory Board until
30 April 2020)

Thomas Diederichs
Spokesman of the Management Board
Volksbank Rhein-Ruhr eG,
Duisburg
(Member of the Advisory Board until
30 April 2020)

Matthias Frentzen
Member of the Management Board
Dortmunder Volksbank eG,
Dortmund
(Member of the Advisory Board since
30 April 2020)

Albert Griebl
Spokesman of the Management Board
VR-Bank Rottal-Inn eG,
Pfarrkirchen

Dr Hauke Haensel
Chief Executive Officer
Volksbank Pirna eG,
Pirna

Gerd Haselbach
Spokesman of the Management Board
Raiffeisenbank im Kreis Calw eG,
Neubulach

Joachim Hausener
Deputy Chairman of the Management Board
VR Bank Bamberg-Forchheim eG,
Bamberg
(Member of the Advisory Board since
30 April 2020)

Stephan Heinisch
Member of the Management Board
Volksbank Freiburg eG,
Freiburg

Josef Hodrus
Spokesman of the Management Board
Volksbank Allgäu-Oberschwaben eG,
Leutkirch im Allgäu
(Member of the Advisory Board until
30 April 2020)

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

Michael Huppert
Member of the Management Board
Volksbank Stuttgart eG,
Stuttgart
(Member of the Advisory Board since
30 April 2020)

Michael Joop
Chief Executive Officer
Volksbank Hameln-Stadthagen eG,
Hameln
(Member of the Advisory Board
until 30 April 2020)

Jens Klingebiel
Member of the Management Board
Volksbank Vorpommern eG,
Greifswald

Birger Kriwet
Member of the Management Board
Vereinigte Volksbank eG,
Brakel

Rouven Lewandowski
Member of the Management Board
Raiffeisenbank Kitzinger Land eG,
Obernbreit

Stephan Liesegang
Member of the Management Board
Sparda-Bank Hamburg eG,
Hamburg
(Member of the Advisory Board since
30 April 2020)

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

Dr Veit Luxem
Chief Executive Officer
Volksbank Mönchengladbach eG,
Mönchengladbach

Willi Obitz
Member of the Management Board
Volksbank eG Gera•Jena•Rudolstadt,
Rudolstadt

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

Jens-Uwe Oppenborn
Member of the Management Board
Brandenburger Bank Volksbank Raiffeisenbank eG,
Brandenburg

Hubert Overesch
Member of the Management Board
VR-Bank Kreis Steinfurt eG,
Rheine

Frank Overkamp
Chief Executive Officer
Volksbank Gronau-Ahaus eG,
Gronau
(Member of the Advisory Board until
30 April 2020)

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

Martin Rudolph
Member of the Management Board
Raiffeisenbank eG,
Handewitt

Thomas Ruff
Member of the Management Board
Volksbank eG Bad Laer-Borgloh-Hilter-Melle,
Hilter

Ekkehard Saueressig
Chief Executive Officer
Volksbank Neckartal eG,
Eberbach

Stefan Schindler
Chief Executive Officer
Sparda-Bank Nürnberg eG,
Nuremberg
(Member of the Advisory Board until
30 April 2020)

Bernd Schnabel
Member of the Management Board
VR Bank Bayreuth-Hof eG,
Bayreuth
(Member of the Advisory Board until
30 April 2020)

Ulrich Scheppan
Member of the Management Board
Volksbank Bielefeld-Gütersloh eG,
Gütersloh
(Member of the Advisory Board since
30 April 2020)

Peter Scherf
Spokesman of the Management Board
Volksbank Herford-Mindener Land eG,
Minden
(Member of the Advisory Board since
30 April 2020)

Martin Schöner
Member of the Management Board
VR Bank Enz plus eG,
Remchingen
(Member of the Advisory Board since
30 April 2020)

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

Bernhard Slavetinsky
Chief Executive Officer
PSD Bank Karlsruhe-Neustadt eG,
Karlsruhe

Thomas Stauber
Member of the Management Board
Volksbank Friedrichshafen-Tettnang eG,
Tettnang
(Member of the Advisory Board since
30 April 2020)

Manfred Stevermann
Chief Executive Officer
Sparda-Bank West eG,
Düsseldorf

Markus Strahler
Member of the Management Board
Volksbank Nienburg eG,
Nienburg
(Member of the Advisory Board since
30 April 2020)

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

Dr Gerhard Walther
Chief Executive Officer
VR-Bank Mittelfranken West eG,
Ansbach

Memberships

BAUSPARKASSE SCHWÄBISCH HALL IS A MEMBER OF THE FOLLOWING PROFESSIONAL ASSOCIATIONS AND INSTITUTIONS OF THE HOUSING AND BANKING SECTORS:

National Association of German Cooperative Banks (BVR), Berlin

German Cooperative and *Raiffeisen* Confederation – reg. assoc. (DGRV), Berlin

German *Raiffeisen* Confederation – reg. assoc. (DRV), Berlin

German Association for Housing, Urban and Spatial Development – reg. assoc. (DV), Berlin

Association of Private *Bausparkassen* – reg. assoc., Berlin

vhw – Bundesverband für Wohnen und Stadtentwicklung – reg. assoc. (Federal association for housing and urban development), Berlin

Association of German *Pfandbrief* Banks – reg. assoc. (vdp), Berlin

Arbeitsgemeinschaft Baden-Württembergischer Bausparkassen (Working Group of Baden-Württemberg *Bausparkassen*), Stuttgart

European Federation of Building Societies, Brussels

IUHF International Union for Housing Finance, Brussels

The Institute of International Finance (IIF), Washington DC

Addresses

Bausparkasse Schwäbisch Hall AG

Crailsheimer Straße 52
74523 Schwäbisch Hall
Phone +49 (791) 46-4646, Fax +49 (791) 46-2628
Website: www.schwaebisch-hall.de
Email: service@schwaebisch-hall.de

Regional offices

Division	Address	Telephone	Fax
North-East Berlin, Brandenburg, Bremen, Hamburg, Mecklen-burg-West Pomerania, Lower Saxony, Saxony, Saxony Anhalt, Schleswig-Holstein, Thuringia	Überseering 32 22297 Hamburg	+49 (40) 82222-1600	
South Bavaria and Baden-Württemberg	Crailsheimer Straße 52 74523 Schwäbisch Hall	+49 (791) 46-2276	+49 (791) 46-5680
West Hesse, North Rhine-Westphalia, Rhineland-Palatinate, Saarland	Lyoner Straße 15 60528 Frankfurt/Main	+49 (69) 669097-60	+49 (69) 669097-70
Specialised banks Cooperative institutions (throughout Germany)	Lyoner Straße 15 60528 Frankfurt/Main	+49 (69) 669097-0	+49 (69) 669097-77

Abroad

Country	Address	Telephone	Fax	Website
China	**Sino-German Bausparkasse Co. Ltd.** Nr. 19, Guizhou Road, Heping District Tianjin 300051 PEOPLE'S REPUBLIC OF CHINA	+86 22 58086699		www.sgb.cn
Luxembourg	**Bausparkasse Schwäbisch Hall AG** 4, rue Thomas Edison 1445 Strassen LUXEMBOURG	+352 46-6040	+352 46-6041	www.schwaebisch-hall.lu
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

[1] New *Bauspar* business was discontinued at the end of the year.

DZ BANK Group

The DZ BANK Group forms part of the German Cooperative Banking Group, which comprises around 850 local cooperative banks and is one of Germany's largest private-sector financial services organisations measured by total assets. Within the German Cooperative Banking Group, DZ BANK AG functions as a central institution. Its task is to support the work of the local cooperative banks and to boost their competitiveness. It is also active as a commercial bank and is the holding company for the DZ BANK Group.

The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, Union Investment Group, VR Smart Finanz and various other specialised institutions. With their strong brands, the companies of the DZ BANK Group constitute key pillars in the range of financial products and services offered by the German Cooperative Banking Group. The DZ BANK Group deploys its strategy and range of services for the cooperative banks and their customers through its four business lines – Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

This combination of banking, insurance, *Bausparen* and investment services offerings has a long and successful tradition in the German Cooperative Banking Group. The specialised institutions in the DZ BANK Group provide highly competitive products at reasonable prices within their specific areas of expertise. This ensures that the cooperative banks in Germany are able to offer their customers a comprehensive range of outstanding financial services.

LEGAL NOTICE AND ACKNOWLEDGEMENTS

This is a translation. The German version alone is authoritative wherever the intention or interpretation of the text is unclear.

Published by:
Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall

Responsible for the contents:
Regina Sofia Wagner, Corporate Communications

Design and production:
Edelman GmbH, Cologne, Frankfurt/Main, Berlin, Hamburg

Photo of Management Board:
Jürgen Weller, Schwäbisch Hall

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As of March 2021