Schwäbisch Hall

2022

Bausparkasse Schwäbisch Hall AG

Financial Report

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

At a glance

Bausparkasse Schwäbisch Hall AG	2022	2021
New business		
Bausparen (presented, in € billion)	34.10	24.00
Housing financing (total, in € billion)	16.30	18.30
Contracted business		
Bauspar sum (honoured, in € billion)	313.02	312.15
Contracts (in millions)	7.20	7.70
Loans and loan commitments (total, in € billion)	65.85	64.24
Number of customers (in millions)	6.50	6.80

Schwäbisch Hall Group Non-Domestic, excluding joint ventures	2022	2021
New business		
Bausparen (presented, in € billion)	1.16	0.93
Housing financing (total, in € billion)	0.26	0.33
Contracted business		
Bauspar sum (honoured, in € billion)	8.71	9.65
Contracts (in millions)	0.64	0.71
Loans and loan commitments (total, in € billion)	1.30	1.37
Number of customers (in millions)	0.48	0.57

Schwäbisch Hall Group IFRS key financial indicators in € million	2022	2021
Profit/loss before taxes	143	130
Net profit	90	90
Balance sheet total	85,599	85,371
Equity	4,215	5,718

Schwäbisch Hall Group regulatory ratios in %	2022	2021
Common Equity Tier 1 capital ratio	24.8	30.6
Total capital ratio	25.0	30.6
Leverage ratio	5.7	6.9

Moody’s ratings	2022	2021
Bank rating	AA2	AA2
Hypothekenpfandbriefe (German mortgage covered bonds)	AAA	AAA

Human Resources [1]	2022	2021
Employees (full-time equivalents in the Group)	3,934	3,268
Trainees and apprentices	217	196

[1] Of which 631 are employees and 17 are trainees and apprentices at the companies newly included in the consolidated financial statements.

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

KRISTIN SEYBOTH

PETER MAGEL

REINHARD KLEIN
Chief Executive Officer

MIKE KAMMANN

The Management Board

Dear readers

2022 was marked by extraordinary events: a war in Europe with the attendant economic consequences is a scenario that hardly anyone could have imagined at the start of the year. The beginning of the war in Ukraine was first and foremost a drastic event for the people affected on the ground. At the same time, it has brought with it far-reaching changes on many levels around the world. Rising energy and construction costs, worries about a recession, growing inflation and the end of the low-interest rate phase have created whole new conditions for our customers and for our company.

In response to diminishing economic expectations, the real estate markets faltered for the first time in many years. The rise in interest rates made financing more expensive; rising construction costs, construction regulations that are driving up costs and higher general costs of living are leading to further cost increases. And at the same time, the prices for land and real estate did not decline to the same extent as the costs increased. This led to fewer and fewer people venturing into real estate financing. This development has left its mark on the overall market for housing finance and also on our Housing Finance business segment: new business of €19 billion represents a 5.9 per cent decline year-on-year. This total includes both classic annuity and building loans as well as bridging loans and *Bauspar* loan payments. Schwäbisch Hall reacted to the difficult development of the macroeconomic environment with risk mitigation measures, which had a further negative impact on new business. Around half of the volume of building finance flowed into the books of the cooperative banks, the remaining share into Schwäbisch Hall's books.

"Our strategy with the two core business segments of *Bausparen* and Housing Finance has nevertheless proven its worth, particularly in volatile times."

However, it is also evident that the aspiration to be a homeowner is unbroken: according to a recent Forsa survey for the Association of Private *Bausparkassen*, 78 per cent of people would prefer to live in their own property. And 84 per cent believe that owning their own four walls is a sound investment, especially when it comes to providing for old age.

The strong new *Bauspar* business is enduring proof of this. Many customers have a renewed awareness of the original purpose of *Bausparen* as an interest rate hedging instrument. In addition, more and more customers are realising that it is now even more important than ever to accumulate equity at an early stage – *Bausparen* is also a suitable way to achieve that. With this tailwind, we were able to record very strong new *Bauspar* business: a *Bauspar* volume of €34.1 billion in 2022 represents an increase of 41.9 per cent compared with the previous year (€24 billion). Schwäbisch Hall clearly maintained its market leadership with a market share of approximately 30 per cent.

Overall, 2022 was a very good year for sales despite the challenging market environment, and we recorded the highest total sales performance in our more than 90-year history, with €51.1 billion. Our thanks therefore go to all our office and sales force staff, as well as all our business partners in the German Cooperative Banking Group, who made this exceptional result possible through their high level of commitment.

Our company's profit before taxes is also up year-on-year. It is, however, impacted by the geopolitical environment and its economic repercussions, such as the rapid and unexpected rise in interest rates. To sum up, our strategy with the two core business segments of *Bausparen* and Housing Finance has nevertheless proven its worth, particularly in volatile times.

In financial year 2023, we will continue to pursue our fundamental strategy: alongside further developing our core business segments, we will focus more on issues that will make our Company fit for the future. We are planning, for example, to complete the migration of our loan portfolio to SAP Hana technology and will continue to promote business with BAUFINEX – the housing finance marketplace of the German Cooperative Banking Group for independent intermediaries. We are looking at omnichannel and smart data strategies as well as growth areas related to our "building and living" ecosystem, which we want to use to leverage further business opportunities for the cooperative banks.

Even in extraordinary times, the topic of sustainability remains an integral part of our strategic agenda.

Since statutory requirements mean that every second property must be carbon-neutral by 2030 in purely mathematical terms, €2.6 to €3.6 trillion will need to be invested in existing properties by 2045 according to the experts from the German Institute for Sustainable Construction. Together with our partners in the German Cooperative Banking Group, we can make an important contribution to this as providers of finance for the energy transition in the housing stock.

We are confident that our expert staff, our reliable partners in the German Cooperative Banking Group and our forward-looking business strategy make us well equipped for the challenges and opportunities that 2023 will bring.

Sincerely,

Reinhard Klein
(Chief Executive Officer)

Mike Kammann

Peter Magel

Kristin Seyboth

Combined management report

Combined management report

Fundamental information about the Group

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

Group structure

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

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

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

Business model and strategic focus

The strategic focus of the Schwäbisch Hall Group (SHG) follows the DZ BANK Group's guiding principle of operating as a "network-oriented central banking institution and integrated financial services group". As a subsidiary partner of the cooperative banks, SHG's business activities are focused on the topic of "Building and Living". The objective of this focus as the socially responsible real estate financing provider for the German Cooperative Banking Group (GFG) is to consolidate the GFG's position in the long term as one of Germany's leading integrated financial services providers. The companies of the DZ BANK Group work together with the cooperative banks and Atruvia AG, Frankfurt am Main (Atruvia), the cooperative digital transformation partner, under the umbrella of the National Association of German Cooperative Banks, Berlin, (BVR), to shape the future. GFG offers a broad range of services, from retirement provision through real estate and housing financing, down to insurance and funds. With its approximately 750 cooperative banks, their more than 8,000 bank branches and 30 million customers, it is one of the leading integrated financial services partners in Germany.

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

ECOLOGY AND SUSTAINABILITY

With its Green Deal, the European Commission is addressing a large number of challenges on an unprecedented scale. The package includes initiatives that affect a number of closely intertwined policy fields: climate, environment, energy, transport, industry, agriculture and sustainable finance, and thus also directly affect Bausparkasse Schwäbisch Hall AG's core business. The aim of the Green Deal is to deliver a green transformation to become climate neutral by 2050 and thus meet the commitments under the Paris Agreement. The EU is specifically leveraging the financial sector for the climate-neutral transformation of the real economy in the EU economic area and is hence creating pressure to act. A good example of this is the introduction of the CSR reporting obligation for companies, the Corporate Sustainability Reporting Directive (CSRD), which will take effect in 2024. The issue of sustainability affects Bausparkasse Schwäbisch Hall AG in all its aspects, from risk management through the focus of its core business areas and its business operations, down to its social commitment. The building sector contributes significantly to CO_2 emissions and thus to global warming. By promoting ecological and energy-efficient building and living, Bausparkasse Schwäbisch Hall AG has a lever for reducing carbon dioxide emissions. In the course of implementing Bausparkasse Schwäbisch Hall AG's climate strategy, the focus of activities in 2022 was on ensuring compliance with the new regulatory requirements. As well as being highly relevant for accurate reporting to the supervisory authority, the new property data obtained in the course of these activities also helps provide customers with needs-based advice.

REFINANCING

With its *Pfandbrief* issuances, Bausparkasse Schwäbisch Hall AG has created another attractive source of refinancing in addition to *Bauspar* deposits. This is a significant component of the growth strategy in the core business segment of Housing Financing. After the successful debut issuance in the autumn of 2020 and two benchmark volume issues, each of €500 million, in 2021, Bausparkasse Schwäbisch Hall AG placed two further issues on the capital market in 2022, each with a benchmark volume of €500 million. These benchmark issues are a further step towards reinforcing this strategically important refinancing channel. Our *Pfandbriefe* attracted significant interest among investors. The German and foreign investors include central banks, insurance companies, banks as well as pension and investment funds. Rating agency Moody's awarded Bausparkasse Schwäbisch Hall AG's *Pfandbriefe* its top rating of AAA ("Triple A").

The Schwäbisch Hall Group

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

BAUSPARKASSE SCHWÄBISCH HALL AG

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

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

In its *Bausparen* core business segment, Bausparkasse Schwäbisch Hall AG offers its customers a *Bauspar* contract, a financing component that combines a plannable, government-subsidised savings phase with an optional loan with a guaranteed interest rate that supports them when they build up equity and protects them from rising interest rates.

The customer service employees at Schwäbisch Hall and the more than 3,100 sales force experts ensure that around 6.5 million customers receive advice and customer service.

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

DOMESTIC SUBSIDIARIES AND EQUITY INVESTMENTS

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

The largest subsidiary is Schwäbisch Hall Kreditservice GmbH (SHK), which handles new and existing business on behalf of Bausparkasse Schwäbisch Hall AG. The subsidised lending business handled on behalf of DZ BANK was transferred to DZ BANK on 1 January 2023. With a portfolio of about 11 million contracts and approximately 1,200 employees, together with its subsidiary VR KreditService GmbH, Hamburg, SHK is a market leader in the field of standardised processing of *Bauspar* products.

Schwäbisch Hall Facility Management GmbH (SHF) is responsible for building management and operation of the Schwäbisch Hall Group's head office in Schwäbisch Hall. It also serves other external customers in the Schwäbisch Hall region as well as GFG customers.

In future, Schwäbisch Hall Transformation GmbH (SHT) (formerly Schwäbisch Hall Training GmbH) will offer the cooperative partner banks advice on digital transformation and its technical practicability in addition to the existing training offerings. The new strategy is also reflected in its name; since 1 July 2022, the T stands for Transformation.

With BAUFINEX GmbH (BAUFINEX) and Schwäbisch Hall Wohnen GmbH (SHW), the Schwäbisch Hall Group complements the conventional sales channels of banks and sales force with two additional sales channels: BAUFINEX for independent financing intermediaries and SHW for digitally empowered customers. By intelligently integrating the four sales channels, the Schwäbisch Hall Group is responding to the changing needs of its customers.

Together with its strategic partner Hypoport SE, BAUFINEX operates an intermediary platform for private housing financing. This gives the cooperative banks another sales channel so that they can increase the volume of private housing financing business. This is always done in close coordination with the Bank and the local sales force. SHW advises customers digitally if they wish or if no advisor is available on site.

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

NON-DOMESTIC *BAUSPARKASSEN*

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

SEGMENTS OF THE SCHWÄBISCH HALL GROUP

The Schwäbisch Hall Group changed its segment reporting as at 1 January 2022. The subsidiaries BAUFINEX, SHF and SHW are included in the consolidated financial statements of Bausparkasse Schwäbisch Hall for the first time as at 31 December 2022. The basis for determining the segments is the internal financial reporting to the Management Board. The corresponding information in the consolidated financial statements as well as in the management report was restated in accordance with IFRS 8.29. This means that the Schwäbisch Hall Group is divided into the three segments of *Bausparen* and Housing Financing Domestic, *Bausparen* and Housing Financing Non-Domestic, and the Other Domestic segment. These segments form the basis for the Group's segment reporting under IFRS 8. Their development is presented separately in this management report.

THE FOLLOWING COMPANIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS:

Segments of the Schwäbisch Hall Group

Bausparen and Housing Financing Domestic

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (parent company)

and the core business segments:

- *Bausparen*
- Housing Financing

and the business segment:

- Cross-Selling

Schwäbisch Hall Kreditservice GmbH (SHK), Schwäbisch Hall

BAUFINEX GmbH (BAUFINEX), Schwäbisch Hall

Schwäbisch Hall Wohnen GmbH (SHW), Schwäbisch Hall

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

Bausparen and Housing Financing Non-Domestic

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

Joint venture *Bausparkassen:*

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

Other Domestic

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

Bausparen and Housing Financing Domestic segment

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

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

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

SHK, which focuses solely on processing the building loans of Bausparkasse Schwäbisch Hall AG, is allocated to this segment starting in 2022. SHK formed its own segment in the previous year.

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

Bausparen and Housing Financing Non-Domestic segment

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

Other Domestic segment

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

HOW THE *BAUSPAR* SYSTEM FUNCTIONS

Bausparen is the core of the Schwäbisch Hall Group's product range. It is based on 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 for earnings, volume and productivity, and the sales-related key performance indicators for reported new *Bauspar* business and housing financing for both the Schwäbisch Hall Group and Bausparkasse Schwäbisch Hall AG are presented in the following:

Earnings measures under International Financial Reporting Standards (IFRS)

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

IFRS volume measures

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

Productivity

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

Reported new *Bauspar* business

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

Housing financing business

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

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

Report on economic position

Changes in the operating environment

MACROECONOMIC ENVIRONMENT

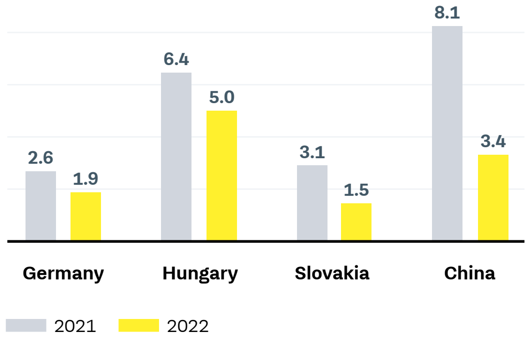
After the impact of the Covid-19 pandemic was felt to an ever lesser extent in the first quarter of 2022, the Russian war of aggression slowed down the global economic recovery. War-induced shortages, supply chain disruptions, economic sanctions and the accompanying geopolitical uncertainty led to ever new record highs in inflation. The general tightening of monetary policy triggered by the unexpectedly high overshooting of inflation targets slowed global growth even further. Against this backdrop, the relevant international institutions lowered their forecasts for global economic growth in 2022 from 3.6% to 3.1% (OECD) and from 4.1% to 2.9% (World Bank). The update by the IMF from growth of 3.6% to 3.2% meant that the three major international organisations are in step.

Real growth in the EU in the first half of 2022 delivered a positive surprise. This was because the EU is one of the most severely affected economies due to its geographical proximity to the war zone and its high dependence on gas imports from Russia. Following the relaxation of Covid-19 containment measures at the beginning of the year, consumers started spending again, especially on services. The expansion continued in the third quarter, albeit at a significantly slower pace. In light of the considerable level of uncertainty, the high pressure from energy prices, the purchasing power erosion at private households, the weaker external economic environment and the more restrictive financing conditions, the European Commission expects the EU to slide into a recession in the final quarter of 2022. The strong growth in the first half of the year is expected to push up growth to 3.3% overall in the EU in 2022 (European Commission).

The German economy held its ground in a difficult environment in 2022. Following a strong start to the year, the German economy started cooling off with the onset of summer. The high rates of inflation melted the real incomes of private households as well as their savings and reduced their purchasing power. On the one hand, many consumer-related service sectors were still able to profit from the end of the Omicron wave and strongly expand their sales into May. On the other, the consumer reluctance to spend, which had already made itself felt in the retail sector since the spring, became increasingly noticeable. Growth in the third quarter was again driven primarily by private consumer spending. Despite high inflation and the energy crisis, consumers took advantage of the lifting of almost all Covid restrictions to travel and get out more. Gross domestic product (GDP) increased by 0.4% in the third quarter of 2022 compared with the previous quarter, and thus more strongly than initially assumed. By contrast, the construction industry experienced a significant downturn starting in March. In addition to high construction costs due to rising inflation, the interest rate reversal led to higher financing costs. Significantly higher order cancellations and declining new orders caused business sentiment in the construction industry to fall as sharply as it did most recently during the 2008 global financial crisis. The labour market proved robust over the course of the year. The typical autumn upturn was somewhat weaker than usual. Overall, companies tried to hang on to their employees in light of the existing bottlenecks in the labour market. The downturn in the fourth quarter that many economists had predicted, was less pronounced than expected, at -0.2%. GDP rose by 1.9 per cent year-on-year, as the Federal Statistical Office announced on the basis of a preliminary estimate, a decrease of 0.7 percentage points compared with the previous year's figure.

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

GDP GROWTH IN SHG MARKETS IN %



The Hungarian economy continued its economic recovery unabated in the first quarter of 2022, posting growth of 8.2%. In particular, the strong output increase in the automotive industry was a contributing factor. Strong economic stimuli also came from private consumption and investments. Over the course of the year, the negative effects of the Russian war of aggression on Ukraine became increasingly apparent. Following growth of 6.5% in the second quarter, growth slowed to 4.1% in the third quarter. The causes were weakening foreign demand and slower growth in private consumption due to falling real wages. Fiscal policy helped to partially cushion the decline in household incomes and thereby contain economic contraction, albeit at the price of a persistently high budget deficit. Rating agency Standard and Poor's therefore lowered its outlook for Hungary's sovereign debt to negative but maintained its BBB rating. The Hungarian Ministry of Finance calculated GDP growth of 5.0% for 2022.

FINANCIAL MARKETS AND INTEREST RATES

Despite the economic recovery and continuously rising inflation, the European Central Bank held back from raising interest rates until the middle of the year. In light of the undiminished surge in inflation, the ECB then initiated its interest rate reversal in July. In a total of four steps, the ECB raised the key rates by a total of 2.5 percentage points within just a few months. The deposit facility rate, which banks receive from the central bank for parking surplus funds, and which is currently considered to be the definitive rate on the financial markets, was thus 2.0% at the end of 2022.

In Hungary, the Hungarian central bank (MNB) continued its fight against high inflation with multiple rate hikes in 2022. After the Monetary Council had raised the key interest rate by a further 1.25% to 13.0% in September, it decided to stop the cycle of key interest rate hikes. The reason it gave was that the interest rate environment was now sufficiently restrictive to limit inflation expectations. The central bank is targeting an inflation rate of 3.0%. Inflation reached 15.6% in September. As the forint continued to depreciate against the euro, the MNB introduced a new interest rate for overnight deposits in October, five percentage points above the base rate, at 18%. Following the announcement, the forint gained 3% against the euro, its highest increase since 2011. Year-on-year, the forint lost more than 8% against the euro in 2022.

Whereas inflation in the 19 countries of the eurozone was 5% at the end of 2021 it rose to 10.6% over the course of the year, reaching the highest level since Eurostat began keeping records in 1997. Bond market yields, which are a benchmark for the market rate of interest for real estate loans, rose sharply, while prices retreated significantly. Whereas the yield on ten-year German Bunds was still minus 0.18% at the beginning of the year and 0.8% in August, it topped the two per cent mark in September for the first time in nine years and reached 2.56% at the end of 2022.

HOUSING CONSTRUCTION ACTIVITY

In contrast to past crises, residential construction in Germany was also impacted by downturns in 2022. The already drastic price increase for all types of building materials in 2021 was further exacerbated by the Russian war of aggression on Ukraine. According to calculations by the Federal Statistical Office (Destatis), the price index for new residential building construction in August 2022 was up 25% on February 2021. The availability of building materials improved significantly towards the end of the year since the interim high in May 2022, when 58% of companies active in private housing construction reported that their production was being hampered by a shortage of materials (Federation of the German Construction Industry (HDB)). However, housing production was still severely constrained. The abrupt termination of KfW subsidies for energy-efficient new construction and the refurbishment of residential buildings in January resulted in lasting uncertainty for market participants. The funds made available during the year to promote the increased KfW Standard-40 in the amount of one billion euros were completely exhausted within a few hours. A total of 272,054 homes were approved from January to September 2022 (Destatis). This was 3.7% or 10,366 fewer than in the prior-year period. Especially multi-storey residential building construction, which had been the driver of housing construction activity over the past ten years, was hit hard (Federal Association of German Housing and Real Estate Companies (GdW)). The decline in new orders and increased order cancellations caused business sentiment in the construction industry to fall as sharply, starting in March, as it did most recently during the 2008 global financial crisis (ifo-Institut). Another problem was the tripling of interest rates for mortgage loans with terms of more than 10 years. Following 293,000 completions in 2021, the Federal Government's target of 400,000 homes built annually was also clearly missed in 2022, at around 280,000 completions (Central Association of German Construction Companies (ZDB)).

In Hungary, the housing market reached the peak of its multi-year cycle in the first half of 2022. The volume of housing loans granted by credit institutions climbed to a record high in the second quarter. The upswing in issuing building permits continued since the Covid-dominated summer of 2020. At 17,715 units, 16% more permits were issued year-on-year in the first half of the year. The third quarter saw the trend reversal in the Hungarian housing market. Because of the continued increase in interest rates for housing loans and the rising prices on the housing market, housing became increasingly unaffordable for households that are not or only marginally eligible for housing construction subsidies at a level not seen for years. At the same time, banks tightened the conditions for access to housing loans. According to estimates by the MNB, the number of transactions on the Hungarian housing market decreased by 22.6% in the third quarter, with the year-on-year decline in September even reaching 34.2%. Nevertheless, the number of newly completed homes rose by 7.7% over the year to 30 September. For 2022, the MNB is expecting approximately 23,000 newly completed homes, as in the previous year.

Course of business of the Group and the segments

GROUP

In an economic environment characterised by the sharp rise in interest rates, inflation and considerable uncertainty, the Schwäbisch Hall Group achieved a sales performance in 2022 that the Management Board rates as very good overall. The strong demand for *Bauspar* contracts cushioned the decline in demand for housing financing. This shows that Bausparkasse Schwäbisch Hall AG's business model, with its core business segments of *Bausparen* and Housing Financing, can function in a variety of interest rate situations.

BAUSPAREN AND HOUSING FINANCING DOMESTIC SEGMENT

With a total sales performance of €51.1 billion, Bausparkasse Schwäbisch Hall AG recorded the best sales performance in its 91-year history, topping the previous record of €50.3 billion set in 2015 by €0.8 billion.

The new *Bauspar* business in Germany amounting to €34.1 billion represents a 41.9% increase compared with the previous year (€24.0 billion) and is the third-best sales performance in the history of Bausparkasse Schwäbisch Hall AG. With 462,835 contracts concluded, this corresponds to a 4.8% increase over the 2021 comparative figure (441,477). The average *Bauspar* sum for new contracts was €73,591 (2021: €54,377), and hence significantly higher than the prior-year amount.

Bausparkasse Schwäbisch Hall AG reinforced its position as the number one *Bausparkasse* in Germany. Its market share for new *Bauspar* business honoured reached 28.9% and was thus slightly below the 30% mark (2021: 30.5%). As at the end of 2022, Bausparkasse Schwäbisch Hall AG had 6.5 million customers (2021: 6.8 million), with a stock of 7.2 million contracts honoured (2021: 7.7 million).

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

	in %
under 20 years old	8.4
20 to under 25 years old	7.5
25 to under 30 years old	9.1
30 to under 40 years old	20.6
40 to under 50 years old	18.0
50 to under 60 years old	19.1
60 years old or more	17.3

In financial year 2022, over 14,100 Wohn-Riester (home ownership pension) subsidised old-age provision contracts were concluded with Bausparkasse Schwäbisch Hall AG. Bausparkasse Schwäbisch Hall AG has just on 607,000 Wohn-Riester (home ownership pension) contracts in its portfolio.

The volume of *Bauspar* deposits at year-end 2022 reached €66.3 billion (2021: €66.5 billion).

The *Bauspar* sum of the stock of contracts rose by 0.3%, from €312.2 million in 2021 to €313.0 billion in 2022. The average *Bauspar* sum for the stock of contracts increased from €40,752 (in 2021) to €43,178 (in 2022), corresponding to 6.0% growth. Additions to the allocation fund decreased by €80 million to €12.0 billion.

470,558 *Bauspar* contracts (2021: 437,742) were allocated in 2022. At €13.8 billion, the allocated *Bauspar* volume was up 17.5% on the previous year's level of €11.8 billion. The volume of loans provided, net of allocation cancellations and loan waivers was €10.2 billion (2021: €8.3 billion).

The increased interest, construction and energy costs adversely affected the Housing Financing business segment, just as they did to the entire housing financing market. Bausparkasse Schwäbisch Hall AG reacted to the negative development of the macroeconomic environment with risk mitigation measures, which negatively further impacted new business. Brokerage of its own suspended repayment financing (interest-only loans) accounted for €3.8 billion (2021: €4.6 billion) of the total volume of €16.3 billion (2021: €18.3 billion), with brokerage of Fuchs building loans accounting for €3.0 billion (2021: €4.7 billion). In addition, financing schemes with a volume of €9.5 billion (2021: €9.0 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 €5.9 billion (2021: €6.2 billion). Bausparkasse Schwäbisch Hall AG *Bauspar* loans and bridging loans accounted for a further €2.7 billion (2021: €1.9 billion). The total portfolio of building loans was €61.6 billion, approximately 5.6% higher than in 2021 (€58.4 billion). €3.0 billion of this amount related to *Bauspar* loans (+27.6%), €45.7 billion to advance payment and bridging loans (-0.8%) and €12.9 billion (+29.9%) to other building loans.

With a total volume of €0.7 billion (2021: €0.9 billion), Cross-Selling product sales recorded a decrease of 20.3% in 2022. The total volume does not include the volume of term life insurance policies brokered in connection with building loans, which rose by 36.5% to approximately €1.2 billion.

As part of its sales partnership, Bausparkasse Schwäbisch Hall AG's sales force brokered almost 95,300 financing and investment products for its cooperative partner institutions (-0.5% compared with 2021).

BAUSPAREN AND HOUSING FINANCING NON-DOMESTIC SEGMENT

The FLK subsidiary is allocated to this segment, and the PSS and SGB joint ventures are included using the equity method.

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

Hungary

The end of the Covid-19 pandemic had a positive impact on new *Bauspar* business in Hungary in 2022. Despite difficult overall conditions, with a high inflation rate and a decline in net incomes, FLK was able to significantly expand its new *Bauspar* business. With 65,000 *Bauspar* contracts (2021: 44,500 contracts) and a *Bauspar* sum of €1.2 billion (2021: €0.9 billion), the new business generated in the previous year was significantly exceeded. The average *Bauspar* sum remained considerably below the previous year's figure (2022: €17,800; 2021: €20,900), primarily because of exchange rate movements. At €318 million, savings funds received (payments received for *Bauspar* contracts) significantly lower than the previous year's figure of €392 million. *Bauspar* deposits declined to €1.5 billion (2021: €1.7 billion). The volume of

Bauspar loans granted was almost stable, at €142 million (previous year: €147 million). In the housing financing business, FLK recorded new business of €264 million, following €330 million 2021. The decline was primarily the result of the sharp increase in credit interest rates on the housing financing market.

Slovakia

PSS successfully increased its core business, with 54,587 *Bauspar* contracts concluded (2021: 43,857) and an overall *Bauspar* sum of €1.5 billion (2021: €1.2 billion). In the housing financing business, PSS recorded new business of €532 million, following €379 million in 2021.

China

With 158,092 *Bauspar* contracts concluded (2021: 180,163) and a *Bauspar* sum of €5.7 billion (€5.8 billion), SGB recorded new business at the same level as the previous year despite a challenging environment, including an escalation of the Covid-19 pandemic. In the housing financing business, SGB recorded new business of €790 million, following €754 million in 2021.

OTHER DOMESTIC SEGMENT

SHF consists of the following three divisions: BSH, Document Services and Market. Revenue in the BSH division is generated exclusively from facility management services for Bausparkasse Schwäbisch Hall AG. Revenue in the Document Services division is the result of print and shipping services, scanning and indexing, as well as mail handling both for Bausparkasse Schwäbisch Hall AG and for other customers. Revenue in the Market division consists of facility management services for customers outside Bausparkasse Schwäbisch Hall AG. In financial year 2022, SHF recorded revenue growth of 16.9%. This positive development was spread evenly across all the divisions. The average number of employees declined to 528 in financial year 2022 (2021: 555). SHF was certified to the FSC® CoC standard and thus meets its ecological sustainability commitment to the responsible use of natural resources.

Financial performance of the Group and the segments

GROUP

The Schwäbisch Hall Group's 2022 results were shaped by the extreme rise in capital market interest rates and the increased interest in *Bausparen*. The special reversal of *Bauspar*-specific provisions in the amount of €185 million that became necessary as a result of the rise in interest rates led to a significant improvement in net interest income, in addition to lower additions to these provisions (€+95 million). By contrast, the gains or losses on investments were distinctly negative (€-90 million), in part because of measures taken in response to the rise in interest rates.

In light of the extraordinary and persistent economic uncertainty and record inflation and energy prices, the Management Board believes that the results are satisfactory.

Interest income declined substantially year-on-year. Interest income relating to home savings loans remained unchanged year-on-year. With the total portfolio rising sharply, the lower interest rates for the more recent tariffs of Bausparkasse Schwäbisch Hall AG also played a role here.

Income fell sharply for advance and bridge financing loans (€-83 million), in particular because of the lack of income from loans with higher interest rates. By contrast, income from other building loans increased in recent years (€+39 million), despite lower average interest rates, due to the expansion of the *SofortBaugeld* business. Investment interest declined significantly (€-41 million) due to the low capital market interest rates. The negative effect of the amortisation of fee and commission expenses and transaction costs included in effective interest on *Bauspar* deposits and building loans increased slightly (€-9 million).

Interest expenses were attributable mainly to *Bauspar* deposits. The decrease in interest expenses resulted from a special reversal of *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. The extreme rise in

FINANCIAL PERFORMANCE OF THE SCHWÄBISCH HALL GROUP

			Change	
in € million	**2022**	**2021**	**absolute**	**in %**
Net interest income	744	581	163	28.1
Interest income	1,303	1,401	-98	-7.0
Interest expenses	-564	-829	265	32.0
Income from investments in joint ventures using the equity method	5	9	-4	-44.4
Loss allowances	-16	-14	-2	-14.3
Net fee and commission income	11	12	-1	-8.3
Fee and commission income	132	120	12	10.0
Fee and commission expenses	-121	-108	-13	-12.0
Gains and losses on investments	-90	22	-112	>-100
Other gains or losses on measurement of financial instruments	3	0	3	100.0
Gains or losses on derecognition of financial assets measured at amortised cost	3	2	1	50.0
Administrative expenses	-528	-515	-13	-2.5
of which personnel expenses	-274	-232	-42	-18.1
of which other administrative expenses	-191	-214	23	10.7
of which depreciation/amortisation	-63	-69	6	8.7
Other net operating income	16	42	-26	-61.9
Profit/loss before taxes	**143**	**130**	**13**	**10.0**
Income taxes	-53	-40	-13	-32.5
Net profit	**90**	**90**	**0**	**–**

interest rates in the reporting period is leading to changes in the behaviour of *Bauspar* customers, which required an adjustment to the provision. Additions to *Bauspar*-specific provisions, net of reversals, amounted to €77 million in the reporting period (2021: €-209 million) (provisions as at 31 December 2022/31 December 2021: €1,398 million/ €1,053 million).

The increase in interest expense by €63 million is attributable to refinancing funds and is thus linked to interest rate levels and volumes.

The income from investments in joint ventures using the equity method contains the earnings contribution by PSS amounting to €2 million (2021: €6 million) and the earnings contribution by SGB amounting to €3 million (2021: €3 million).

Of the net measurement gains from lending business of €-16 million, €-13 million is attributable to Bausparkasse Schwäbisch Hall and €-3 million to FLK.

The expected effects of the uncertain macroeconomic situation, resulting in particular from the effects of the Ukraine war and the delayed consequences of the Covid-19 pandemic, were reflected in the loss allowances and have a €15.8 million impact in 2022. This is offset by positive loan portfolio effects from the decline in the default portfolio and improvements in creditworthiness.

Net fee and commission income of €11 million was almost at the same level as the previous year (2021: €12 million). Bausparkasse Schwäbisch Hall AG includes arrangement fees and acquisition commissions in its effective interest rate calculation where they are directly associated with the acquisition of *Bauspar* deposits. The balance is amortised in net interest income over the term of the *Bauspar* contract as a component of effective interest on *Bauspar* deposits. This reduced net fee and commission income of €72 million in 2022, whereas in 2021, there was a reduction in net fee and commission expense by €22 million. This is a result of the first full-year inclusion in 2022 of the *Fuchs 05* tariff, introduced as at 30 June 2021, in the effective interest paid on *Bauspar* deposits. Fee and commission expenses were further reduced by the deferral of transaction costs in the housing financing business by €111 million (2021: €179 million). On the other hand, net interest income was negatively affected by the amortisation of deferred commissions and transaction costs.

Gains and losses on investments result mainly from sales of listed bearer bonds and are attributable to UIN Union Investment Institutional Fund No. 817 (€-16 million, 2021: €19 million) and Bausparkasse Schwäbisch Hall AG (€-44 million, 2021: €8 million). Measurement of the joint ventures resulted in an expense of €-30 million (SGB €-16 million; PSS €-14 million).

Other measurement gains or losses on financial instruments are attributable to Bausparkasse Schwäbisch Hall AG. An expense of €7 million is attributable to interest rate swaps entered into before the designation of hedging relationships. Hedge ineffectiveness resulted in gains of €10 million.

Gains or losses on the derecognition of financial assets measured at amortised cost include sales of bearer bonds measured at amortised cost by Bausparkasse Schwäbisch Hall AG (€6 million) and FLK (€-3 million, 2021: €2 million).

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

Personnel expenses increased significantly. The increase is attributable primarily to the companies included in the consolidated financial statements (€-33 million) in 2022 for the first time, with an offsetting effect due to the companies included for the first time recognised in other administrative expenses. A further increase of €9 million is attributable to Bausparkasse Schwäbisch Hall AG and SHK and primarily a result of collectively agreed salary increases and the inflation adjustment premium. The increase in personnel expenses contains expenses for the inflation adjustment premium amounting to €4 million. Consequently, wages and salaries rose by €34 million, while expenses for pensions and other post-employment benefits increased by €8 million.

Other administrative expenses decreased significantly. In the previous year, services provided by SHF to Bausparkasse Schwäbisch Hall AG were reported here (€+29 million). This was partly offset by other administrative expenses at FLK (€-3 million).

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

The decrease in other net operating income is attributable to Bausparkasse Schwäbisch Hall AG (€-19 million), FLK (€-6 million) and SHK (€-4 million). The subsidiaries consolidated for the first time in 2022 generated positive other net operating income of €4 million.

The cost/income ratio, which is the ratio of administrative expenses to total operating income, was 76.9% in the Schwäbisch Hall Group in the reporting period, compared with 78.1% in 2021. Economic RORAC was 4.7% (2021: 4.6%).

After deducting non-controlling interests of €7 million (2021: €8 million), net profit of €84 million (2021: €82 million) before profit transfer is attributable to the Schwäbisch Hall Group.

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

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

in € million	2022	2021[1]	Change absolute	Change in %
Net interest income	671	519	152	29.3
Interest income and current income	1,218	1,321	-103	-7.8
Interest expenses	-548	-809	261	32.3
Current income from investments in subsidiaries and joint ventures, and dividend income	1	7	-6	-85.7
Loss allowances	-13	-10	-3	-30.0
Net fee and commission income	6	7	-1	-14.3
Fee and commission income	126	110	16	14.5
Fee and commission expenses	-120	-103	-17	-16.5
Gains and losses on investments	-76	39	-115	>-100
Other gains or losses on measurement of financial instruments	3	–	3	100.0
Gains or losses on derecognition of financial assets measured at amortised cost	6	–	6	100.0
Administrative expenses	-491	-476	-15	-3.2
of which personnel expenses	-234	-217	-17	-7.8
of which other administrative expenses	-202	-199	-3	-1.5
of which depreciation/amortisation	-55	-60	5	8.3
Other net operating income	25	45	-20	-44.4
Segment profit before taxes	**131**	**124**	**7**	**5.6**

[1] The prior-period figures were adjusted to reflect the change in the segment's structure.

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

Gains and losses on investments result mainly from sales of listed bearer bonds and are attributable to UIN Union Investment Institutional Fund No. 817 (€-16 million) and Bausparkasse Schwäbisch Hall AG (€-44 million). Measurement of the interest in SGB resulted in an expense of €16 million at Bausparkasse Schwäbisch Hall AG.

The increase in personnel expenses results from the initial consolidation of SHW and BAUFINEX (€8 million) as well as wage and salary increases at Bausparkasse Schwäbisch Hall AG and SHK (€9 million). Of this total, €3 million is attributable to the inflation adjustment premium.

The decrease in other net operating income is attributable primarily to the addition to the provision for legal risks at Bausparkasse Schwäbisch Hall AG (€-48 million) and the tax on extra profits at FLK (€-6 million). This was offset by higher income from the collection of terminated *Bauspar* deposits (€+21 million) and the reversal of provisions (€+8 million).

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

The *Bausparen* and Housing Financing Non-Domestic segment comprises the joint venture *Bausparkassen* PSS and SGB as well as the FLK subsidiary. The earnings contribution from the joint venture *Bausparkassen* attributable to the Schwäbisch Hall Group is reported in income from investments in joint ventures using the equity method. The aggregate profit before taxes (€40.7 million) of the *Bausparkassen* included in the *Bausparen* Non-Domestic segment was down significantly year-on-year (2021: €60 million). The decline in segment profit before taxes to €21 million (2021: €30 million) is attributable primarily to the macroeconomic conditions already described in the Report on economic conditions in this Management Report.

FLK was unable to completely match its good results from the pre-Covid years in 2022. This was also attributable to certain non-recurring effects, a €6 million tax on extra profits, a €3 million "Sberbank special contribution to the deposit guarantee fund" and necessary sales of securities amounting to €3 million. Much of this was offset by higher interest income.

A weak forint exchange rate significantly depressed earnings expressed in euros. The new *Bauspar* business grew by 35%, whereas the housing financing business was 13% below the projection. A special programme to grant *Bauspar* customers an interest rate bonus, especially for expiring existing contracts, got off to a positive start. Profit before taxes declined from €21 million to €16.5 million in 2022.

Developments in Slovakia were impacted by a non-recurring effect. In the wake of the Ukraine crisis, the loss allowance for term deposits with the insolvent Sberbank CZ had to be increased by €10 million. In addition, net interest income improved slightly, while administrative expenses rose significantly due to inflation and net fee and commission income declined.

Profit before taxes declined year-on-year from €21.9 million to €11.5 million.

In China, SGB was able to increase its net interest income and reduce negative net fee and commission income despite regional impairments due to the strict government zero-Covid policy, which was only relaxed towards the end of the year. By contrast, loss allowances increased significantly and other net operating income declined. Profit before taxes declined from €16.5 million to €12.7 million.

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

			Change	
in € million	**2022**	**2021**	**absolute**	**in %**
Net interest income	69	60	9	15.0
Interest income	85	80	5	6.3
Interest expenses	-16	-20	4	20.0
Income from investments in joint ventures using the equity method	5	9	-4	44.4
Loss allowances	-3	-4	1	25.0
Net fee and commission income	5	5	–	–
Fee and commission income	9	10	-1	-10.0
Fee and commission expenses	-4	-5	1	20.0
Gains or losses on derecognition of financial assets measured at amortised cost	-3	2	-5	>-100
Administrative expenses	-42	-39	-3	-7.7
of which personnel expenses	-16	-15	-1	-6.7
of which other administrative expenses	-19	-16	-3	-18.8
of which depreciation/amortisation	-7	-8	1	12.5
Other net operating income	-9	-3	-6	>-100
Profit before taxes	**21**	**30**	**-9**	**-30.0**

FINANCIAL PERFORMANCE OF THE OTHER DOMESTIC SEGMENT

SHF's revenue reported in other comprehensive income increased by 16.9% to €55.4 million in financial year 2022. Revenue in the BSH division amounted to €23.2 million (2021: €19.8 million), revenue in the Document Services division amounted to €18.1 million (2021: €15.6 million) and revenue in the Market division amounted to €14.1 million (2021: €12.0 million). The cost of materials reported in other comprehensive income increased by 21.5% to €19.9 million due to the increase in revenue. The cost of materials ratio rose accordingly to 35.8% (previous year: 34.5%). This was due to the disproportionate 32.6% increase in the cost of materials. Other administrative expenses remained almost constant at €4.9 million. These primarily include rental expenses and service costs, IT costs and flat-rate service fees paid to Bausparkasse Schwäbisch Hall AG. Segment profit before taxes improved by €4 million to €6 million.

FINANCIAL PERFORMANCE OF THE OTHER DOMESTIC SEGMENT

in € million	2022	2021	Change	
			absolute	in %
Net interest income	–	–	–	–
Interest income	–	–	–	–
Interest expenses	–	–	–	–
Loss allowances	–	–	–	–
Net fee and commission income	–	–	–	–
Fee and commission income	–	–	–	–
Fee and commission expenses	–	–	–	–
Gains and losses on investments	–	–	–	–
Other gains or losses on measurement of financial instruments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	–	–		–
Administrative expenses	-30	-30	–	–
of which personnel expenses	-24	-24	–	–
of which other administrative expenses	-5	-5	–	–
of which depreciation/amortisation	-1	-1	–	–
Other net operating income	36	32	4	12.5
Segment profit before taxes	**6**	**2**	**4**	**> 100**

SHF was included in the consolidated financial statements for the first time as at 31 December 2022. The prior-year figures therefore serve purely for comparison purposes.

Group financial position and net assets

CHANGES IN THE SCHWÄBISCH HALL GROUP'S BALANCE SHEET

The Schwäbisch Hall Group's total assets rose by €0.2 billion (0.2%) as at 31 December 2022 to €85.6 billion. On the assets side, the increase in total assets is primarily attributable to higher loans and advances to customers. It is partly offset by the decline in investments. On the equity and liabilities side, deposits from banks recorded an increase, which is partly offset by a decline in equity.

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 5.2% to €60.9 billion (2021: €57.9 billion).

Bausparkasse Schwäbisch Hall AG's loan-deposit ratio I, i.e. the ratio of *Bauspar* loans to *Bauspar* deposits, was 4.5% at the end of 2022 (2021: 3.5%). Its loan-deposit ratio II – i.e. the ratio of *Bauspar* loans plus suspended repayment and bridging loans to *Bauspar* deposits – increased from 72.9% to 73.5% at the end of 2022.

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

Due to statutory requirements, FLK's cash funds of €207.1 million (2021: €279.5 million) are mainly invested in Hungarian government bonds.

NET ASSETS

			Change	
in € million	**31/12/2022**	**31/12/2021**	**absolute**	**in %**
Assets				
Loans and advances to banks	8,796	8,043	753	9.4
Loans and advances to customers	66,163	62,979	3,184	5.1
Positive fair values of hedging instruments	32	2	30	>100
Investments	9,564	13,006	-3,442	-26.5
Other assets	1,044	1,341	-297	-22.1
Total assets	**85,599**	**85,371**	**228**	**0.3**
Equity and liabilities				
Deposits from banks	10,459	9,452	1,007	10.7
Deposits from customers	66,851	66,733	118	0.2
Fair value changes of hedged items in portfolio hedges of interest rate risk	-223	-10	-213	>-100
Issued bonds	2,510	1,506	1,004	66.7
Negative fair values of hedging instruments	220	5	215	>100
Provisions	1,355	1,683	-328	-19.5
Other liabilities	212	284	-72	25.4
Equity	4,215	5,718	-1,503	-26.3
Total assets	**85,599**	**85,371**	**228**	**0.3**

The derivative financial instruments entered into with DZ BANK (interest rate swaps) with a notional amount of €2,685 million (2021: €750 million) serve exclusively to manage Bausparkasse Schwäbisch Hall AG's general interest rate risk. Portfolio fair value hedge accounting (PFVHA) under IAS 39 (EU carve-out) was implemented to account for these hedges. In PFVHA, *Bauspar* deposits (measured at amortised cost) are hedged against interest rate risk by means of dynamic asset-liability management. For the first time, bearer bonds (classified as debt instruments at fair value through other comprehensive income) were hedged against interest rate risk using PFVHA in 2022. The fair value of the interest rate swaps was €-187.9 million as at 31 December 2022 (2021: €-2.8 million).

Deposits from banks exclusively relate to German credit institutions, including €9.2 billion (2021: €7.7 billion) relating to DZ BANK. They include *Bauspar* deposits of €1.3 billion (2021: €1.6 billion).

Deposits from customers primarily comprise *Bauspar* deposits of €66.3 billion (2021: €66.2 billion). The sharp rise in demand for *Bauspar* loans at Bausparkasse Schwäbisch Hall AG curbed the increase in *Bauspar* deposits by customers.

The decrease in the Schwäbisch Hall Group's equity was due primarily to the decrease in the reserve for debt instruments measured at fair value through other comprehensive income. The technical security reserve formerly contained in equity was released as at 31 December 2022 (€226 million).

CRR regulatory ratios

The Group's regulatory capital calculated under the Capital Requirements Regulation (CRR) totalled €4,112.3 million as at 31 December 2022 (2021: €5,053.5 million). Bausparkasse Schwäbisch Hall AG does not have any Additional Tier 1 capital. It has Tier 2 capital of €26.1 million (2021: €6.5 million). Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,318.2 million as at 31 December 2022 (2021: €1,319.2 million). The decline is due primarily to improvements in creditworthiness in the customer lending business.

The Group's Tier 1 capital ratio and Common Equity Tier 1 capital ratio declined from 30.6% as at 31 December 2021 to 24.8% as at the reporting date. The total capital ratio at the reporting date was 25.0%. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

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

CRR REGULATORY RATIOS

in € million	31/12/2022[1]	31/12/2021
Capital		
Common Equity Tier 1 capital	4,086.2	5,046.9
Additional Tier 1 capital	0	0
Tier 1 capital	4,086.2	5,046.9
Tier 2 capital	26.1	6.50
Total capital	**4,112.3**	**5,053.5**
Capital requirements		
Credit risk (including equity investments)	1,230.9	1,225.7
Market risk	0	0
Operational risk	87.3	93.5
Total	1,318.2	1,319.2
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	24.8%	30.6 %
Tier 1 capital ratio (minimum value: 6.0%)	24.8%	30.6 %
Total capital ratio (minimum value: 8.0%)	25.0%	30.6 %
Leverage ratio (minimum ratio 3.0%)	**5.7%**	**6.9 %**

[1] Provisional figures

Target/actual comparison of the previous year's forecast

The goals and expectations for financial year 2022 described in the Report on expected developments in the Group's 2021 Annual Report are compared with the actual trends and any discrepancies are accounted for. The comparison is dominated in all areas by the effects of the Russian war of aggression and the rise in interest rates, which was unprecedented in this magnitude and at this pace.

Expected developments (FR[1] 2021)	Actual performance	Comparison
Business development		
***Bausparen* and Housing Financing Domestic segment:**		
New *Bauspar* business will probably be slightly below the 2021 figure, due in part to the start-up effects following the introduction of the new tariff in 2022.	New *Bauspar* business €34.1 billion (2021: €24.0 billion)	Forecast exceeded significantly
After the significant increase to the new record level, the housing financing business is likely to fall slightly short of the 2021 volume in 2022.	New *Bauspar* business €16.3 billion (2021: €18.3 billion)	Forecast not reached
***Bausparen* and Housing Financing Non-Domestic segment:**		
As a result, a slight increase in the volume of new business in both core business segments is expected for FLK.	New *Bauspar* business €1.16 billion. (2021: €0.93 billion)	In line with forecast
Slight increase in FLK housing financing business.	New *Bauspar* business €0.26 billion (2021: €0.33 billion)	Forecast not reached, sharp rise interest rates and high inflation in Hungary
Financial performance		
Group:		
Net interest income is expected to decline slightly year-on-year in 2022. An unexpected adjustment to the ECB's key interest rate and deposit interest rate or other liquidity measures could have an additional negative impact on net interest income in financial year 2022.	Net interest income significantly improved	Forecast not reached. The reason is the extreme, unexpected rise in interest rates
Based on the loan portfolio, loss allowances will probably only rise slightly year-on-year in 2021.	Slight rise in loss allowances by €2 million	In line with forecast
Profit before taxes is therefore expected to decline slightly by comparison with financial year 2021.	Profit before taxes up considerably	Forecast not reached. The reason is the extreme, unexpected rise in interest rates
***Bausparen* and Housing Financing Domestic segment:**		
In the case of net interest income, a sideways movement is being forecast for 2022. Apart from that, the probable further increase in the portfolio of non-collective loans and the newly introduced *Fuchs Bauspar* tariffs are expected to have a positive effect, although they will be unable to fully cushion the decrease attributable to the low interest rates, particularly in the area of financial investments.	Net interest income significantly improved	Forecast not reached. The reason is the extreme, unexpected rise in interest rates
Even if all sales and cost targets are achieved, Bausparkasse Schwäbisch Hall AG is therefore expecting a slight decline in profit before taxes in the *Bausparen* Domestic segment in 2022, due primarily to the low level of interest rates.	Profit before taxes up considerably. Sales targets were not reached in Housing Financing, were significantly exceeded in *Bausparen*	Forecast not reached. The reason is the extreme, unexpected rise in interest rates. Consequences: sharp rise in new *Bauspar* business and significant decline in housing financing business
***Bausparen* and Housing Financing Non-Domestic segment:**		
Net interest income and net fee and commission income are expected to be up slightly year-on-year, in particular also because of the significant increase in interest rates in 2021 and the absence of the remaining burdens from the extended loan repayment moratorium as at 1 July 2022.	Net interest income improved, net fee and commission income on a level with previous year	Forecast achieved for net interest income, fell slightly short for net fee and commission income
Profit before taxes is expected to be up slightly year-on-year.	Profit before taxes up year-on-year	In line with forecast

[1] Financial report

Non-financial statement

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

Report on expected developments for 2023

Changes in macroeconomic conditions

High inflation, the Russian war of aggression in Ukraine and the consequences of the Covid pandemic weighed heavily on the global economy at the end of 2022. Both the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) highlighted the high level of uncertainty underlying their forecasts for 2023. They say that the key factors affecting the development of the global economy in 2023 will be the monetary policy of the central banks, the course of the war in Ukraine and potential further pandemic-related disruptions, for example in China. For the global economy, the OECD is forecasting GDP growth of no more than 2.2% in the coming year, while the IMF is predicting growth of 2.7%. However, growth could be weaker if energy prices rise any further or if gas and electricity markets in Europe and Asia are hit by energy supply disruptions. Soaring global interest rates could put many households, companies and governments under greater pressure because they will have to pay more to service their debt.

For Germany, the leading economic research institutes lowered the forecast they made in spring 2022 for GDP growth in 2023 from 3.1% to -0.4% in their joint diagnosis in autumn 2022. However, the outlook is subject to considerable uncertainty. This reflects the broad range of forecasts about the expected scale of the slowdown. Whereas the OECD is projecting a 0.3% decline, the German Economic Institute is expecting a contraction by 1.75% and the German Chamber of Industry and Commerce is even predicting a drop of 3.0%. The primary reason for the deteriorating economic outlook is the interruption in gas deliveries from Russia. The leading economic research institutes do not expect there to be any gas shortage in the winter of 2022/2023, but they do anticipate an extremely tight supply situation and gas prices significantly above pre-crisis levels. However, in a crisis scenario that assumes, among other things, a very cold winter and lower gas consumption, the institutes estimate that this would lead to a 7.9% drop in total economic output in 2023.

For Hungary, the leading Budapest economic research institute GKI Economic Research Co. is expecting GDP to contract by 3.5% in 2023. This means that the GKI's projection for 2023 is more pessimistic than the 1.5% forecast by the OECD and the 0.4% forecast by FocusEconomics. The GKI pointed out that the forecast was made in an environment marked by considerable uncertainty. The GKI is assuming that the environment existing at the end of 2022 will continue. It expects there to be access to existing EU funds, at least in part.

Changes in private housing construction and building refurbishment

GERMANY

Record low interest rates for housing loans were one of the major drivers of new housing construction in the past ten years. The interest rate reversal, rising prices accompanied by supply shortages and high energy costs are dominating the beginning of 2023. Against this background, the Central Association of the German Construction Companies (ZDB) is expecting only approximately 245,000 homes to be completed in 2023, representing a 12.5% drop. For the time being, the high order books are still providing some support. The Federal Government's target of building at least 400,000 new homes each year is thus probably becoming increasingly remote. However, the macroeconomic conditions described above are making the forecast more difficult. If inflation were to fall but interest rates were to remain high or even rise, this would have an additional negative impact on new loan-financed housing construction.

In contrast to new housing construction, the market for renovations and energy-efficient refurbishments is likely to grow in 2023. This forecast is attributed to the following factors: in order to achieve climate protection goals, tougher requirements for the energy efficiency of buildings must be met. The political goal of greater independence from oil and gas from Russia is also contributing to the acceleration of the turnaround in energy policy. This is increasing the overall volume of energy-efficient refurbishments. The changes in the world of work following the pandemic and the risk of "New Work", with more working from home, are leading to growing demands on people's own homes. The shortage of building land and the sharp rise in construction prices are slowing down growth in new housing construction, but are likely to channel additional capital into renovation measures instead. Rising demand for refurbishments will therefore contain the decline in housing loans in the reporting period. According to an analysis by consulting firm EY Financial Services ("European Bank Lending Forecast"), the portfolio of real estate loans will only decline by 0.1%.

HUNGARY

Private housing construction has been a driving force behind the economic upturn in Hungary in recent years. The persistent increase in interest rates for housing loans and rising prices on the housing market triggered the trend reversal. Demand for housing loans declined sharply until the turn of the year 2022/2023. Experts surveyed by the MNB are expecting demand to continue to weaken at a steady pace. Based on their expectations, the bottom of housing market activity could be hit in February/March 2023. They are also assuming that the housing market will split in two. Prices for homes with poor energy efficiency will fall, while prices for homes with good energy efficiency will stay flat or rise. Prices for newly completed homes are expected to rise further, primarily as a result of the significant increase in construction costs. Developers expect that the number of completed homes, which has been around the 20,000 mark in recent years, could drop by half over the next two years due to the deteriorating economic outlook.

According to the Hungarian government's refurbishment strategy, 90% of buildings should have almost zero energy consumption by 2050. This means that 100,000 to 130,000 existing homes will have to be refurbished every year by then. Besides public subsidies, a considerable volume of refurbishment loans from private credit institutions will also be needed in future.

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

DEVELOPMENT OF THE GROUP

Expectations for the Schwäbisch Hall Group's business development in financial year 2023 are dominated by rising interest rates as well as the sharp increase in construction costs, which will probably continue to dampen demand for the *SofortBaugeld* product. The increasing requirements for climate protection could bring about a positive effect, making parts of the building sector an ongoing climate construction site. Following the significant slowdown in the Housing Financing core business segment because of the crisis, a consolidation in 2023 is being projected here. The volume of new business is likely to be down significantly year-on-year because of the strong first half of 2022. Following the record set in 2022, the volume of new business in the *Bausparen* core business segment is expected to be slightly lower than the previous year's level. The familiar factors will continue to impact financial performance in 2023: the rising interest rates for refinancing; higher costs due to the sustained increase in regulatory requirements (the EU is increasingly using the financial system to direct climate protection investments); significant scheduled investments recognised as expenses in the Housing Financing core business segment, with the modernisation of IT platforms at Bausparkasse Schwäbisch Hall AG.

Provided this holds true, the Schwäbisch Hall Group expects profit before taxes for financial year 2023 to be sharply lower than in the reporting period.

Net interest income is expected to decline significantly year-on-year in 2023. The reason is the discontinuation of a non-recurring factor from the reversal of *Bauspar*-specific provisions in 2022 and necessary refinancing measures in 2023. The expected further portfolio growth for non-collective loans and *Bauspar* loans will have a positive effect. An unexpected adjustment to the ECB's key interest rate and deposit interest rate or other liquidity measures could have an additional negative impact on net interest income in financial year 2023.

Loss allowances will probably remain largely unchanged. The expected stable development of loss allowances reflects the government's measures to contain the rise in energy prices as well as the anticipated continued positive situation on the labour market.

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

Administrative expenses are set to rise slightly in 2023. 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 AG will lead to a sideways movement in administrative expenses.

The Schwäbisch Hall Group continues to pursue a strategic goal of limiting any increase in its cost/income ratio despite further additional expenses, thanks to its systematic cost management. We expect the cost/income ratio to rise significantly in financial year 2023 compared with the previous year, mainly due to lower net interest income and stable administrative expenses.

Economic RORAC is likely to be significantly below the prior-year figure in financial year 2023 due to the lower earnings expectations.

LIQUIDITY POSITION AND NET ASSETS

For financial year 2023, Bausparkasse Schwäbisch Hall AG is again assuming that savings for *Bauspar* contracts will remain stable in its operational liquidity management. Funds provided by institutional investors and DZ BANK are additionally available. A high level of new *Bauspar* business is assumed for the structural refinancing of Bausparkasse Schwäbisch Hall AG. Additionally, further benchmark issues in the *Pfandbrief* (German covered bonds) segment are expected for 2023.

From today's perspective, Bausparkasse Schwäbisch Hall AG will continue meeting the economic and regulatory capital adequacy requirements in financial year 2023.

SUSTAINABILITY

When upgrading its sustainability management, the Schwäbisch Hall Group has prioritised the rising ecological challenges as well as the growing demands of its customers. The Schwäbisch Hall Group has therefore launched projects aimed in particular at deepening understanding for sustainability issues at the Bausparkasse Schwäbisch Group, consolidating management processes and further anchoring sustainability in the Schwäbisch Hall Group's strategy. In accordance with the expectations of the European Central Bank (ECB) and the European Banking Authority (EBA), the Schwäbisch Hall Group will integrate sustainability aspects, in particular environmental and climate risks, more strongly in risk management in 2023. The focus for 2023 is on preparatory work related to meeting reporting obligations and disclosure requirements, as well as the implementation of regulatory requirements to take ESG aspects into account. As key drivers of long-term business success, climate protection and CO_2 reduction are fundamental components of the Schwäbisch Hall Group's corporate strategy.

Segment development

DEVELOPMENT OF THE *BAUSPAREN* AND HOUSING FINANCING DOMESTIC SEGMENT

In Germany, Bausparkasse Schwäbisch Hall AG will continue to navigate a challenging environment in 2023, which is likely to be dominated by rising interest rates, high inflation with real wage losses as well as numerous regulatory requirements relating to sustainability. Based on this assumption, Bausparkasse Schwäbisch Hall AG is anticipating a sales performance significantly lower than the previous year in both of its core business segments. After the sharp drop in the second half of 2022, the housing financing business is likely to again remain behind the 2022 volume in 2023. New *Bauspar* business is projected to remain slightly below this figure following the strong increase in 2022.

For 2023, Bausparkasse Schwäbisch Hall AG is expecting a sharp decline in profit before taxes, with the energy crisis expected to continue accompanied by rising prices and high interest rates.

Net interest income is projected to decrease sharply in 2023. On one hand this is due to the discontinuation of the non-recurring factor from the reversal of provisions for home savings and loan business in interest expense and on the other hand due to expected rise in refinancing costs.

Loss allowances are likely to remain largely stable year-on-year.

A significant fall of sales performance compared to the previous year will lead to a sharp declining but still positive net fee and commission income.

Administrative expenses are likely to record no more than a slight increase. The results of the SOKS cost management programme will offset continued high investments to strengthen the *Bausparen* and in particular Housing Financing core business segments.

Even if all sales and cost targets are achieved, Bausparkasse Schwäbisch Hall AG is therefore expecting a strong decline in profit before taxes in the *Bausparen* and Housing Finance Domestic segment in 2023, due primarily to the discontinuation of the non-recurring factor in net interest income referred to above.

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

For *Bausparkassen* outside Germany, the macroeconomic environment is expected to remain challenging in 2023. High interest rates and shrinking real incomes will lead to a significant decline in FLK's new *Bauspar* business as well as a sharp drop in new housing financing business. FLK's 2023 net interest income will probably also be down significantly year-on-year. Significantly higher refinancing costs will have a negative impact. Net fee and commission income is expected to remain stable. Rising personnel costs and the high rate of inflation are projected to lead to significantly increased administrative expenses. Cost management and planned efficiency measures will have a slightly moderating effect. Profit will again be impacted by the tax on extra profits.

Profit before tax is therefore expected to decrease.

PSS is expecting a slight increase in new business in 2023 in both the *Bausparen* and Housing Financing business segments. With expected stable net interest income, a slight increase in net fee and commission income, and a significant decrease in loss allowances, profit before tax is projected to increase significantly.

Despite the restrictions at the turn of the year 2022/2023 due to the high number of Covid infections in China, SGB is anticipating stable new business in the *Bausparen* and Housing Financing business segments for 2023. Profit before tax is expected to remain unchanged.

DEVELOPMENT OF THE OTHER DOMESTIC SEGMENT

Growth in the labour-intensive facility management sector is expected to remain subdued in 2023. As a result, increases in services and acquisitions will continue to remain moderate for SHF.

For financial year 2023, SHF is anticipating a significant decline in revenue in all divisions. Revenue in the BSH division is expected to fall sharply due to a decline in output and price adjustments. Higher costs due to rising energy and material prices are expected to negatively impact profit. Profit before tax is therefore expected to decrease significantly.

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

Financial performance

EARNINGS POSITION

Operating profit after loss allowances was dominated by an unexpectedly significant rise in market interest rates over the course of the year.

Nevertheless, interest income declined significantly, as it is still largely driven by the low interest rates of the past years. The substantial improvement in interest expense, on the other hand, is already due to the strong rise in interest rates. Changes in the expected behaviour of *Bauspar* customers affected by the rise in interest rates led to the special reversal of *Bauspar*-specific provisions.

Bausparkasse Schwäbisch Hall AG's interest income, including current income from specialised funds and equity investments, declined by €158 million in 2022 to €1,282 million. Interest income from other building loans experienced a volume-driven increase in income (€+38 million) due to the significant business expansion in recent years. Income from *Bauspar* loans (€+1 million) also rose slightly. In this case, the negative impact of the increasing number of low-interest *Bauspar* loans that were allocated was more than offset by the strong increase in the volume of demand. Interest income from bridging loans and suspended repayment loans declined significantly (€-81 million), mainly because of the discontinuation of legacy tariffs with higher interest rates. Interest income from the investment of available funds in registered bonds and bearer bonds, including specialised funds, fell sharply (€-108 million), while income from investees decreased by €8 million.

Bausparkasse Schwäbisch Hall AG's interest expenses decreased by €146 million to €528 million and are attributable predominantly to *Bauspar* deposits. The figure for the reporting period includes the special reversal of *Bauspar*-specific provisions amounting to €185 million. These primarily reflect the discounted future obligations of Bausparkasse

INCOME STATEMENT

in € million	2022	2021	Change absolute	Change in %
Net interest income	754	766	-12	-1.6
Net fee and commission income	-41	-193	152	78.8
Administrative expenses	-670	-509	-161	-31.6
Partial operating result	**43**	**64**	**-21**	**-32.8**
Other net operating income	-70	8	-78	> -100
Loss allowances	-41	20	-61	> -100
Operating profit after loss allowances	**-68**	**92**	**-160**	**> -100**
Reversal of technical security reserve	226	–	226	–
Allocation to fund for general banking risks	-138	-44	-94	> -100
Income taxes	-5	-36	31	86.1
Profit transfer	-15	-12	-3	-25.0
Net profit for the financial year	**–**	**–**	**–**	**–**

Schwäbisch Hall AG to pay interest incentives to *Bauspar* customers who waive contractually guaranteed loans. The special reversal is an adjustment for changes in the expected behaviour of *Bauspar* customers, primarily because of the sharp rise in market rates of interest, coupled with greater demand for *Bauspar* loans. Additions to these provisions, net of reversals, amounted to €13.5 million in the reporting period (2021: €178 million) (provisions as at 31 December 2022/ 31 December 2021: €1,104 million/€1,354 million). The €62 million increase in other interest expenses is attributable on the one hand to the expansion of the volume of refinancing funds (*Pfandbriefe* and promissory note loans), and on the other to the rise in market interest rates.

Negative net fee and commission income improved significantly from €-193 million to €-41 million. The improvement in this item is mainly due to the increase in income from arrangement fees because the sharp rise in new *Bauspar* business. The decrease in net fee and commission expenses due to the notably lower housing finance business was substantially more than offset by the sharp increase in net fee and commission expenses for the new *Bauspar* business.

At €-670 million, administrative expenses were €161 million up on the previous year.

€-316 million (2021: €-155 million) of the administrative expenses is attributable to personnel expenses. Expenses for wages and salaries rose by €22 million to €123 million, mainly as a result of a personnel transfer. The employees of SHK's IT divisions transferred to Bausparkasse Schwäbisch Hall AG effective 1 July 2021. Expenses for pensions and other post-employment benefit expenses rose by €139 million to €193 million. €33 million of this increase is attributable to additions to pension provisions, due mainly to the adjustment of the salary trend and the inclusion of an inflation premium. €102 million is attributable to the fair value measurement of plan assets invested in specialised funds under a CTA, which resulted in an expense of €105 million (2021: €3 million). A further €4 million is attributable to social security contributions.

Other administrative expenses rose slightly by 1.8% to €-300 million (2021: €-295 million).

Depreciation, amortisation and impairment losses include impairment losses of €4 million on non-current assets (2021: €11 million). These are the result of measures in connection with the implementation of the new core banking software in the "NEXT" project.

Loss allowances changed as follows:

Net measurement losses from lending business of €-12 million were only €2 million lower than the prior-period figure. The expected effects of the uncertain macroeconomic situation, resulting in particular from the effects of the Ukraine war and the delayed consequences of the Covid-19 pandemic, were reflected in the loss allowances and have a €15.8 million impact in 2022. This is offset by positive loan portfolio effects from the decline in the default portfolio and improvements in creditworthiness.

Net measurement losses on the securities portfolio amounted to €-13 million in the reporting period, compared with gains of €18 million in the previous year. These losses are attributable to the disposal of bearer and registered bonds.

Net measurement losses of €-16 million on equity investments relate to the interest in SGB.

The technical security reserve was released as at 31 December 2022 (2021: €226 million). €138 million was appropriated to the fund for general banking risks in 2022 (2021: €45 million).

The profit to be transferred to DZ BANK on the basis of a profit and loss transfer agreement amounts to €15 million (2021: €12 million). The cost/income ratio was 104.2% (2021: 87.6%).

Bausparkasse Schwäbisch Hall AG's earnings position is satisfactory.

NET ASSETS

Bausparkasse Schwäbisch Hall AG's total assets as at 31 December 2022 increased by €2.2 billion to €84.5 billion, reaching a new high.

The business volume amounted to €89.2 billion (2021: €88.6 billion). This figure includes both the total assets and the other commitments of the *Bausparkasse* amounting to €4.7 billion.

The *Bausparkasse* was able to significantly expand its lending volume in 2022. Building loans rose by €3.2 billion to a new record high of €61.6 billion at year-end 2022. The increase is attributable primarily to non-collective housing financing. Demand for *Bauspar* loans also picked up strongly because of the interest rate reversal.

Financial investments, most of which were invested in German issuers, decreased moderately. They include investments of cash funds from the *Bauspar* business in the form of registered bonds (€5.0 billion; 2021: €7.0 billion) and promissory note loans (€2.4 billion; 2021: €2.6 billion). Securities are listed bearer bonds (€7.9 billion; 2021: €8.8 billion) and shares in UIN Fund No. 817 (€3.25 billion; 2021: €3.25 billion).

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

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 €2,685 million (2021: 750 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 ASSETS

in € million	2022	2021	Change	
			absolute	in %
Building loans	61,599	58,356	3,243	5.6
of which: *Bauspar* loans	3,003	2,353	650	27.6
Suspended repayment and bridging loans	45,745	46,113	-368	-0.8
Other	12,851	9,890	2,961	29.9
Financial investments	22,544	23,630	-1,086	-4.6
Loans and advances	11,419	11,560	-141	-1.2
Securities	11,125	12,070	-945	-7.8
Fixed assets	363	388	-25	-6.4
Other assets	37	16	21	>100.0
Bauspar deposits	66,349	66,468	-119	-0.2
Other liabilities	12,538	10,101	2,437	24.1
of which: borrowings	11,835	9,515	2,320	24.4
Provisions	1,508	1,586	-78	-4.9
Technical security reserve	–	226	-226	-100.0
Fund for general banking risks	2,336	2,197	139	6.3
Equity	1,812	1,812	–	–
Total net assets	**84,543**	**82,390**	**2,153**	**2.6**

net realisable value. The fair value of the interest rate swaps was €-182.8 million as at 31 December 2022 (2021: €-2.8 million).

Bausparkasse Schwäbisch Hall AG's net assets are satisfactory.

FINANCIAL POSITION

The liquidity position is satisfactory, with only insignificant changes compared with the previous year. The *Bausparkasse* has had to comply with a 100% liquidity coverage ratio (LCR) since 2018. 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 2022. As at 31 December 2022, the LCR was 317.21% (2021: 1,780.97%). The reduction in the LCR is due to the fact that the liquidity buffer has decreased and net cash outflows have increased. The decrease in the liquidity buffer is attributable to interest rate-induced lower market values and changes in investment behaviour. The changes in investment behaviour resulted in a lower portfolio of securities eligible for the LCR liquidity buffer. The increased net cash outflows are the result of reporting date measurement and the associated low inflows on the reporting date.

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

In the option outlined in the "Addendum to the ECB Guide on options and discretions available in Union law", the ECB allows banks to voluntarily apply IFRSs as the accounting framework for reports to which national GAAP is to be applied. Bausparkasse Schwäbisch Hall AG exercises this option and has prepared its regulatory reports on the basis of IFRSs since 30 June 2017. Bausparkasse Schwäbisch Hall AG's regulatory capital calculated in compliance with the CRR amounted to a total of €3,870.7 million as at 31 December 2022 (2021: €4,881.4 million). Schwäbisch Hall AG does not have any Additional Tier 1 capital. It has Tier 2 capital of €26.1 million.

Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,198.0 million as at 31 December 2022 (2021: €1,208.2 million). The decline is primarily attributable to creditworthiness improvements in the customer lending business.

Bausparkasse Schwäbisch Hall AG's Tier 1 capital ratio and Common Equity Tier 1 capital ratio decreased from 32.3% as at 31 December 2021 to 25.7% as at the reporting date. The total capital ratio at the reporting date was 25.8%. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

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

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

CRR REGULATORY RATIOS

in € million	2022 [1]	2021
Capital		
Common Equity Tier 1 capital	3,844.6	4,874.8
Additional Tier 1 capital	0	0
Tier 1 capital	3,844.6	4,874.8
Tier 2 capital	26.1	6.50
Total capital	**3,870.7**	**4,881.4**
Capital requirements		
Credit risk (including equity investments)	1,128.0	1,133.5
Market risk	0	0
Operational risk	70.0	74.7
Total	1,198.0	1,208.2
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	25.7 %	32.3 %
Tier 1 capital ratio (minimum value: 6.0%)	25.7 %	32.3 %
Total capital ratio (minimum value: 8.0%)	25.8 %	32.3 %
Liquidity coverage ratio (LCR)	**317.2 %**	**1,780.9 %**
Leverage ratio (minimum ratio 3.0%)	**5.6 %**	**7.0 %**

[1] Provisional figures

Miscellaneous

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

In the context of the German "Act on the Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors", which has been in force since May 2015, Bausparkasse Schwäbisch Hall AG defined targets for the proportion of women on the Supervisory Board, the Management Board and in the top two management levels (M1 and M2) below the Management Board that must be reached in each case by 31 December 2023.

EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS, ACTUAL AS AT 31 DECEMBER 2022

	in %
Supervisory Board	25.0
Management Board	25.0
Management level 1	14.3
Management level 2	15.3

A target of 30% for the under-represented gender was defined for the Supervisory Board. This target was not reached in 2022. For the Management Board, which consists of four members, the target of 25% was reached in the reporting period.

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.

Both targets were slightly missed in 2022.

SHARE OF WOMEN IN LEADERSHIP POSITIONS

Management level	Target 31/12/2023
M1	15.0
M2	20.0

Opportunity and risk report

Fundamentals

PRELIMINARY REMARKS

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

The statements on the risk position are presented on the basis of the management approach. The risk position of the Schwäbisch Hall Group 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) comprises Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall Kreditservice GmbH and Schwäbisch Hall Facility Management GmbH. The composition of the Schwäbisch Hall Group is reviewed from a risk perspective at least once a year, or as required, and harmonised with current developments.

Opportunities

The report on expected developments presents the expected performance of the business segments and the financial position for the 2023 financial year. These factors represent key indicators for determining strategic positioning and the resulting potential for increasing earnings and reducing costs.

On the back of the operating environment, the Schwäbisch Hall Group is anticipating the following business opportunities over the coming years.

- The public and social groups, as well as politicians and financial regulators, are becoming increasingly sensitive to the issue of sustainability. The EU is specifically leveraging the financial sector for the climate-neutral transformation of the real economy in the EU economic area. The Federal Government approved the “German Climate Action Plan 2050” back in 2016. This describes how Germany is to become largely carbon neutral by 2050. A roadmap sets out the overarching aims and measures for the construction sector. The building sector is responsible for around 30% of CO_2 emissions, and without energy-efficient refurbishments of existing buildings and increased standards for new buildings, the ambitious climate protection goals cannot be achieved. This will result in further growth stimuli for the Schwäbisch Hall Group in future as an enabler of the turnaround in energy policy, for example by providing an opportunity to set itself apart from the competition in support for customers relating to new buildings as well as refurbishments of existing buildings.

- Demand for new homes will continue to be high in Germany over the next few years. The main reason: increasing immigration combined with a slow pace of construction. Although demand is lower than in the previous years when there was significant immigration, at 400,000 homes it is still significantly higher than construction activity, which is flat at around 300,000 homes. The Central Association of the German Construction Companies (ZDB) is expecting only approximately 245,000 homes to be completed in 2023, which represents a year-on-year drop of approximately 39%.

- Demand for housing is increasing: one reason is the rising number of one-person households. as well as the fact that people increasingly want more living space per person, particularly as they get older.

- Rising life expectancy and demographic change mean that more and more older people continue to live in their own home. As a result, financing to adapt existing properties to the needs of older people is becoming increasingly significant.

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

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

In light of the challenges facing the entire housing finance sector, particularly in financial year 2023, the Management Board of Bausparkasse Schwäbisch Hall AG expects that the risks described for the SHG will outweigh the opportunities.

Risk management system

RISK MANAGEMENT PRINCIPLES

The Schwäbisch Hall Group adheres to the principle that for all activities, risks should only be accepted to the extent necessary to achieve business policy goals and insofar as such risks are considered manageable. This requires the ability to effectively identify, measure and manage risks as well as to put in place adequate capital backing and ensure sufficient liquidity. The overriding goals of risk management as part of 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 and DZ BANK.

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

RISK STRATEGY

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

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

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

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

RISK CULTURE

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

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

GOVERNANCE

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

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

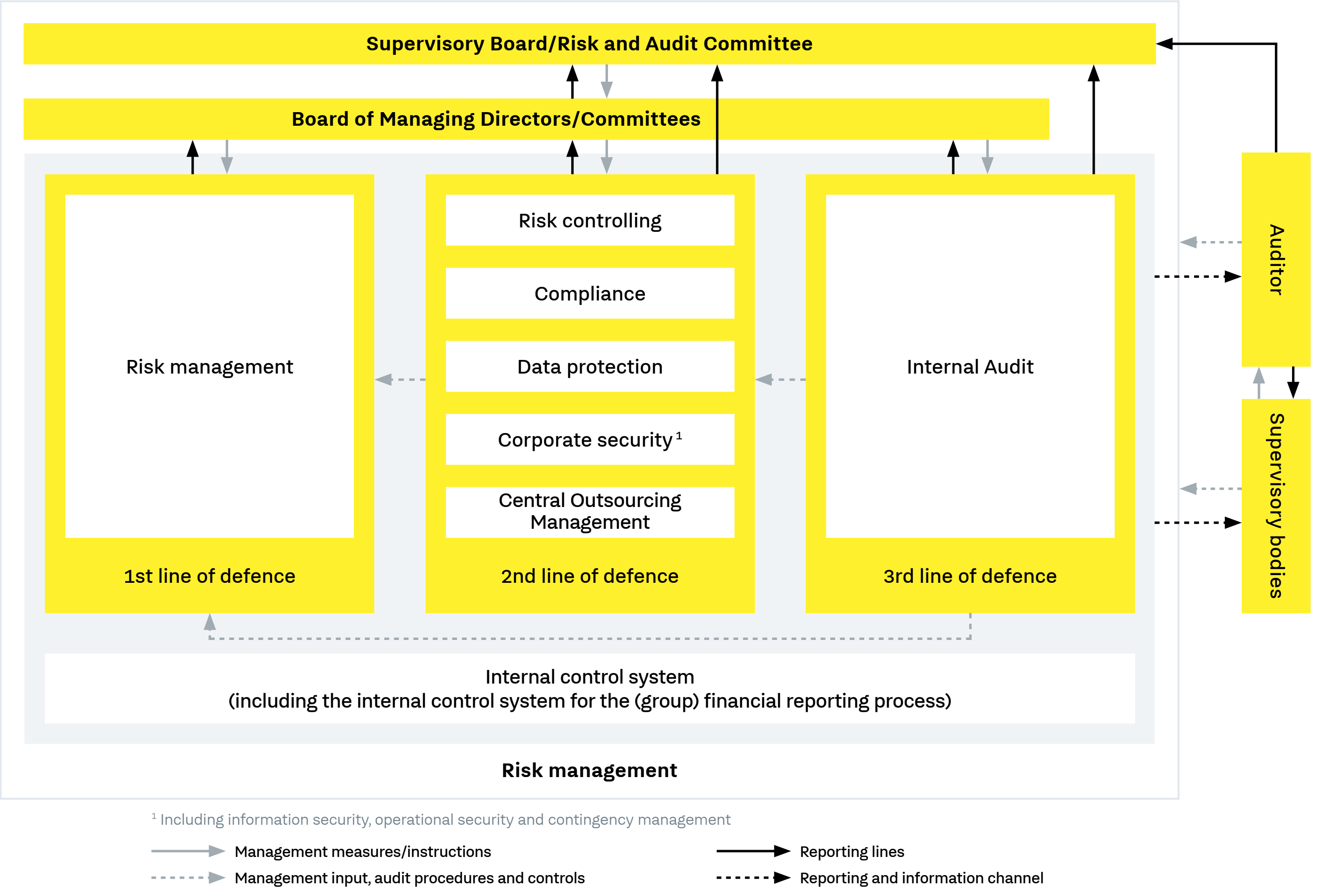
1st line of defence:
Operational assumption of risks and their management

2nd line of defence:
Establishment and continued development of a risk management framework; monitoring of compliance with framework by the 1st line of defence and relevant reporting to the Supervisory Board and Management Board; development and monitoring of data protection compliance principles and monitoring of the issues of corporate security (including information security and operational security) and outsourcing management. Functions in the 2nd line of defence are performed in particular by the Risk Controlling, Compliance and Central Outsourcing Management divisions, and the Corporate Security Office and Data Protection departments.

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

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

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



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

COMPLIANCE

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

The Compliance function is required to ensure the implementation of effective procedures for complying with the legal requirements and standards, and the corresponding controls, that are essential for Bausparkasse Schwäbisch Hall AG's business activities.

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

RISK CONTROLLING

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

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

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

CORPORATE SECURITY OFFICE

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

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

CENTRAL OUTSOURCING MANAGEMENT

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

DATA PROTECTION

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

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

INTERNAL AUDIT

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

Internal control system of the (consolidated) financial reporting process

OBJECTIVE AND RESPONSIBILITIES

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

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

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

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

INSTRUCTIONS AND RULES

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

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

RESOURCES AND PROCEDURES FOR RISK MITIGATION

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

The Schwäbisch Hall Group's consolidated financial reporting is decentralised. Preparing and controlling the quantitative and qualitative information required for (consolidated) financial reporting is the responsibility of the organisational units within the Schwäbisch Hall Group. In the Schwäbisch Hall Group, relevant controls and tests are conducted with regard to data quality and compliance with consistent requirements.

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

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

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

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

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

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

INFORMATION TECHNOLOGY

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

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

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

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

ENSURING AND IMPROVING EFFECTIVENESS

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

Risk factors

OVERARCHING RISK FACTORS

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

MACROECONOMIC RISK FACTORS

The Ukraine war, higher energy prices, the Covid-19 pandemic and the disruptions to supply chains it has caused, and international trade conflicts pose the greatest threats to macroeconomic development.

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

FURTHER UNEXPECTED RISE IN INTEREST RATES

After the low interest rate environment that has prevailed in recent years, this abrupt change, with a potentially persistent rise in interest rates, together with the current inverse interest rate structure pose a challenge. For the coming financial year, key interest rates in the United States and the eurozone are expected to continue to rise at first, but then to reach their peak. However, this assumes that the Fed and the ECB can post noticeable successes in their fight against inflation. If this is not the case, and should the central banks feel compelled to raise interest rates further than the level priced in by the market, market rates of interest are likely to rise even further across all maturities. A potential further sharp rise in interest rates would result in the realisation of market risks because of Bausparkasse Schwäbisch Hall AG's non-collective mortgage business and own investments.

The price losses on unhedged fixed-income securities resulting from such a sharp rise in the level of interest rates on the capital markets could also negatively impact the reserve for fair value OCI debt capital instruments and hence equity.

As a rule, a significant drop in interest rates is detrimental/disadvantageous in the mid-term for the business model of a *Bausparkasse*. This negatively impacts our net interest income in the medium term. However, adjustments were already made to BSH's product range in recent years, with the result that a moderate decline in interest rates does not represent an extreme risk. By contrast, the price gains for unhedged fixed-income securities resulting from the decline in interest rates on the capital market would have a positive effect on the reserve for fair value OCI debt instruments and hence on equity.

INFLATION – STAGFLATION

In the reporting year, the risk of stagflation in the eurozone, and hence the risk of a macroeconomic recession, increased. If this development continues or intensifies, the credit quality of loans could gradually erode. Any persistent entrenchment of stagflation could also lead to interest rate hikes, which would have a negative impact on the real estate and refinancing sectors, resulting in an overall increase in credit risk.

In addition to pandemic-related baseline and catch-up effects in demand for consumer and capital goods and the consequences of highly expansive fiscal policy in the United States, rising global energy prices and problems in global supply chains are the main reasons behind the highest inflation rates in decades. The Ukraine war and the increased shortages triggered by the Covid-19 pandemic also contributed to the price increases in the reporting period.

There is therefore a risk that the currently high level of inflation will persist above the ECB's inflation target in the long term. This would be particularly critical if, in addition to lower production in manufacturing industry, the increased prices were to lead to consumer restraint and wage increases on the labour market, resulting in a wage-price spiral. This could ultimately lead to stagflation, i.e. a combination of increased inflation, stagnating output and demand, and rising unemployment. Stagflation would have a particular impact on credit risk.

DEVELOPMENTS ON THE REAL ESTATE MARKETS

The prolonged real estate cycle in Germany, which led to further rising real estate prices, despite warnings of overvaluations even after the outbreak of the Covid-19 pandemic, came to a provisional end in the reporting period, due largely to the rise in interest rates for housing financing in conjunction with geopolitical risks. Further developments on the real estate market are being closely followed – even if a significant, across-the-board real estate price correction does not seem likely at present due to the continued demand for real estate.

ESG RISK FACTORS

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

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

The Schwäbisch Hall Group is currently addressing the effects of various regulatory initiatives concerning the management of ESG risks. Specifically, these are the ECB’s guidance on climate and environmental risks and the delegated regulation on the EU Climate Taxonomy. In addition, the Schwäbisch Hall Group was examined by the ECB in the financial year as part of the climate stress test and the thematic review on climate and environmental risks. To assess the sustainability of its lending business, the Schwäbisch Hall Group uses a classification tool based on the Sustainable Development Goals (SDGs). Additionally, a top-down method based on statistical averages was established to identify physical and transitory risks in the customer lending business. At present, there are plans to consider the energy efficiency of the property, for example, in the lending process.

REGULATORY ENVIRONMENT

As part of the revision of the Capital Requirements Regulation (CRR II), comprehensive new regulations were already prepared for some aspects of regulatory risk assessment in 2021. In addition, the introduction of a mandatory leverage ratio of 3% was implemented. 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 Schwäbisch Hall Group given the present and currently growing business volume.

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

In addition to the issues already mentioned, there are other areas in the regulatory environment that will affect the Bausparkasse Schwäbisch Hall Group in 2023 and beyond. These include, for example, the new version of the Minimum Requirements for Risk Management (MaRisk), the implementation of the EBA guidelines on the management of interest rate risk (IRRBB) and credit spread risks in the banking book (CSRBB), as well as the growing sustainability-related regime.

SIGNIFICANT RISKS AND ASSOCIATED RISK FACTORS

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

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

RISKS FOR BAUSPARKASSE SCHWÄBISCH HALL AND ASSOCIATED RISK FACTORS

Credit risk

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

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

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

Market risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

Bauspar-specific risk

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

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

Bausparkasse Schwäbisch Hall's business risk is also covered as part of the institution-specific *Bauspar* technical risk. Business risk means the risk of an unexpected financial performance that is not covered by other risk types. In particular, this includes the risk that the losses cannot be counteracted through 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 the Schwäbisch Hall Group due to the deterioration of the general real estate situation or particular characteristics of the individual properties (e.g. vacancy, tenant default or loss of use).

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

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

Operational risk

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

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

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

Reputational risk

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

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

Risk and earnings concentrations

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

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

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

Risk management within comprehensive 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 stipulates the central principle of only entering into risks to the extent necessary to achieve business policy goals. In addition, they should be entered into in a targeted and controlled way taking into account earnings targets, and should be effectively identified, assessed, managed, monitored and communicated. Risks must be appropriately hedged with economic and regulatory capital.

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

The following risks were identified as significant for 2022:

- credit risk;
- market risk;
- operational risk;
- equity investment risk;
- *bauspar*-specific risk;
- liquidity risk in the narrow sense;
- reputational risk;
- risks from pension obligations (longevity risk).

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

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

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

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

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

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

RISK-BEARING CAPACITY

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

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

ECONOMIC PERSPECTIVE

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

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

In 2022, the risk capital requirement under the economic perspective was well within the limit based on internal capital. Economic capital adequacy amounted to 158% as at the 31 December 2022 reporting date (2021: 175%). In the course of the financial year, it was above the internal minimum target of 120% at all times. The risk coverage potential at year-end was €4,170 million (2021: €5,100 million). With a risk capital requirement for all material types of risk (after diversification), including risk buffers for other risks, of €2,638 million (2021: €2,911 million), the total limit utilisation is therefore 73% (2021: 57%).

NORMATIVE INTERNAL PERSPECTIVE

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

In this perspective, the total capital ratio, the leverage ratio and the minimum requirement for own funds and eligible liabilities (MREL) are analysed. The total capital ratio is determined by dividing the regulatory capital by the regulatory risk-weighted assets of the Schwäbisch Hall Group. As part of annual capital planning, changes in regulatory ratios are analysed over several years, taking into account the expected business development (including new business assumptions) using a baseline and risk scenario. The leverage ratio is the ratio of Tier 1 capital to the total risk exposure. The MREL ratios ensure that a sufficient level of own funds and convertible debt capital is available in the event of recovery and resolution. As at 31 December 2022, the internal limits were 15.0% for the total capital ratio, 4.0% for the leverage ratio and 6.6% for MREL.

STRESS TESTS

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

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

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

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

RISK REPORTING AND DOCUMENTATION

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

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

Credit risk

DEFINITION AND CAUSES

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

CREDIT RISK STRATEGY

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

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

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

REPORTING

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

INTERNAL RATING SYSTEMS

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

- application and behavioural scoring to calculate probability of default (PD);
- LGD (loss given default) scoring to calculate loss ratios;
- credit rating for Bausparkasse Schwäbisch Hall's own investments based on the rating system of DZ BANK AG (loss ratio for own investments is generally adopted from DZ BANK AG).

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

CLIMATE AND ENVIRONMENTAL RISKS IN THE CREDIT PORTFOLIO

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

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

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

In terms of transitory risks, the customer credit portfolio is highly dependent on the constant development of European and national legislation in the context of the energy efficiency of buildings.

ECONOMIC CREDIT PORTFOLIO MANAGEMENT

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

RECONCILIATION OF LENDING VOLUME WITH CONSOLIDATED FINANCIAL STATEMENTS

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

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

CREDIT RISK MITIGATION

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

Due to the portfolio structure and the credit risk strategy, there are no cluster risks in the *Bausparkasse*'s customer credit portfolio that are inherent in the business model, which would otherwise require a limit on the issuance of new loans based on certain size criteria. Nevertheless, for risk management purposes there is a limit for new business above a loan-to-value ratio of 80% equal to 14% of committed new business.

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

COLLATERAL

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

Of the traditional lending business in the amount of €58,466.9 million (2021: €56,905.8 million), €54,728.8 million (2021: €53,352.9 million) is secured by real property and €218.0 million (2021: €214.2 million) by other securities.

LENDING VOLUMES AS DEFINED BY INTERNAL MANAGEMENT

	Lending volumes as defined by internal management		Reconciliation: Allocation of lending volume		Reconciliation: Basis of consolidation		Lending volumes in the consolidated financial statements		
in € million	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	
							–	–	Loans and advances to banks
Traditional lending business	58,466.9	56,905.8	8,673.1	8,471.6	1,369.7	1,429.2	63,882.8	60,608.7	Loans and advances to customers
							4,626.9	6,197.9	Loan commitments
							2,490.1	2,566.1	Loans and advances to customers
							8,797.6	8,045.1	Loans and advances to banks
Own investments	20,643.0	22,469.4	623.4	678.6	-478.2	340.3	31.9	2.4	Positive fair values of hedging instruments
							9,468.6	12,874.7	Bonds and other fixed-income securities
Total	**79,109.9**	**79,375.2**	**9,296.5**	**9,150.2**	**891.5**	**1,769.5**	**89,297.9**	**90,294.9**	**Total**

COLLATERALISED LENDING VOLUME BY COLLATERAL TYPE

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Guarantees/warranties/ risk sub-participations	187.3	162.0	–	–	–	–	187.3	162.0
Land charges/mortgages/ registered liens	54,728.8	53,352.9	2,149.8	1,907.8	–	–	56,878.6	55,260.7
Chattel mortgages/assignments/ pledging of receivables	–	–	1,041.7	1,148.0	–	–	–	–
Financial collateral	–	–	–	–	–	–	–	–
Other collateral	30.7	52.2	2,737.8	3,380.8	–	–	2,768.5	3,433.0
Total	**54,946.8**	**53,567.1**	**5,929.3**	**6,436.6**	**–**	**–**	**59,834.4**	**58,855.7**

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 2022 reporting date, 54% of securities were covered or invested in the credit rating classes 0a (AAA/AA) and 0b (AA-).

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

EARLY WARNING

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

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

Analysis of the credit portfolio

ANALYSIS OF ECONOMIC CAPITAL REQUIREMENT FOR CREDIT RISK

The economic capital requirement for the *Bausparkasse*'s credit risk amounted to €393 million (2021: €496 million) as at the end of the financial year. The limit from an economic perspective was €530 million (2021: €670 million). The limit was adhered to at all times during the financial year.

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

VOLUME-ORIENTED CREDIT PORTFOLIO ANALYSIS

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

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

LENDING VOLUME TREND

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

STRUCTURE OF THE OVERALL CREDIT PORTFOLIO

The sector structure of the credit portfolio shown in the “Lending volume by sector” figure indicates the similarly broad diversification of the customer lending business of Bausparkasse Schwäbisch Hall compared with the previous year. Free liquidity is primarily invested in securities or specialised funds. The lending volume in the Financial sector in the securities and derivative and money market business increased slightly compared with 2021 to €14.1 billion. The lending volume in corporates declined by 16% to €274.4 million. The lending volume to the Public sector (administration/government) declined by 33% year-on-year to €6.3 billion. The lending volume in the core retail business grew by 3% to €57,504.6 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 2022, the loans in the customer lending business and securities investments were concentrated in Germany, with a share of 95% (2021: 96%) of the overall lending volume.

The distribution of the lending volume across maturity ranges can be seen in the “Lending volume by residual maturity” table. In general, retail residential property financing exhibits long-term original maturities. This is largely reflected at the *Bausparkasse* in the form of long-term residual maturity periods. Due to the high new business volume, the share of customer loans with a maturity of more than five years was 96% at year end (2021: 95%).

The “Lending volume by credit rating” figure shows the distribution of the credit portfolio across individual credit ratings. Receivables in default represented by the credit ratings 4a and 4b accounted for 0.7% of the customer lending business as at 31 December 2022 and were therefore slightly below the level of the previous year.

LENDING VOLUME BY SECTOR

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Financial sector	779.7	798.2	10,711.3	12,749.8	3,416.9	79.8	14,907.9	13,627.8
Public sector (administration / state)	23.4	74.2	6,240.4	9,313.7	–	–	6,263.8	9,387.9
Corporates	–	–	274.4	326.1	–	–	274.4	326.1
Retail	57,504.6	55,715.8	–	–	–	–	57,504.6	55,715.8
Commercial	280.3	301.2	–	–	–	–	280.3	301.2
Retail customers	57,224.3	55,414.6	–	–	–	–	57,224.3	55,414.6
Miscellaneous	159.2	317.6	–	–	–	–	159.2	317.6
Total	**58,466.9**	**56,905.8**	**17,226.1**	**22,389.6**	**3,416.9**	**79.8**	**79,109.9**	**79,375.2**

LENDING VOLUME BY COUNTRY GROUP

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Germany	58,180.0	56,602.7	13,558.4	19,617.9	3,373.8	36.7	75,112.2	76,257.3
Industrialised countries	277.1	290.3	3,667.7	2,771.7	43.1	43.1	3,987.9	3,105.1
Advanced economies	3.0	3.9	–	–	–	–	3.0	3.9
Emerging markets	6.8	8.9	–	–	–	–	6.8	8.9
Total	**58,466.9**	**56,905.8**	**17,226.1**	**22,389.6**	**3,416.9**	**79.8**	**79,109.9**	**79,375.2**

LENDING VOLUME BY RESIDUAL MATURITY

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
≤ 1 year	431.9	1,113.8	2,220.3	1,713.1	0.1	0.1	2,652.3	2,827.0
> 1 year to ≤ 5 years	1,896.9	1,655.0	4,532.9	5,206.7	6.3	37.9	6,436.1	6,899.6
> 5 years	56,138.1	54,137.0	10,472.9	15,469.8	3,410.5	41.8	70,021.5	69,648.6
Total	**58,466.9**	**56,905.8**	**17,226.1**	**22,389.6**	**3,416.9**	**79.8**	**79,109.9**	**79,375.2**

LENDING VOLUME BY CREDIT RATING (BVR II)

in € million	Traditional lending business		Securities business		Derivative and money market business		Total	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021	31/12/2022	31/12/2021
0a	1.1	0.2	6,842.9	9,219.3	–	–	6,844.0	9,219.5
0b	–	–	92.5	1,040.5	–	–	92.5	1,040.5
0c	209.7	797.0	4,403.4	6,396.5	3,273.4	3.9	7,886.5	7,197.4
0d	–	–	175.2	221.3	–	–	175.2	221.3
0e	–	–	551.4	275.9	–	–	551.4	275.9
1a	0.3	1.8	1,505.9	544.9	105.4	5.0	1,611.6	551.7
1b	63.8	41.5	2,762.9	4,310.7	–	–	2,826.7	4,352.2
1c	4,637.9	3,902.6	378.5	273.3	–	–	5,016.4	4,175.9
1d	11,293.0	9,957.3	72.2	107.2	–	–	11,365.2	10,064.5
1e	15,176.2	13,724.4	141.5	–	38.1	38.1	15,355.8	13,762.5
2a	11,258.5	10,445.2	99.9	–	–	–	11,358.4	10,445.2
2b	5,681.0	5,821.3	–	–	–	–	5,681.0	5,821.3
2c	3,204.3	4,479.7	–	–	–	–	3,204.3	4,479.7
2d	1,849.2	2,669.5	–	–	–	–	1,849.2	2,669.5
2e	1,556.7	1,588.4	28.6	–	–	32.8	1,585.3	1,621.2
3a	773.7	866.0	–	–	–	–	773.7	866.0
3b	476.8	515.5	–	–	–	–	476.8	515.5
3c	290.0	273.0	–	–	–	–	290.0	273.0
3d	151.1	140.6	–	–	–	–	151.1	140.6
3e	641.6	582.3	–	–	–	–	641.6	582.3
4a	252.0	321.6	–	–	–	–	252.0	321.6
4b	182.8	191.8	–	–	–	–	182.8	191.8
Miscellaneous	767.2	586.1	171.2	–	–	–	938.4	586.1
Total	**58,466.9**	**56,905.8**	**17,226.1**	**22,389.6**	**3,416.9**	**79.8**	**79,109.9**	**79,375.2**

STRUCTURE OF CREDIT PORTFOLIO WITH IMPECCABLE CREDITWORTHINESS

Own investments were not overdue in 2022 and appropriate loss allowances were recognised in accordance with IFRS. As in the previous year, the lending volume from the traditional lending business with impeccable creditworthiness dominated with an unchanged 98% share (2021: 98%).

LOSS ALLOWANCES

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

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

Market risk

DEFINITION AND CAUSES

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

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

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

MARKET RISK STRATEGY

With regard to market risk, the Schwäbisch Hall Group is exposed to a particular risk due to the collective *Bauspar* business.

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

MANAGEMENT OF MARKET RISKS

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

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

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

The regulatory standard test limit (ad hoc interest rate shift of + 2.0%/- 2.0%) of 20% of regulatory capital which has been specified since 2020, were adhered to throughout 2022. The trigger for the early warning indicators of 15% of Tier 1 capital was temporarily exceeded in 2022 due to the volatile interest rate trend. Furthermore, net present value risk is calculated monthly with a parallel shift in the yield curve of +/- 1%.

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

Bausparkasse Schwäbisch Hall AG's portfolio contains interest rate swaps amounting to €2,685 million (receiver swaps of €1,980 million and payer swaps of €705 million) in order to reduce interest rate risk in the overall interest book (2021: €750 million). Swaps are entered into exclusively for hedging purposes within the framework of risk management in the Schwäbisch Hall Group.

LIMITING

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

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

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

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

REPORTING

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

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

BACKTESTING

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

STRESS TESTING

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

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

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

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

ANALYSIS OF MARKET RISKS

As at 31 December 2022, the capital requirements for original market risks of the Schwäbisch Hall Group amounted to €936 million (2021: €650 million) under the economic perspective (VaR, 99.9% confidence level, one-year holding period), with a limit of €1,467 million (2021: €1,052 million). Operating VaR (99% confidence level, ten-day holding period) amounted to €123 million (2021: €48 million) as at 31 December 2022. The VaR remained within the limit at all times during the financial year.

The capital requirements for spread and migration risks under the economic perspective (credit VaR, 99.9% confidence level, one-year holding period) amounted to €440 million as at 31 December 2022 (2021: €667 million) with a limit of €650 million (2021: €1,200 million).

Liquidity risk

DEFINITION AND CAUSES

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

LIQUIDITY RISK STRATEGY AND MANAGEMENT OF LIQUIDITY RISK

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

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

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

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

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

REPORTING

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

BACKTESTING

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

STRESS TESTING

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

The minimum liquidity surplus in the respective stress scenarios fluctuated between €163 million and €2,808 million in 2022.

ANALYSIS OF LIQUIDITY RISK

The liquidity risk limits were adhered to at all times in 2022. The LCR fluctuated between 317% and 1,298% and was therefore clearly above the 100% regulatory minimum value in force for 2022.

Bauspar-specific risk

DEFINITION AND CAUSES

Bauspar-specific 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*-SPECIFIC RISK

Bauspar-specific risk is closely connected with the Bausparkasse Schwäbisch Hall AG 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*-SPECIFIC 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*-specific risk and therefore the risk capital requirement for this risk type.

LIMITING

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

ANALYSIS OF *BAUSPAR*-SPECIFIC

The capital requirements for *Bauspar*-specific risk as at 31 December 2022 amounted to €698 million (2021: €639 million); with a limit of €785 million (2021: €706 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*-specific risk.

STRESS TESTING

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

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

Equity investment risk

DEFINITION AND CAUSES

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

EQUITY INVESTMENT RISK STRATEGY AND MANAGEMENT OF EQUITY INVESTMENT RISK

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

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

LIMITING

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

REPORTING

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

STRESS TESTING

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

ANALYSIS OF EQUITY INVESTMENT RISK

As at 31 December 2022, the economic capital requirement for equity investment risk amounted to €213 million (2021: €209 million). This includes a capital buffer requirement of €11 million for foreign currency risks and a capital buffer requirement of €8 million for real estate risk. The limit set as at 31 December 2022 was €260 million (2021: €240 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 €306 million (2021: €321 million) as at 31 December 2022.

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;
- avoid risk, e.g. by dispensing with certain transactions and processes.

MANAGEMENT OF OPERATIONAL RISK

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

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

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

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

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

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

The following methods are used at the Schwäbisch Hall Group to manage and control operational risks:

Loss database

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

Risk indicators

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

Scenario analysis

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

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

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

RISK SUBTYPES

Compliance risk, including conduct risk

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

Legal risk

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

Information risk, including I(C)T risk

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

Security risk

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

Outsourcing risk

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

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

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

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

IMPACT OF 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.

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 2022, a capital requirement of €150 million (2021: €160 million) was calculated under the economic perspective to cover the operational risks of the Schwäbisch Hall Group. At no time has the value exceeded the applicable limit. On 31 December 2022, the limit for operational risks amounted to €185 million (2021: €200 million).

Reputational risk

DEFINITION AND CAUSES
Reputational risk refers to the risk of losses as a result of events that damage confidence in the companies within the Schwäbisch Hall Group 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 (“secondary reputational risk”).

RISK STRATEGY FOR REPUTATIONAL RISK
The framework for managing reputational risk is formed by the business strategy and the resulting general risk management goals of the Schwäbisch Hall Group as well as Group requirements.

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

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

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

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

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

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

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

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

Enhancement of risk measurement methods and the risk monitoring system

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

Measurement of overall risk profile

In 2022 the Schwäbisch Hall Group saw some movement as regards risk capital utilisation within its economic risk-bearing capacity. The risk capital requirement for each risk type only moved within the defined limits in the financial year under review.

The regulatory capital ratios of Bausparkasse Schwäbisch Hall are shown in the Report on economic conditions on page 12f.

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

Consolidated financial statements

Consolidated financial statements as at 31 December 2022

GENERAL DISCLOSURES

DISCLOSURES ON THE INCOME STATEMENT AND THE STATEMENT OF COMPREHENSIVE INCOME

BALANCE SHEET DISCLOSURES

Income statement and Statement of comprehensive income

Income statement

in € thousand	(Notes)	1/1/– 31/12/2022	1/1/– 31/12/2022
Net interest income	(29)	744,261	580,830
Interest income calculated using the effective interest method		1,302,375	1,399,408
Current income		899	1,505
Interest expenses		-563,715	-828,816
Income from investments in joint ventures using the equity method		4,702	8,733
Net fee and commission income	(30)	10,642	11,983
Fee and commission income		132,346	120,128
Fee and commission expenses		-121,704	-108,145
Gains and losses on investments	(31)	-90,257	22,059
Other gains or losses on valuation of financial instruments	(32)	3,576	-245
Gains or losses on derecognition of financial assets measured at amortised cost	(33)	2,644	2,329
Loss allowances	(34)	-15,952	-13,730
Administrative expenses	(35)	-527,866	-515,322
Other net operating income	(36)	16,252	42,025
Profit/loss before taxes		**143,300**	**129,929**
Income taxes	(37)	-52,800	-40,296
Net profit		**90,500**	**89,633**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		84,012	82,206
Non-controlling interest shareholders		6,488	7,427

Statement of comprehensive income

in € thousand	(Notes)	1/1/– 31/12/2022	1/1/– 31/12/2022
Net profit		**90,500**	**89,633**
Other comprehensive income/loss		**-1,578,770**	**-424,946**
Items that may be reclassified to the income statement		**-1,593,661**	**-436,404**
Gains and losses on debt instruments at fair value through other comprehensive income		-2,296,763	-646,945
Gains (+)/losses (-) arising during the reporting period		-2,356,210	-619,689
Gains (+)/losses (-) reclassified to the income statement on disposal		59,447	-27,256
Exchange differences on currency translation of foreign operations		-12,398	-2,244
Share of other comprehensive income/loss of equity-accounted joint ventures		-2,468	10,550
Income taxes	(38)	717,968	202,235
Items that will not be reclassified to the income statement		**14,891**	**11,458**
Gains and losses on equity instruments for which the fair value OCI option has been exercised		4,400	-3,850
Gains and losses arising from remeasurements of defined benefit plans		15,891	18,968
Share of other comprehensive income/loss of equity-accounted joint ventures		175	212
Income taxes	(38)	-5,575	-3,872
Total comprehensive income		**-1,488,270**	**-335,313**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		-1,488,761	-341,646
Non-controlling interest shareholders		491	6,333

Balance sheet

Assets

in € thousand	(Notes)	31/12/2022	31/12/2021
Cash and cash equivalents	(13, 39)	79,754	997,968
Loans and advances to banks	(14, 40)	8,797,591	8,045,120
Loans and advances to customers	(14, 41)	66,372,898	63,174,819
Positive fair values of hedging instruments	(15, 42)	31,855	2,435
Investments	(17, 43)	9,478,855	12,892,619
Investments accounted for using the equity method	(18, 43)	85,100	113,500
Intangible assets	(19, 44)	187,424	199,033
Property, plant and equipment and right-of-use assets	(20, 45-47)	109,729	110,212
Current income tax assets	(21, 48)	4,041	2,809
Deferred tax assets	(21, 48)	613,537	916
Other assets	(22, 49)	49,636	29,174
Loss allowances	(23, 50)	-211,682	-197,807
Total assets		**85,598,738**	**85,370,798**

Equity and liabilities

in € thousand	(Notes)	31/12/2022	31/12/2021
Deposits from banks	(24, 51)	10,458,624	9,452,412
Deposits from customers	(24, 52)	66,851,313	66,732,902
Fair value changes of hedged items in portfolio hedges of interest rate risk	(8)	-222,938	-10,048
Issued bonds	(25, 53)	2,509,594	1,506,159
Negative fair values of hedging instruments	(15, 54)	219,761	5,196
Provisions	(26, 55)	1,354,844	1,682,780
Current income tax liabilities	(21, 48)	14,618	37,316
Deferred tax liabilities	(21, 48)	–	70,069
Other liabilities	(22, 56)	198,084	176,480
Equity	(57)	4,214,838	5,717,532
Subscribed capital		310,000	310,000
Capital reserves		1,486,964	1,486,964
Earned equity [1]		3,600,144	3,520,627
Retained earnings [1]		3,531,132	3,450,421
Net profit [1]		69,012	70,206
Reserve from other comprehensive income [1]		-1,263,817	319,403
Non-controlling interest shareholders		81,547	80,538
Total equity and liabilities		**85,598,738**	**85,370,798**

[1] The presentation of items of equity was adapted to match the classification of the statement of changes in equity.

Statement of changes in equity

in € thousand	Subscribed capital	Capital reserves	Earned equity	Reserve from fair value OCI equity instruments	Reserve from fair value OCI debt instruments	Currency translation reserve	Shareholders' equity	Non-con-trolling interests	Total equity
Equity as at 01/01/2021	**310,000**	**1,486,964**	**3,435,235**	**-3,005**	**777,306**	**-15,680**	**5,990,640**	**74,205**	**6,064,845**
Net profit	**–**	**–**	**82,206**	**–**	**–**	**–**	**82,206**	**7,427**	**89,633**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	-444,710	–	-444,710	–	-444,710
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	-3,850	–	–	-3,850	–	-3,850
Exchange differences on currency translation of foreign operations	–	–	–	–	–	-1,150	-1,150	-1,094	-2,244
Remeasurements of defined benefit plans	–	–	15,096	–	–	–	15,096	–	15,096
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	90	122	–	10,550	10,762	–	10,762
Total comprehensive income	**–**	**–**	**97,392**	**-3,728**	**-444,710**	**9,400**	**-341,646**	**6,333**	**-335,313**
Profit transferred due to profit and loss transfer agreement	–	–	-12,000	–	–	–	-12,000	–	-12,000
Equity as at 31/12/2021	**310,000**	**1,486,964**	**3,520,627**	**-6,733**	**332,596**	**-6,460**	**5,636,994**	**80,538**	**5,717,532**
Net profit	**–**	**–**	**84,012**	**–**	**–**	**–**	**84,012**	**6,488**	**90,500**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	-1,578,795	–	-1,578,795	–	-1,578,795
Gains and losses on equity instruments for which the fair value OCI option has been exercised	–	–	–	4,400	–	–	4,400	–	4,400
Exchange differences on currency translation of foreign operations	–	–	–	–	–	-6,354	-6,354	-6,044	-12,398
Remeasurements of defined benefit plans	–	–	10,268	–	–	–	10,268	48	10,316
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	178	-3	–	-2,468	-2,293	–	-2,293
Total comprehensive income	**–**	**–**	**94,458**	**4,397**	**-1,578,795**	**-8,822**	**-1,488,762**	**492**	**-1,488,270**
Changes in the basis of consolidation	–	–	59	–	–	–	59	517	576
Profit transferred due to profit and loss transfer agreement	–	–	-15,000	–	–	–	-15,000	–	-15,000
Equity as at 31/12/2022	**310,000**	**1,486,964**	**3,600,144**	**-2,336**	**-1,246,199**	**-15,282**	**4,133,291**	**81,547**	**4,214,838**

The composition of equity is explained in Note 57.

Cash flow statement

in € thousand	2022	2021
Net profit	**90,500**	**89,633**
Non-cash items included in net profit and reconciliation to cash flows from operating activities		
Depreciation, impairment losses, reversals of impairment losses on assets and other non-cash changes in financial assets and liabilities	172,444	63,864
Non-cash changes in provisions	-34,427	197,908
Other non-cash income and expenses	-495,147	-69,088
Gains and losses on the disposal of assets and liabilities	-15,383	-14,682
Other adjustments (net)	-2,347,434	-1,034,792
Subtotal	**-2,629,447**	**-767,157**
Cash changes in assets and liabilities from operating activities		
Loans and advances to banks	-705,556	856,493
Loans and advances to customers	-3,308,035	-4,221,494
Other assets from operating activities	186,839	38,660
Positive and negative fair values of derivative hedging instruments	-220,922	-31,832
Deposits from banks	973,807	1,687,717
Deposits from customers	-167,421	1,461,164
Issued bonds	994,000	993,145
Other liabilities from operating activities	-318,964	-267,500
Interest, dividends and income received from equity-accounted joint ventures	-1,445,855	1,541,776
Interest paid	-414,075	-727,365
Income taxes paid	-5,115	-2,080

in € thousand	2022	2021
Cash flows from operating activities	**-4,169,034**	**561,527**
Proceeds from disposals of investments	5,604,440	1,927,398
Proceeds from disposals of property, plant and equipment	9,394	791
Proceeds from disposal of intangible assets	2,037	563
Payments to acquire investments	-2,289,803	-1,978,510
Payments to acquire property, plant and equipment	-29,801	-12,066
Payments to acquire intangible assets	-31,193	-33,373
Changes in the basis of consolidation	13	–
Cash flows from investing activities	**3,265,087**	**-95,197**
Profit transfer	-12,000	-8,000
Net change in cash and cash equivalents from other financing activities	-2,267	-2,861
Cash flows from financing activities	**-14,267**	**-10,861**
Cash and cash equivalents as at 01.01	**997,968**	**542,499**
Cash flows from operating activities	-4,169,034	561,527
Cash flows from investing activities	3,265,087	-95,197
Cash flows from financing activities	-14,267	-10,861
Cash and cash equivalents as at 31.12	**79,754**	**997,968**

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

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

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

Cash flow from financing activities contains payments by lessees to repay lease liabilities amounting to €2,230 thousand (previous year: €2,861 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 2022 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 2022 reporting date.

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

The consolidated financial statements of Bausparkasse Schwäbisch Hall have been released for publication by the Management Board following approval by the Supervisory Board on 1 March 2023.

02 Accounting policies and estimates

CHANGES IN ACCOUNTING POLICIES

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

The consolidated financial statements as at 31 December 2022 were prepared in accordance with IFRSs effective as at 31 December 2022 and required to be applied in the EU to the IFRS consolidated financial statements as at 31 December 2022.

AMENDMENTS TO IFRSs APPLIED FOR THE FIRST TIME IN FINANCIAL YEAR 2022

The consolidated financial statements of Bausparkasse Schwäbisch Hall for financial year 2022 apply the following amendments to IFRSs for the first time:

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

The amendments to IFRS 3 *Business Combinations* consist of an update to the references in IFRS 3 to the revised 2018 Conceptual Framework and the introduction of an exemption to the recognition requirements in IFRS 3. For separately recognised liabilities and contingent liabilities within the scope of IAS 37 and IFRIC 21, this means that the acquirer must apply the requirements of IAS 37 and IFRIC 21 to identify an obligation. Finally, the amendments add an explicit statement to IFRS 3 that contingent assets may not be recognised.

The amendments to IAS 16 *Property, Plant and Equipment* prohibit the deduction from the cost of an item of property, plant and equipment of any proceeds from selling items produced while bringing the item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the entity recognises the proceeds from selling such items and the cost of producing them in operating profit or loss.

The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* clarify which costs flow into the assessment of whether a contract is onerous. The "cost of fulfilling a contract" must include all costs that related directly to the contract.

The amendment to IFRS 9 *Financial Instruments* as part of the Annual Improvements to IFRS Standards, 2018 – 2020 Cycle, clarifies which fees paid or received between an entity and the lender an entity includes in future when it applies the 10% test in IFRS 9.B3.3.6 in assessing whether to derecognise a financial liability. If the assessment for modified or exchanged financial liabilities results in repayment, all costs and fees must be recognised in profit or loss. By contrast, if the modification or exchange does not result in repayment, the costs and fees must be allocated over the remaining term of the modified liability by adjusting the carrying amount and the effective interest rate, unless they represent compensation for modifying the cash flows of the liability. If that is the case, they must be recognised in profit or loss when the modification is recognised.

As part of the Annual Improvements to IFRS Standards, 2018 – 2020 Cycle, a passage in the illustrative examples accompanying IFRS 16 *Leases* was removed. This involved the accounting for reimbursements by the lessor for leasehold improvements by the lessee.

All the amendments and improvements to IFRS standards described above are effective for financial years beginning on or after 1 January 2022.

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

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

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

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

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

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

Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To establish groups of contracts, an entity must first define portfolios that contain contracts with similar risks that are managed together. These portfolios must be further divided into groups of contracts on the basis of profitability and annual cohorts. The EU endorsement contains an option for the requirement to establish annual cohorts under IFRS 17.22. The European Commission grants preparers in the EU an option to decide whether to apply the requirements of IFRS 17.22 to certain contracts or not.

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

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

Apart from some exceptions, participating contracts must be recognised using the variable fee approach (VFA). Under this approach, initial measurement is generally identical to the general model, but subsequent measurement reflects the specific aspects of policyholder participation.

IFRS 17 is effective for financial years beginning on or after 1 January 2023.

The amendments to IAS 1 require entities to disclose their "material" accounting policies, instead of their "significant" accounting policies, as before. The amendments to IAS 8 relate to clarifications of the definitions of changes in accounting policies and changes in accounting estimates.

The requirements of IAS 12.15 allow a reporting entity to avoid recognising deferred taxes resulting from the initial recognition of equal amounts of assets and liabilities from a single transaction.

The amendments clarify that this exemption may not be applied to the accounting for deferred taxes in connection with leases or decommissioning or restoration obligations.

The amendments to IAS 1, IAS 8 and IAS 12 are effective for financial years beginning on or after 1 January 2023. These amendments are not expected to have any significant impact on the future consolidated financial statements of Bausparkasse Schwäbisch Hall.

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

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

- Amendments to IAS 1 – *Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current;*
- Amendments to IAS 1 *Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting Policies;*
- Amendments to IFRS 16 *Leases – Lease Liability in a Sale and Leaseback*.

Bausparkasse Schwäbisch Hall is currently also examining the impact on the consolidated financial statements of the amendments to IFRSs described above. They are not currently expected to materially affect the consolidated financial statements.

The initial application dates of issued IFRS amendments are subject to their adoption into EU law.

ACCOUNTING ASSUMPTIONS AND ESTIMATES

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

Assumptions and estimates are applied to the fair value measurement of financial assets and liabilities. Determining the fair values of financial assets and financial liabilities is associated with estimation uncertainties if no prices are available on active markets for the financial instruments in question. Estimation uncertainties arise primarily when fair values are determined using valuation techniques that incorporate significant inputs that are not observable in the market. This relates to financial instruments measured at fair value as well as financial instruments measured at amortised cost whose fair values are disclosed in the notes. The assumptions about inputs and valuation techniques used to determine fair values are presented in the disclosures on financial instruments (Notes 58 to 60).

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

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

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

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

No additional sources of estimation uncertainty arise as a consequence of the Ukraine war in determining the carrying amounts of assets and liabilities and income and expenses. The Ukraine war affects in particular the known assumptions and estimates used to determine loss allowances and provisions (Note 66).

Likewise, the after-effects of the Covid-19 pandemic impact the determination of loss allowances and the assumptions and estimates used for this purpose, which are presented in Note 66.

No other sources of estimation uncertainty attributable to climate-related issues arise in determining the carrying amounts of assets and liabilities and income and expenses. The climate-related impact affects the known assumptions and estimates used to determine fair values for financial instruments. Estimation uncertainty and the associated judgement in climate-related issues generally arise when determining the fair values of financial assets and financial liabilities and when determining impairment losses on financial assets. When determining the fair values of financial assets and financial liabilities and for impairment losses on financial assets, no explicit adjustments were made in the financial year because of climate-related issues. However, climate-related issues are implicitly taken into account in the relevant models (Note 66).

CHANGE IN PRESENTATION

Disclosures on fair values of financial assets and liabilities

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 accordance with IFRS 13 is available at this time. In order to avoid misinterpretations by financial statement users if fair values are only partially disclosed, Bausparkasse Schwäbisch Hall therefore dispensed in the past with the disclosure in their entirety of the fair values of financial assets and financial liabilities as required by IFRS 7.25, and instead disclosed in the notes to the consolidated financial statements only the carrying amounts in the disclosures on fair values of financial assets and liabilities.

In order to provide more decision-useful information, fair values will in future generally be disclosed for the financial assets and financial liabilities of Bausparkasse Schwäbisch Hall in the notes to the consolidated financial statements as required by IFRS 7.25 (see Note 58). The carrying amounts continue to be disclosed for the *Bauspar* business only, as there are still no suitable methods for calculating any fair value in accordance with IFRS 13 due to the special features of the *Bauspar* product. Supplementing this, the balance of the carrying amounts of *Bauspar* deposits and *Bauspar* loans is compared with the present value of the collective, derived from the *Bauspar*-specific simulation model. The adjustment of the prior-period figures in the notes to the consolidated financial statements has no effect on the income statement, the balance sheet, the cash flow statement or the statement of changes in equity.

Fair value of financial assets and liabilities from 1 January to 31 December 2021

in € thousand	2021 before adjustment	Adjustment	2021 after adjustment
Financial assets measured at fair value	**10,602,265**	**–**	**10,602,265**
(...)			
Financial assets measured at amortised cost	**74,317,249**	**4,471,794**	**78,789,043**
Cash and cash equivalents	997,958	–	997,958
Loans and advances to banks	8,042,897	446,285	8,489,182
Loans and advances to customers	62,978,389	3,938,489	66,916,878
Investments	2,292,638	87,020	2,379,658
Other assets	5,367	–	5,367
Finance leases	**1,077**	**–**	**1,077**
Financial liabilities measured at fair value	**5,196**	**–**	**5,196**
(...)			
Financial liabilities measured at amortised cost	**77,707,244**	**-7,272**	**77,699,972**
Deposits from banks	9,452,412	23,353	9,475,765
Deposits from customers	66,732,902	-9,091	66,723,811
Issued bonds	1,506,159	-21,534	1,484,625
Other liabilities	15,771	–	15,771
Financial guarantee contracts and loan commitments (provisions)	**8,413**	**–**	**8,413**
Finance leases	**14,680**	**–**	**14,680**

DISCLOSURE OF PRIOR PERIOD ERRORS

Cash flow statement for the period 1 January to 31 December 2021

Due to the correction of an error, the item “Proceeds from disposals of investments” was adjusted in the 2021 cash flow statement. Essentially, the correction saw non-cash changes reserves being reclassified in the reconciliation to cash flows from operating activities. The adjustments made for financial year 2021 are presented in the following table, there was no impact on the consolidated balance sheet, net profit and the statement of comprehensive income.

in € thousand	2021 before adjustment	Adjustment	2021 after adjustment
Net profit	**89,633**	**–**	**89,633**
Non-cash items included in net profit and reconciliation to cash flows from operating activities			
(...)			
Other adjustments (net)	-586,360	-448,432	-1,034,792
Subtotal	**-318,725**	**-448,432**	**-767,157**
Cash changes in assets and liabilities from operating activities			
(...)			
Cash flows from operating activities	**1,009,959**	**-448,432**	**561,527**
Proceeds from disposals of investments	1,478,966	448,432	1,927,398
(...)			
Cash flows from investing activities	**-543,629**	**448,432**	**-95,197**
(...)			
Cash flows from financing activities	**-10,861**	**–**	**-10,861**
Cash and cash equivalents as at 01.01	**542,499**	**–**	**542,499**
Cash flows from operating activities	1,009,959	-448,432	561,527
Cash flows from investing activities	-543,629	448,432	-95,197
Cash flows from financing activities	-10,861	–	-10,861
Cash and cash equivalents as at 31.12	**997,968**	**–**	**997,968**

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 2022 include all subsidiaries that are directly or indirectly controlled by Bausparkasse Schwäbisch Hall AG, including structured entities. Subsidiaries are generally included in the basis of consolidation from the date on which Bausparkasse Schwäbisch Hall obtains control of the investee. In assessing whether control exists, judgement is required in some cases, whereby all relevant facts and circumstances are taken into account. This applies in particular to the consideration of principal-agent relationships in which the Schwäbisch Hall Group acts as the initiator.

The Schwäbisch Hall Group comprises Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (referred to in the following as FLK), as a subgroup and five subsidiaries (previous year: two). In the reporting period, 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) were included as subsidiaries; in addition, the previous basis of consolidation was expanded to include Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall (referred to in the following as SHF), Schwäbisch Hall Wohnen GmbH, Schwäbisch Hall (referred to in the following as SHW) and BAUFINEX GmbH, Schwäbisch Hall (referred to in the following as BAUFINEX).

The date of initial consolidation of the subsidiaries previously classified as immaterial is 1 January 2022 in order to reflect the now material subsidiaries in the consolidated financial statements of Bausparkasse Schwäbisch Hall for the full financial year. As at 1 January 2022, the consolidated net assets of the company in question attributable to the Group, determined in accordance with the uniform Group accounting policies, are recognised instead of the previously recognised carrying amount of the investment. The difference to the previous carrying amount of the investment corresponds to the accumulated earnings of the company until then and was recognised in retained earnings for reasons of materiality.

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

The list of shareholdings in accordance with section 315e (1) in conjunction with section 313 (2) of the HGB is a component of the notes and disclosed in Note 79.

04 Consolidation methods

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

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

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

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

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

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

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

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

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

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

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

05 Currency translation

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

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

06 *Bausparen*

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

EMBEDDED DERIVATIVES

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

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

The value of material embedded options of the *Bauspar* contract in the savings and allocation phase, such as a loan option, termination rights or savings intensity, depends on changes in market interest rates, in line with changes in the value of the host contract. The exercise price of the options generally corresponds to the cost of the host contract, to the extent that the embedded derivatives are not separated and accounted for separately. Additionally, the exercise of possible options is determined by a multitude of parameters that cannot be reliably determined and quantified. The influence of economic and behavioural factors on the loan waiver rate is demonstrable but not quantifiable. In addition to fiscal policy and economic factors, the value of options is also determined in particular by subjective behavioural patterns of the *Bauspar* customers. Decisions by *Bauspar* customers based on personal preferences cannot be reliably predicted and measured.

BAUSPAR DEPOSITS

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

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

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

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

BAUSPAR LOANS, ADVANCE FINANCING AND BRIDGE FINANCING LOANS

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

Bauspar loans are issued if the 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 are measured and recognised in accordance with IAS 37.

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

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

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

FEES AND COMMISSIONS

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

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

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

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

FAIR VALUE

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

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

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

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

In contrast to other building loans with a special principal repayment right, *Bauspar* loans are not connected with an obligation to pay a prepayment penalty. The fair value of *Bauspar* loans is particularly influenced by the value of the special principal repayment option. The option value itself is significantly dependent on the market interest rate and therefore on possible aspects of refinancing. *Bauspar*-specific technical simulation models can provide support when estimating the behaviour of *Bauspar* customers. They forecast saving and repayment behaviour as well as loan waiver rates, i.e. the development in the *Bauspar* collective (probabilities of behaviour) based on past experience and current market parameters. The *Bauspar*-specific technical simulation models work with a variety of default parameters to structure new business for subsequent periods that does not yet exist as at the reporting date. The inflow of new savings as a source of refinancing and steady new business are conditions for the authorisation of the *Bausparkassen*. However, the fair value analysis only takes account of assets and liabilities that are eligible for recognition at the reporting date, which corresponds to the settlement case of a *Bausparkasse*. To this extent, the results of the *Bauspar*-specific technical simulation models cannot be used for the purposes of calculating fair value as defined by IFRS 13.

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

For the non-collective financing business of the Schwäbisch Hall Group, a fair value measurement based on a discounted cash flow (DCF) can be performed based on identified cash flows. The present value is determined using a risk-free interest rate (swap curve against 6 month Euribor) and taking risk costs into account. The fixed interest rate period serves as the observation period. After the fixed interest period expires, the borrower has the right to repay the loan. For advance and bridge financing loans, the date of allocation of the replacement *Bauspar* loan is decisive. This is dependent on the relevant collective development and individual savings behaviour, where relevant.

SIGNIFICANT RESTRICTIONS

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

07 Financial Instruments

CLASSES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

OTHER FINANCIAL INSTRUMENTS

Hedging instruments
The designation of derivative and non-derivative financial assets and liabilities as hedging instruments is governed by IFRS 9 and IAS 39. The recognition and measurement of these hedging instruments is presented in Notes 8 and 15.

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

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

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

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

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

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

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

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

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

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

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

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

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

Purchased or originated credit-impaired assets (POCI) are initially recognised at their carrying amount less the lifetime expected credit losses and amortised using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes to the lifetime expected credit losses since initial recognition are recognised as an impairment loss. No stage transfer is intended for these assets. More detailed explanations on the impairment of financial assets can be found in Note 66.

CLASSES OF FINANCIAL INSTRUMENTS

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

Classes of financial assets

Financial assets measured at fair value

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

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

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

Financial assets measured at amortised cost

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

Finance leases

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

Classes of financial liabilities

Financial liabilities measured at fair value

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

Financial liabilities measured at amortised cost

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

Leases
The class of leases consists solely of lease liabilities.

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

08 Hedge accounting

GENERAL REMARKS ON HEDGE ACCOUNTING

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

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

FAIR VALUE HEDGES

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

Hedged items in the category “Financial liabilities measured at amortised cost” are measured in accordance with the general measurement principles for these financial instruments and their carrying amount is adjusted by the change in fair value attributable to the hedged risk. Hedged items in the category “Assets mandatorily measured at fair value through other comprehensive income” are measured at fair value, with only changes in fair value in excess of the hedged changes being recognised in other comprehensive income. Interest income and expenses resulting from hedged items and hedging instruments is recognised in net interest income.

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

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

09 Repurchase agreements

Repurchase agreements are collateralised transactions in which the transferor and the transferee agree to sell and subsequently repurchase securities at a fixed price and time. The risks and rewards from securities sold under repurchase agreements remain entirely with the transferor, insofar as the transactions are genuine repurchase agreements. Securities sold under repurchase agreements as a transferor (repos) continue to be recognised in the consolidated balance sheet because they do not meet the IFRS 9.3 ff. derecognition criteria. A corresponding liability is recognised in the amount of the purchase price received.

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

Interest expenses for repos are reported in net interest income.

10 Collateral

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

11 Leases

THE SCHWÄBISCH HALL GROUP AS LESSOR

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

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

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

THE SCHWÄBISCH HALL GROUP AS LESSEE

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

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

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

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

12 Income

INTEREST AND DIVIDENDS

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

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

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

REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

13 Cash and cash equivalents

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

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

14 Loans and advances to banks and customers

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

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

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

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

15 Positive and negative fair values of hedging instruments

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

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

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

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

16 Positive and negative fair values of derivative financial instruments

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

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

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

17 Investments

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

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

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

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

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

18 Investments accounted for using the equity method

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

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

19 Intangible assets

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

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

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

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

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

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

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

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

21 Income tax assets and liabilities

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

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

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

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

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

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

24 Deposits from banks and customers

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

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

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

25 Issued bonds

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

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

26 Provisions

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

PROVISIONS FOR DEFINED BENEFIT PENSION OBLIGATIONS

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

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

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

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

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

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

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

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

LIABILITIES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

OTHER PROVISIONS

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

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

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

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

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

27 Contingent liabilities

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

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

Disclosures on the income statement and the statement of comprehensive income

28 Segment reporting

in € thousand	*Bausparen* and Housing Financing Domestic	*Bausparen* and Housing Financing Non-Domestic	Other Domestic	Consolidation	Total
Financial year 2022					
Net interest income	670,961	73,075	225	–	744,261
Net fee and commission income	5,771	4,879	-8	–	10,642
Gains and losses on investments	-75,647	–	–	-14,610	-90,257
Other gains or losses on measurement of financial instruments	3,576	–	–	–	3,576
Gains or losses on derecognition of financial assets measured at amortised cost	5,824	-3,180	–	–	2,644
Loss allowances	-12,637	-3,315	–	–	-15,952
Administrative expenses	-491,407	-41,303	-30,366	35,210	-527,866
Other net operating income	24,493	-9,146	36,115	-35,210	16,252
Profit/loss before taxes	**130,934**	**21,010**	**5,966**	**-14,610**	**143,300**
Financial year 2021					
Net interest income	518,677	68,705	235 [1]	-6,787 [1]	580,830
Net fee and commission income	7,099	4,884	–	–	11,983
Gains and losses on investments	38,757	–	–	-16,698	22,059
Other gains or losses on measurement of financial instruments	-245	–	–	–	-245
Gains or losses on derecognition of financial assets measured at amortised cost	-42	2,371	–	–	2,329
Loss allowances	-9,600	-4,130	–	–	-13,730
Administrative expenses	-475,943	-39,379	-29,998 [1]	29,998 [1]	-515,322
Other net operating income	44,919	-2,894	31,444 [1]	-31,444 [1]	42,025
Profit/loss before taxes	**123,622**	**29,557**	**1,681** [1]	**-24,931** [1]	**129,929**

[1] Prior-period figures disclosed for comparison purposes

General information on segment reporting

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

Definition of segments

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

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

The *Bausparen* and Housing Financing Domestic segment (previous year: *Bausparen* Domestic) includes the activities of Bausparkasse Schwäbisch Hall. This comprises the core business segments of *Bausparen* and Housing Financing and the Cross-Selling business segment. Because of their function of supporting the sale of building loans, SHW and BAUFINEX are allocated to the *Bausparen* and Housing Financing Domestic segment, as is SHK, which will focus solely on processing the building loans of Bausparkasse Schwäbisch Hall. SHK formed its own segment (*Bauspar* and Loan Processing) in the previous year. The activities of UIN Fund No. 817 are also reported in this segment.

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

The activities of FLK and the PSS and SGB foreign joint ventures are reported in the *Bausparen* and Housing Financing Non-Domestic segment (previous year: "*Bausparen* Non-domestic" segment).

Segment presentation

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

Measurement

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

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

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

Consolidation

The adjustments shown under consolidation to reconcile segment profit/loss before taxes to profit/loss before taxes are attributable exclusively to the elimination of intragroup transactions. Intragroup dividend payments are consolidated in net interest income. Gains or losses on investments in joint ventures are presented in gains or losses on investments.

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

Schwäbisch Hall Group-wide disclosures

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

Information about products and services

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

29 Net interest income

in € thousand	2022	2021
Interest income	**1,302,375**	**1,399,408**
calculated using the effective interest method	**1,302,375**	**1,399,408**
Bauspar loans	66,897	66,586
Advance and bridge financing loans	818,897	903,585
Other building loans	121,013	94,044
Lending and money market transactions	181,480	207,480
Fixed-income investment securities	126,604	136,024
Finance leases	42	35
Financial assets with other immaterial modifications	-300	-1,946
Financial assets with negative effective yield	-11,322	-6,400
Fair value changes of hedged items (assets) in portfolio hedges of interest rate risk	-936	–
Current income	**899**	**1,505**
Current income from FVOCI equity instruments held at the reporting date	899	1,505
Interest expense on	**-563,715**	**-828,816**
Deposits from banks and customers	-559,709	-850,185
of which: for *Bauspar* deposits	-511,206	-845,550
Securitised liabilities	-12,689	-1,063
Financial liabilities with positive effective yield	12,338	18,604
Provisions	-7	-1
Losses on other immaterial modifications of financial liabilities	-526	-172
Leases	-499	-478
Fair value changes of hedged items (liabilities) in portfolio hedges of interest rate risk	-2,623	4,479
Income from investments in joint ventures using the equity method	**4,702**	**8,733**
Total	**744,261**	**580,830**

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	2022	2021
Fee and commission income	**132,346**	**120,128**
Bauspar business	44,672	42,987
Fee and commission income from cross-selling	87,674	77,141
Fee and commission expenses	**-121,704**	**-108,145**
Bauspar business	-68,314	-66,298
Commissions for contract conclusion and brokerage	-68,314	-66,298
Other	-53,390	-41,847
Total	**10,642**	**11,983**

Fee and commission income during the reporting period contains revenue of €132,334 thousand (previous year: €120,128 thousand) from contracts with customers under IFRS 15, see Note 69.

31 Gains and losses on investments

in € thousand	2022	2021
Net income from the sale of bonds at fair value through other comprehensive income	-59,447	27,257
Net income of interests in joint ventures	-30,810	-5,198
Loss allowances	-30,810	-9,391
Reversals of impairment losses	–	4,193
Total	**-90,257**	**22,059**

Of the impairment losses on investments in joint ventures, €14,5 million (previous year: €9.4 million) was attributable to PSS and €16.3 million (previous year: reversals of impairment losses amounting to €4.2 million) was attributable to SGB.

32 Other gains or losses on measurement of financial instruments

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

in € thousand	2022	2021
Gains or losses from hedge accounting	**10,612**	**-94**
Gains or losses on hedging instruments (portfolio fair value hedges)	-185,595	-32,500
Gains or losses on hedged items (portfolio fair value hedges)	196,207	32,406
Gains or losses on measurement of derivative financial instruments used for purposes other than trading	**-7,036**	**-151**
Total	**3,576**	**-245**

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

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

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

in € thousand	2022	2021
Gains on derecognition of financial assets measured at amortised cost	**17,793**	**4,703**
Loans and advances to banks and customers	17,575	910
Debt instruments	218	3,793
Losses on derecognition of financial assets measured at amortised cost	**-15,149**	**-2,374**
Loans and advances to banks and customers	-11,801	-1,788
Debt instruments	-3,348	-586
Total	**2,644**	**2,329**

The transfer of registered bonds and bearer bonds issued by DZ BANK to DZ BANK resulted in the realisation of gains of €8 million (previous year: €1 million) and losses of €10 million (previous year: €0).

34 Loss allowances

in € thousand	2022	2021
Loss allowances for loans and advances to banks	**453**	**1,436**
Additions	-398	-511
Reversals	851	1,947
Loss allowances for loans and advances to customers	**-17,074**	**-14,541**
Additions	-239,330	-256,131
Reversals	221,704	240,180
Directly recognised impairment losses	-4,196	-4,120
Recoveries on loans and advances to customers previously impaired	4,748	5,530
Loss allowances for investments	**-256**	**-90**
Additions	-2,428	-1,129
Reversals	2,172	1,039
Loss allowances for other assets	**-63**	**-67**
Additions	-48	-83
Reversals	36	46
Directly recognised impairment losses	-60	-36
Recoveries on other assets previously impaired	9	6
Other loss allowances	**988**	**-468**
Change in provisions for loan commitments	988	-468
Total	**-15,952**	**-13,730**

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 €16 million in the financial year (previous year: €14 million), €16 million (previous year. €6 million) is related to the industry-wide impact of the current macroeconomic events. Until the end of 2021, this negative industry impact related largely to Covid-19. Starting in financial year 2022, “industry-wide impact” encompasses all potential increases in risk attributable to current developments/influencing factors in the economic environment of the industry in question that have not already been factored into the rating. These may be emerging recessions or pandemics. In addition to the economic factors, other macroeconomic factors such as technology and production processes, energy and raw materials are also explicitly included.

The need for additions is a result of the adjusted macroeconomic projects used to determine expected losses. With an extreme weighting of 100% of the baseline or risk scenario on which the calculation of the loss allowance is based, the loss allowances (Note 50) would decrease by approximately 1.95% (previous year: decrease of approximately 1.10%) or increase by approximately 7.38% (previous year: increase of approximately 0.59%), respectively.

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

35 Administrative expenses

in € thousand	2022	2021
Personnel expenses	**-274,053**	**-232,045**
Wages and salaries	-218,096	-185,129
Social security contributions	-36,188	-30,003
Post-employment benefit expenses	-16,556	-14,643
Expenses arising from share-based payment transactions	-3,213	-2,270
General administrative expenses	**-190,880**	**-214,452**
Contributions and fees	-28,855	-23,909
Consulting	-19,152	-12,675
Office expenses	-28,821	-53,643
IT expenses	-81,174	-90,769
Property and occupancy costs	-9,258	-11,610
Public relations/marketing	-19,187	-17,378
Other general administrative expenses	-4,433	-4,468
Depreciation and amortisation	**-62,933**	**-68,825**
Property, plant and equipment	-23,712	-23,153
of which: right-of-use assets	-1,987	-2,407
Intangible assets	-39,221	-45,672
Total	**-527,866**	**-515,322**

In the reporting period, amortisation charges and impairment losses on intangible assets include impairment losses of €3,749 thousand on the NEXT core banking system (previous year: €11,028 thousand) due to future restrictions or inability to continue using individual programme components and functionalities.

The net pension expense comprises the following items:

in € thousand	2022	2021
Net pension expense	**-14,276**	**-11,147**
Current service cost	-9,517	-9,983
Past service cost and settlement gains or losses	-2,827	–
Net interest	-1,932	-1,164
of which: interest expense	-9,601	-6,396
of which: return on plan assets	7,669	5,232
Other post-employment benefit expenses	**-2,280**	**-3,496**
Total	**-16,556**	**-14,643**

Other post-employment benefit expenses include expenses for defined contribution plans amounting to €1,003 thousand (previous year: €798 thousand).

36 Other net operating income

in € thousand	2022	2021
Income from loan processing and administration	9,491	9,271
Expense from additions to provisions and accruals	-1,063	-1,016
Income from reversals of provisions and accruals	14,121	6,116
Recognition of terminated and non-interest-bearing *Bauspar* deposits	29,741	9,376
Expenses for pre-litigation legal risks	-47,350	-2,250
Income from facility management services	23,065	–
Expenses for outsourced facility management services	-19,799	–
Expenses for other taxes	-10,375	-4,536
Miscellaneous other operating income	28,324	34,991
Miscellaneous other operating expense	-9,903	-9,927
Total	**16,252**	**42,025**

Other net operating income includes income of €29,741 thousand (previous year: €9.376 thousand) from the recognition of terminated and non-interest-bearing *Bauspar* deposits that are now time-limited, with any claims on them being remote.

37 Income taxes

in € thousand	2022	2021
Current income tax expense	-14,167	-39,488
Deferred income tax income/expense	-38,633	-808
Total	**-52,800**	**-40,296**

Deferred taxes include expenses of €38,606 thousand (previous year: expenses of €808 thousand) relating to the origination and reversal of temporary differences. Deferred taxes include expenses of €3 thousand that are attributable to changes in tax rates (previous year: €0 thousand). The tax rate change results from companies that are not members of the income tax consolidation group, so the individual tax rate of the companies is required to be applied. Of the current taxes, expenses of €4,210 thousand (previous year: expenses of €2,652 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	2022	2021
Profit/loss before taxes	**143,300**	**129,929**
Group income tax rate	31.260 %	31.260 %
Expected income taxes	**-44,795**	**-40,616**
Income tax effects	**-8,005**	**320**
Impact of tax-exempt income and non-deductible expenses	-10,992	-1,384
Adjustments resulting from other types of income tax or trade tax multipliers and changes in tax rates	3,750	6,460
Tax rate differences relating to components of income subject to taxation in other countries	–	-655
Current and deferred income taxes relating to prior years	-498	-2,429
Valuation allowances on deferred tax assets	-860	–
Other effects	595	-1,672
Reported income taxes	**-52,800**	**-40,296**

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

in € thousand	Amount before taxes	Income taxes	Amount after taxes
Financial year 2022			
Items that may be reclassified to the income statement	**-2,311,629**	**717,968**	**-1,593,661**
Gains and losses on debt instruments at fair value through other comprehensive income	-2,296,763	717,968	-1,578,795
Exchange differences on currency translation of foreign operations	-12,398	–	-12,398
Share of other comprehensive income/loss of equity-accounted joint ventures	-2,468	–	-2,468
Items that will not be reclassified to the income statement	**20,466**	**-5,575**	**14,891**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	4,400	–	4,400
Gains and losses arising from remeasurements of defined benefit plans	15,891	-5,575	10,316
Share of other comprehensive income/loss of equity-accounted joint ventures	175	–	175
Other comprehensive income/loss	**-2,291,163**	**712,393**	**-1,578,770**
Financial year 2021			
Items that may be reclassified to the income statement	**-638,639**	**202,235**	**-436,404**
Gains and losses on debt instruments at fair value through other comprehensive income	-646,945	202,235	-444,710
Exchange differences on currency translation of foreign operations	-2,244	–	-2,244
Share of other comprehensive income/loss of equity-accounted joint ventures	10,550	–	10,550
Items that will not be reclassified to the income statement	**15,330**	**-3,872**	**11,458**
Gains and losses on equity instruments for which the fair value OCI option has been exercised	-3,850	–	-3,850
Gains and losses arising from remeasurements of defined benefit plans	18,968	-3,872	15,096
Share of other comprehensive income/loss of equity-accounted joint ventures	212	–	212
Other comprehensive income/loss	**-623,309**	**198,363**	**-424,946**

Balance sheet disclosures

39 Cash and cash equivalents

in € thousand	31/12/2022	31/12/2021
Cash on hand	27	10
Balances with central banks and other government institutions	79,727	997,958
Total	**79,754**	**997,968**

The average target minimum reserve for the financial year was €5,634 thousand (previous year: €4,453 thousand).

40 Loans and advances to banks

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

in € thousand	31/12/2022	31/12/2021
Registered bonds	4,876,889	7,014,040
Money market transactions	3,439,576	77,852
Other loans secured by mortgages	28,217	32,777
Other loans and advances	452,909	920,451
Total	**8,797,591**	**8,045,120**

Among other things, registered bonds include registered public-sector *Pfandbriefe* of €51 million (previous year: €51 million) and registered mortgage *Pfandbriefe* of €585 million (previous year: €1,016 million); the other loans and advances relate to bank overdrafts of €236 million (previous year: €788 million) at DZ Bank AG and cash collateral furnished of €188 million (previous year: €37 million).

in € thousand	31/12/2022	31/12/2021
Domestic banks	8,740,215	7,986,336
Non-domestic banks	57,376	58,784
Total	**8,797,591**	**8,045,120**

41 Loans and advances to customers

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

in € thousand	31/12/2022	31/12/2021
Building loans by the Bausparkasse	63,659,813	60,439,152
from allocations (Bauspar loans)	3,173,048	2,525,071
for advance and bridge financing	47,302,365	47,726,393
other	13,184,400	10,187,688
Other loans and advances	2,713,085	2,735,667
Total	**66,372,898**	**63,174,819**
Loans and advances to domestic customers	64,733,159	61,500,398
Loans and advances to non-domestic customers	1,639,739	1,674,421
Total	**66,372,898**	**63,174,819**

42 Positive fair values of hedging instruments

As at 31 December 2022, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €430 million, previous year: €255 million) with a positive fair value of €31,855 thousand (previous year: €2,435 thousand) in its portfolio.

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

43 Investments and investments accounted for using the equity method

in € thousand	31/12/2022	31/12/2021
Bonds and other fixed-income securities	**9,468,561**	**12,874,693**
Mandatorily measured at fair value through other comprehensive income	7,543,891	10,581,797
Measured at amortised cost	1,924,670	2,292,896
Shares and other variable-yield securities	**3,797**	**2,681**
Fair value OCI option	3,797	2,681
Shares in subsidiaries	**2,117**	**12,615**
Fair value OCI option	2,117	12,615
Investments in associates	**4,380**	**2,630**
Fair value OCI option	4,380	2,630
Interests in equity-accounted joint ventures	**85,100**	**113,500**
Total	**9,563,955**	**13,006,119**

Bonds and other fixed-income securities include *öffentliche Inhaberpfandbriefe* (German public sector bearer covered bonds) amounting to €688 million (previous year: €614 million), *Hypothekeninhaberpfandbriefe* (German mortgage bearer covered bonds) amounting to €1,621 million (previous year: €876 million) and bonds from public-sector issuers amounting to €1,823 million (previous year: €4,659 million).

Investments include shares and other variable-yield securities as well as investments in subsidiaries and associates with a carrying amount of €10,294 thousand (previous year: €17,926 thousand) for which the fair value OCI option has been exercised.

For strategic reasons, Bausparkasse Schwäbisch Hall acquired a 10% interest TRUUCO GmbH, Frankfurt am Main, and a 3.076% interest in amberra GmbH, Berlin, in the reporting period. TRUUCO GmbH offers a comprehensive range of services for smart data applications for the companies in the German Cooperative Banking Group. amberra GmbH supports and finances scalable business ideas and projects within the German Cooperative Banking Group and thus serves to expand the cooperative ecosystem. To secure the financing of TRUUCO GmbH, Bausparkasse Schwäbisch Hall has contractually undertaken to make a further payment of €1,638 thousand into the capital reserves. For amberra GmbH, there is an obligation to pay a share premium in three annual instalments of €164 thousand each.

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

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

FINANCIAL DATA FOR INTERESTS IN EQUITY-ACCOUNTED JOINT VENTURES

Interests in joint ventures relate to the credit institutions PSS and SGB (see Note 79), which operate *Bauspar* business in accordance with German principles in Slovakia and China. Schwäbisch Hall is pursuing the goal of transferring the benefits of the *Bauspar* system to non-domestic markets and thereby leveraging additional growth opportunities.

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

in € million	PSS 31/12/2022	SGB 31/12/2022	PSS 31/12/2021	SGB 31/12/2021
Current assets	**609**	**1,562**	**549**	**1,596**
of which: cash and cash equivalents	5	412	22	574
Non-current assets	**2,378**	**3,107**	**2,399**	**2,747**
Current liabilities	**761**	**3,025**	**652**	**2,986**
of which: current financial liabilities	746	2,815	637	2,775
Non-current liabilities	**1,935**	**1,239**	**2,011**	**954**
of which: non-current financial liabilities	1,909	1,239	1,985	954
Underlying net assets [1]	**184**	**102**	**222**	**167**
Shareholding	32.5 %	24.9 %	32.5 %	24.9 %
Equity-accounted carrying amount	**60**	**25**	**72**	**41**

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

in € million	PSS 2022	SGB 2022	PSS 2021	SGB 2021
Net interest income	**63**	**70**	**64**	**69**
Interest income	87	153	92	136
Interest expenses	-24	-83	-28	-67
Net fee and commission income	**11**	**-6**	**11**	**-8**
Fee and commission income	12	7	12	8
Fee and commission expenses	-1	-13	-1	-16
Administrative expenses	**-42**	**-43**	**-40**	**-43**
of which depreciation/amortisation	-6	-2	-6	-2
Income taxes	**-5**	**-2**	**-5**	**-4**
Profit or loss after tax from continuing operations	**7**	**10**	**17**	**13**
Other comprehensive income or loss	**–**	**-10**	**1**	**42**
Total comprehensive income or loss	**7**	**–**	**18**	**55**
Dividend received	–	–	–	7

44 Intangible assets

in € thousand	31/12/2022	31/12/2021
Internally generated intangible assets	15,461	18,062
Other intangible assets	171,963	180,971
Total	**187,424**	**199,033**

€132.6 million (previous year: €142.5 million) of other intangible assets is attributable to Project NEXT.

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

in € thousand	31/12/2022	31/12/2021
Land and buildings	46,854	47,993
Office furniture and equipment	53,143	49,607
Right-of-use assets	9,732	12,612
Right-of-use assets for land and buildings	9,732	12,538
Right-of-use assets for office furniture and equipment	–	74
Total	**109,729**	**110,212**

46 Statement of changes in non-current assets

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

	Intangible assets		Property, plant and equipment	
in € thousand	**Internally generated intangible assets**	**Other intangible assets**	**Land and buildings**	**Office furniture and equipment**
Carrying amount as at 01/01/2021	**16,788**	**193,709**	**52,670**	**54,104**
Costs as at 01/01/2021	107,975	368,910	260,995	174,774
Additions	8,201	25,172	1,106	10,960
Disposals	-66	-1,595	–	-5,093
Changes attributable to currency translation	-113	-432	–	-279
Costs as at 31/1272021	**115,997**	**392,055**	**262,101**	**180,362**
Reversals of impairment losses as at 01/01/2021	–	–	–	–
Additions	–	1,727	–	–
Reversals of impairment losses as at 31/12/2021	**–**	**1,727**	**–**	**–**
Depreciation, amortisation and impairment as at 01/01/2021	-91,187	-175,201	-208,325	-120,670
Additions from depreciation and amortisation	-6,818	-27,826	-5,783	-14,963
Additions from impairment losses	–	-11,028	–	-3
Disposals	40	1,057	–	4,764
Changes attributable to currency translation	30	187	–	117
Depreciation, amortisation and impairment as at 31/12/2021	**-97,935**	**-212,811**	**-214,108**	**-130,755**
Carrying amount as at 31/12/2021	**18,062**	**180,971**	**47,993**	**49,607**
Costs as at 01/01/2022	115,997	392,055	262,101	180,362
Additions	3,277	25,793	3,207	19,451
Disposals	-5	-250	–	-14,069
Changes attributable to currency translation	-698	-2,359	–	-1,514
Changes in the basis of consolidation	–	2,551	–	11,360
Costs as at 31/12/2022	**118,571**	**417,528**	**265,308**	**195,852**
Reversals of impairment losses as at 01/01/2022	–	1,727	–	–
Reversals of impairment losses as at 31/12/2022	**–**	**1,727**	**–**	**–**
Depreciation, amortisation and impairment as at 01/01/2022	-97,935	-212,811	-214,108	-130,755
Additions from depreciation and amortisation	-5,410	-33,811	-4,346	-17,379
Disposals	5	250	–	12,521
Changes attributable to currency translation	230	1,117	–	739
Changes in the basis of consolidation	–	-2,037	–	-7,835
Depreciation, amortisation and impairment as at 31/12/2022	**-103,110**	**-247,292**	**-218,454**	**-142,709**
Carrying amount as at 31/12/2022	**15,461**	**171,963**	**46,854**	**53,143**

The carrying amount of buildings includes prepayments of €4,744 thousand (previous year: €1,567 thousand). The carrying amount of office furniture and equipment includes prepayments of €913 thousand (previous year: €5 thousand), and the carrying amount of other intangible assets includes prepayments of €21,217 thousand (previous year: €13,288 thousand).

47 Lease disclosures

SCHWÄBISCH HALL GROUP AS LESSEE

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

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

in € thousand	Right-of-use assets	
	Land and buildings	Office furniture and equipment
Carrying amount as at 01/01/2021	**15,978**	**325**
Additions	227	–
Remeasurements	-1,524	23
Depreciation	-2,132	-274
Disposals	-10	–
Carrying amount as at 31/1272021	**12,538**	**74**
Additions	210	–
Remeasurements	95	-2
Depreciation	-1,930	-57
Disposals	-1,180	-15
Carrying amount as at 31/12/2022	**9,733**	**–**

Other liabilities include lease liabilities of €12,517 thousand (previous year: €14,680 thousand). Interest expense on lease liabilities is disclosed in net interest income (Note 29).

The contractual maturities of lease liabilities are structured as follows:

in € thousand	31/12/2022	31/12/2021
Up to 1 year	2,594	2,605
More than 1 year and up to 3 years	4,793	4,939
More than 3 years and up to 5 years	4,266	4,335
More than 5 years	2,379	4,479

Total cash outflows from lease liabilities amounted to €2,729 thousand in the reporting period (previous year: €3,162 thousand).

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

in € thousand	31/12/2022	31/12/2021
Expense from short-term leases	738	654
Expense from variable lease payments not included in the lease liability	675	750
Income from subleasing right-of-use assets	200	188

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

THE SCHWÄBISCH HALL GROUP AS LESSOR

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

The contractual maturities of lease receivables are structured as follows:

in € thousand	31/12/2022	31/12/2021
Lease payments		
Up to 1 year	235	182
More than 1 year and up to 2 years	231	175
More than 2 years and up to 3 years	231	175
More than 3 years and up to 4 years	231	175
More than 4 years and up to 5 years	231	175
More than 5 years	232	353
Gross investment in leases	**1,391**	**1,235**
less unrealised finance income	146	125
Net investment in leases	**1,245**	**1,110**

Finance income from the net investment in leases amounts to €42 thousand (previous year: €35 thousand).

48 Income tax assets and liabilities

in € thousand	31/12/2022	31/12/2021
Current income tax assets	4,041	2,809
Deferred tax assets	613,537	916
Income tax assets	**617,578**	**3,725**
Current income tax assets	14,618	37,316
Deferred tax liabilities	–	70,069
Income tax liabilities	**14,618**	**107,385**

Deferred tax assets and liabilities are recognised for temporary differences in respect of the items shown below:

	Deferred tax assets		Deferred tax liabilities	
in € thousand	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Loans and advances to banks and customers	256	292	162,180	159,610
Loss allowances	46,821	44,172	–	–
Positive and negative fair values of derivative financial instruments/hedging instruments	–	–	10,569	1,725
Investments	569,250	–	41	143,992
Property, plant and equipment	2,391	2,051	–	–
Intangible assets	5,919	3,912	–	–
Deposits from banks and customers	1,789	2,271	59,866	113,728
Provisions for employee benefits	138,263	138,985	–	–
Other provisions	84,940	159,748	1,476	1,584
Other balance sheet items	516	394	2,476	339
Total (gross)	**850,145**	**351,825**	**236,608**	**420,978**
Netting of deferred tax assets and liabilities	-236,608	-350,909	-236,608	-350,909
Total (net)	**613,537**	**916**	**–**	**70,069**

There are deferred tax assets recognised in other comprehensive income of €645,378 thousand (previous year: €84,236 thousand) relating to provisions for employee benefits of €78,660 thousand (previous year: €84,236 thousand) and investments of €566,718 thousand (previous year: €0 thousand). There are no German deferred tax liabilities recognised in other comprehensive income (previous year: €151,250 thousand).

Furthermore, there are deferred tax liabilities recognised in other comprehensive income of €1,719 thousand (previous year: €1,861 thousand) relating to the FLK settlement provision.

Deferred tax assets are only recognised for temporary differences and for tax loss carryforwards if their realisation is sufficiently probable. No deferred tax assets are recognised for corporation tax loss carryforwards that can be carried forward indefinitely in the amount of €9,524 thousand (previous year: €0 thousand) and for trade tax loss carryforwards in the amount of €9,520 thousand (previous year: €0 thousand). The tax loss carryforwards result from the newly consolidated companies SHW and BAUFINEX. These companies are not members of the income tax consolidation group.

Deferred tax assets that are only expected to be realised after twelve months or more amount to €613,537 thousand (previous year: €916 thousand). Deferred tax liabilities that are only expected to be realised after twelve months or more amount to €0 thousand (previous year: €70,069 thousand).

No deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries and joint ventures amounting to €11,283 thousand (previous year: €11,445 thousand), as it is unlikely that these differences will reverse through realisation in the foreseeable future.

49 Other assets

in € thousand	31/12/2022	31/12/2021
Other financial receivables	14,076	5,447
Payments in advance and accruals	30,458	18,228
Remaining other assets	5,101	5,499
Total	**49,636**	**29,174**

50 Loss allowances

Changes in asset-side loss allowances were as follows:

	Loss allowances for								
	Loans and advances to banks		Loans and advances to customers			Investments	Other assets		
in € thousand	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total
Balance as at 01/01/2021	**866**	**2,264**	**41,209**	**56,860**	**84,047**	**348**	**29**	**15**	**185,638**
Additions	150	361	44,425	160,529	51,177	34	36	48	256,760
Utilisations	–	–	–	–	-2,524	–	–	–	-2,524
Reversals	-346	-1,601	-123,314	-65,503	-51,362	-120	-39	-8	-242,293
Change due to stage transfer	–	–	91,263	-89,639	-1,624	–	3	-3	–
Transfer from Stage 1	–	–	-5,672	5,544	128	–	–	–	–
Transfer from Stage 2	–	–	93,808	-104,384	10,576	–	-29	29	–
Transfer from Stage 3	–	–	3,127	9,201	-12,328	–	32	-32	–
Other changes	–	1	-125	-21	377	-5	-2	1	226
Balance as at 31/12/2021	**670**	**1,025**	**53,458**	**62,226**	**80,091**	**257**	**27**	**53**	**197,807**
Additions	165	233	29,695	179,308	30,327	16	33	15	239,792
Utilisations	–	–	–	–	-2,152	–	–	–	-2,151
Changes due to contract modifications	–	–	–	–	–	–	–	–	–
Reversals	-147	-704	-131,584	-63,078	-27,042	-63	-26	-10	-222,654
Change due to stage transfer	–	–	105,599	-97,809	-7,790	–	-1	1	–
Transfer from Stage 1	–	–	-4,072	3,966	106	–	–	–	–
Transfer from Stage 2	–	–	105,531	-117,762	12,231	–	-6	6	–
Transfer from Stage 3	–	–	4,140	15,987	-20,127	–	5	-5	–
Other changes	–	–	-432	-286	-369	-20	–	-4	-1,111
Balance as at 31/12/2022	**688**	**554**	**56,736**	**80,361**	**73,065**	**190**	**33**	**55**	**211,682**

51 Deposits from banks

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

in € thousand	31/12/2022	31/12/2021
Bauspar deposits	1,274,666	1,567,121
Current business accounts	8,500	19,210
Promissory note loans	9,046,888	4,906,233
Money market transactions	–	99,734
Repurchase agreements	–	2,715,561
KfW subsidised loans	122,283	139,551
Mortgage *Pfandbriefe*	5,004	5,002
Other liabilities	1,283	–
Total	**10,458,624**	**9,452,412**

Deposits from banks have the following maturities:

in € thousand	31/12/2022	31/12/2021
Deposits from domestic banks	10,457,340	9,452,412
of which: repayable on demand	8,499	19,210
with agreed maturity or notice period	9,174,175	7,866,081
with indefinite maturity	1,274,666	1,567,121
Deposits from foreign banks with agreed maturity	1,284	–
Total	**10,458,624**	**9,452,412**

52 Deposits from customers

in € thousand	31/12/2022	31/12/2021
Deposits from domestic customers	**64,340,182**	**63,974,634**
Bauspar deposits	63,800,902	63,438,163
Other deposits	539,280	536,471
of which: repayable on demand	526,902	477,709
with agreed maturity or notice period	12,378	58,762
Deposits from non-domestic customers	**2,511,131**	**2,758,268**
Bauspar deposits	2,509,162	2,756,163
Other deposits	1,969	2,105
of which: repayable on demand	1,969	2,105
Total	**66,851,313**	**66,732,902**

53 Issued bonds

As at the reporting date, this item contained issued mortgage *Pfandbriefe* in the amount of €2,509,594 thousand (previous year: €1,506,159 thousand), for which transferable registered certificates were issued. In the reporting period, mortgage *Pfandbriefe* amounting to €994 million were issued (previous year: €993 million), and there were no early repurchases.

54 Negative fair values of hedging instruments

As at 31 December 2022, Bausparkasse Schwäbisch Hall had interest rate swaps (nominal amount: €2,255 million, previous year: €495 million) with a negative fair value of €219,761 thousand (previous year: €5,196 thousand) in its portfolio.

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

Cash collateral of €188,340 thousand was furnished for the swaps (previous year: €3,770 thousand), which is reported in loans and advances to banks.

55 Provisions

in € thousand	31/12/2022	31/12/2021
Provisions for employee benefits	**157,210**	**190,865**
Defined benefit obligations	105,396	134,329
Long-term employee benefits	6,789	7,556
Termination benefits	45,025	48,980
of which: Loyalty bonus	13,260	15,680
Early retirement arrangements	2,281	3,168
Other provisions	29,484	30,132
Liabilities arising from share-based payment transactions	**6,572**	**4,446**
Other provisions	**1,191,062**	**1,487,469**
Bauspar-specific provisions	1,053,038	1,398,202
Other provisions	130,620	80,854
Provisions for loan commitments	7,404	8,413
Total	**1,354,844**	**1,682,780**

PROVISIONS FOR DEFINED BENEFIT PLANS

Provisions for defined benefit obligations primarily result from plans with benefit obligations that are no longer accepting any further employees (closed plans). There are other defined benefit plans for members of the Management Board or Managing Directors. New employees are almost exclusively offered defined contribution pension plans (insured pension fund and direct insurance), for which no provision has to be recognised. This resulted in an expense in the reporting period of €1,003 thousand (previous year: €798 thousand).

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

in € thousand	31/12/2022	31/12/2021
Defined benefit obligation	**687,340**	**831,506**
of which: active participants	199,596	285,513
departed participants	63,576	94,678
retirees	424,168	451,315

in € thousand	31/12/2022	31/12/2021
Defined benefit obligation	**687,340**	**831,506**
of which: final-salary pension commitments	661,732	798,157
capital commitments	25,608	33,349

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

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

To a small extent, there are pension obligations as part of capital account plans that are paid out to the pension beneficiary as a lump sum.

The level of the net pension obligations depends strongly on the underlying discount rate. If the discount rate were to decline, the pension obligations would rise accordingly and represent a growing charge on the balance sheet.

Increasing longevity, higher salary growth trends or higher inflation rates lead to longer or higher benefit payments by Bausparkasse Schwäbisch Hall to the relevant beneficiaries. These benefits must be funded by Bausparkasse Schwäbisch Hall and also represent an increasing charge on the balance sheet due to the higher obligation.

The agreed benefit commitments are not subject to any minimum funding requirements.

All defined benefit obligations are attributable to Germany.

The present value of defined benefit obligations changed as follows:

in € thousand	2022	2021
Present value of defined benefit obligations as at 01.01.	831,506	868,352
Current service cost	9,517	9,983
Past service cost	2,827	–
Interest expenses	9,597	6,396
Pension benefits paid	-30,641	-28,328
Actuarial gains (losses)	-188,676	-24,897
of which: from changes in financial assumptions	-199,288	-20,692
Experience adjustments	10,612	-4,205
Pension benefits paid under plan settlements	1,377	–
Changes in the basis of consolidation	51,833	–
Present value of defined benefit obligations as at 31.12	**687,340**	**831,506**

Changes in financial assumptions include actuarial losses of €1,332 thousand (previous year: losses of €4,006 thousand) from the recognition of defined benefit pension obligations relating to commitments via R+V Pensionsversicherung a. G.

The measurement of defined benefit pension obligations used mortality in accordance with Heubeck – RT 2018 G, the final funding age in accordance with the *RV-Altersgrenzenanpassungsgesetz* (Pensionable Age Limit Adjustment Act – RVAGAnpG) as well as the following actuarial assumptions:

	31/12/2022	31/12/2021
Discount rate (in %)	3.70	1.10
Salary increase (in %)	2.30	1.80
Pensions increase (in %)	2.30	1.80

SENSITIVITY ANALYSIS

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

	Impact on defined benefit obligations 31/12/2022		Impact on defined benefit obligations 31/12/2021	
Change in the present value of defined benefit obligations as at the reporting date if	**in € thousand**	**in %**	**in € thousand**	**in %**
the discount rate were 50 basis points higher	-43,278	-6.30	-61,139	-7.35
the discount rate were 50 basis points lower	48,200	7.01	69,201	8.32
future salary increases were 50 basis points higher	4,372	0.64	7,761	0.94
future salary increases were 50 basis points lower	-4,904	-0.71	-7,849	-0.95
future pension increases were 25 basis points higher	18,998	2.76	27,113	3.28
future pension increases were 25 basis points lower	-18,224	-2.65	-25,867	-3.13
future life expectancy were 1 year higher	32,738	4.76	48,277	5.83
future life expectancy were 1 year lower	-33,706	-4.90	-48,065	-5.81
the future financing maturity age were 1 year higher	-11,054	-1.61	-8,208	-0.99
the future financing maturity age were 1 year lower	9,763	1.42	6,888	0.83

The duration of defined benefit obligations at the end of the reporting period is 12.99 years (previous year: 15.80 years).

PLAN ASSETS

The defined benefit obligations are offset by the plan assets of Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH. €573,904 thousand of these plan assets (previous year: €687,887 thousand) are attributable to the Contractual Trust Arrangement (CTA) of DZ BANK and Bausparkasse Schwäbisch Hall, which are managed as trust assets by DZ BANK Pension Trust e. V., Frankfurt am Main. The investment company's investment policy and strategy are defined by the relevant CTA investment committees. Trustees or administrators are responsible for administering and managing the plan assets and compliance with regulatory requirements.

The plan assets also include a building with a value of €5,267 thousand (previous year: €5,283 thousand), which is managed by the *Unterstützungskasse* (pension fund) of Bausparkasse Schwäbisch Hall.

In the course of the persistent low interest rates, R+V Pensionsversicherung a.G. established an extended initial fund in accordance with section 178(5) of the *Versicherungsaufsichtsgesetz* (Insurance Supervision Act), to which Schwäbisch Hall Kreditservice GmbH also contributed.

For the benefit commitment previously treated as a defined contribution plan under IAS 19.46, the low interest rate environment and the associated grant of the initial fund loan resulted in a reassessment of the probability of claims being made against the pension provider. Due to the higher probability, the benefit commitments are now accounted for as a defined benefit plan and recognised in comprehensive income.

The plan assets to be offset against the present value of defined benefit obligations under IAS 19.57(a)(iii) are attributable to R+V Pensionsversicherung a.G. Plan assets include assets with a fair value of €3,433 thousand (previous year: €4,289 thousand) that exceed the present value of defined benefit obligations by €378 thousand (previous year: €282 thousand). As the plan assets cannot as a matter of principle be returned to the sponsoring companies and accounting for the benefit obligation is associated with uncertainty, the theoretical surplus is not recognised, but limited to €0 as part of the asset ceiling. The reassessment of the recognition as a defined benefit plan does not result in any impact on recognised equity.

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

in € thousand	31/12/2022	31/12/2021
Present value of defined benefit obligations funded by plan assets	646,699	831,506
Present value of defined benefit obligations	**687,340**	**831,506**
less fair value of plan assets	-582,604	-697,459
Defined benefit obligations (net)	**104,736**	**134,047**
Unrecognised surplus (asset ceiling)	660	282
Provisions for defined benefit plans	**105,396**	**134,329**

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

in € thousand	2022	2021
Net provision for defined benefit pension obligations at 01.01.	**134,329**	**170,446**
Current service cost	9,517	9,983
Interest income/expense (expected interest expenses)	1,932	1,164
Past service cost	2,827	–
Return on plan assets/reimbursement rights (excluding interest income)	172,412	5,646
Actuarial gains and losses	-188,303	-24,614
of which due to change in financial assumptions	-198,914	-20,409
of which experience adjustments	10,611	-4,205
Employer contributions	50,550	600
Pension benefits paid (continuous)	28,601	27,696
Change in the basis of consolidation	51,833	–
Total	**105,396**	**134,329**

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

in € thousand	2022	2021
Asset ceiling at 01.01.	**282**	**–**
Reassessment component	378	282
Asset ceiling at 31.12.	**660**	**282**

Plan assets changed as follows:

in € thousand	2022	2021
Fair value of plan assets as at 01.01.	**697,459**	**697,906**
Employer contributions to plan assets	50,550	600
Interest income	7,669	5,232
Return on plan assets (excluding interest income)	-172,412	-5,646
Pension benefits paid	-663	-633
Fair value of plan assets as at 31.12.	**582,604**	**697,459**

Payments to plan assets of €698 thousand are planned for financial year 2023 (financial year 2022: €50,865 thousand). All additions to plan assets are made by the employer.

We are expecting pension payments of €36,338 thousand in financial year 2023 (financial year 2022: €31,489 thousand)

Plan assets (CTA) are primarily invested in fixed-income assets (approximately 75%; previous year: approximately 80%). This takes account of the interest rate sensitivity of the defined benefit obligations. Plan assets are primarily invested in the eurozone. Plan assets are divided into the “core portfolio” and “income portfolio” segments.

The core portfolio (approximately 53%, previous year: approximately 60%) is primarily invested in fixed-income investments in the form of *Pfandbriefe*, covered bonds and government and corporate bonds. The investments have a minimum investment grade rating (AAA to BBB).

The second segment (approximately 47%; previous year: approximately 40%) represents the “income portfolio” and primarily consists of investments in subordinated and high-yield bonds, as well as globally diversified non-fixed-income securities (shares and investment fund units). The ratings of the fixed-income exposures are mainly in the range AAA to BBB, with the addition of investments with BB and B ratings.

Derivative financial instruments are also used for portfolio management. Defined benefit obligations and plan assets are denominated in euros.

The fair value of plan assets can be disaggregated by asset class as follows:

in € thousand	31/12/2022			31/12/2021		
	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	–	21,582	21,582	–	14,682	14,682
Bonds and other fixed-income securities	430,174	–	430,174	531,147	–	531,147
Shares	101,076	–	101,076	121,862	–	121,862
Derivative financial instruments	-271	–	-271	-89	–	-89
Land and buildings	–	5,246	5,246	–	5,260	5,260
Other assets	–	24,797	24,797	–	24,597	24,597
Total	**530,979**	**51,625**	**582,604**	**652,920**	**44,539**	**697,459**

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

The assets of R+V Pensionsversicherung a. G. amounting to €3,433 thousand (previous year: €4,289 thousand) are contained in the other assets.

OTHER PROVISIONS

Other provisions changed as follows:

in € thousand	*Bauspar*-specific provisions	Other provisions	Provisions for loan commitments	Total
Balance as at 01/01/2021	**1,443,431**	**79,808**	**7,948**	**1,531,187**
Additions	210,464	14,724	30,682	255,870
Utilisation	-254,388	-11,412	–	-265,800
Reversals	-1,299	-2,226	-30,214	-33,739
Interest expenses	–	1	–	1
Other changes	-6	-41	-3	-50
Balance as at 31/12/2021	**1,398,202**	**80,854**	**8,413**	**1,487,469**
Additions	115,448	64,614	12,651	192,713
Utilisation	-268,516	-12,596	–	-281,112
Reversals	-192,053	-2,151	-13,639	-207,843
Interest expenses	–	7	–	7
Other changes	-43	-108	-21	-172
Balance as at 31/12/2022	**1,053,038**	**130,620**	**7,404**	**1,191,062**

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, there was a special reversal of *Bauspar*-specific provisions at Bausparkasse Schwäbisch Hall amounting to €185,000 thousand (previous year: €0 thousand). This special reversal is the result of the updated projections at the reporting date (collective simulation) to reflect future customer behaviour, taking into account the higher level of interest rates.

Miscellaneous provisions include provisions for pre-litigation risks in connection with the lending and *Bauspar* business in the amount of €112,714 thousand (previous year: €66,049 thousand). The other disclosures required by IAS 37 are not made for these provisions because it can be expected that they would seriously adversely affect the outcome of any possible legal disputes.

The expected maturities of other provisions are classified as follows:

in € thousand	≤ 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Balance as at 31/12/2022				
Bauspar-specific provisions	5,087	280,186	481,567	286,198
Other provisions	485	56,416	73,675	44
Provisions for loan commitments	7,404	–	–	–
Total	**12,976**	**336,602**	**555,242**	**286,242**
Balance as at 31/12/2021				
Bauspar-specific provisions	5,818	331,293	551,055	510,036
Other provisions	344	54,624	25,827	59
Provisions for loan commitments	8,413	–	–	–
Total	**14,575**	**385,917**	**576,882**	**510,095**

The loss allowances reported in provisions for loan commitments changed as follows:

in € thousand	Loss allowances		
	Stage 1	**Stage 2**	**Stage 3**
Balance as at 01/01/2021	**7,947**	**–**	**1**
Additions	25,472	3,024	2,186
Reversals	-27,073	-2,099	-1,042
Other changes	175	46	-224
Balance as at 31/12/2021	**6,521**	**971**	**921**
Additions	7,242	4,444	965
Reversals	-10,421	-2,160	-1,058
Other changes	1,280	-1,359	58
Balance as at 31/12/2022	**4,622**	**1,896**	**886**

56 Other liabilities

in € thousand	31/12/2022	31/12/2021
Accruals	116,109	104,070
for management bonuses and bonuses paid to non-Group persons	61,786	51,986
for short-term employee benefits	39,219	39,556
for outstanding invoices	14,680	12,005
other accruals	424	523
Liabilities to DZ BANK AG from profit and loss transfer agreement	15,000	12,000
Other tax liabilities to taxation authorities	35,199	36,885
Lease liabilities	12,517	14,680
Other financial liabilities	17,107	3,771
Remaining other liabilities	2,152	5,074
Total	**198,084**	**176,480**

57 Equity

in € thousand	31/12/2022	31/12/2021
Subscribed capital	310,000	310,000
Capital reserves	1,486,964	1,486,964
Earned equity [1]	3,600,144	3,520,627
Retained earnings [1]	3,531,132	3,450,421
Net profit [1]	69,012	70,206
Reserve from other comprehensive income [1]	-1,263,817	319,403
Reserve from fair value OCI equity instruments	-2,337	-6,733
Reserve from fair value OCI debt instruments	-1,246,199	332,596
Currency translation reserve	-15,281	-6,460
Non-controlling interests	81,547	80,538
Total	**4,214,838**	**5,717,532**

[1] The presentation of items of equity was adapted to match the classification of the statement of changes in equity.

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

in € thousand	2022	2021
Balance as at 01.01.	**1,871**	**1,750**
Additions	2,412	1,095
Reversals	-2,109	-919
Other changes	-95	-55
Balance as at 31.12.	**2,079**	**1,871**

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 97.577% at the end of the financial year. The remaining 2.423% 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 €-168.1 million (previous year: €-179.2 million).

Retained earnings include undistributed profits of €226 million (previous year: €226 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.

The technical security reserve of Bausparkasse Schwäbisch Hall AG amounting to €226 million was released as at 31 December 2022.

RESERVE FROM FAIR VALUE OCI EQUITY INSTRUMENTS

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

RESERVE FROM FAIR VALUE OCI DEBT INSTRUMENTS

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

CURRENCY TRANSLATION RESERVE

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

NON-CONTROLLING INTERESTS

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

CAPITAL MANAGEMENT

The Management Board of Bausparkasse Schwäbisch Hall AG manages the capital resources on the basis of the requirements for regulatory capital ratios in accordance with the CRR.

For information on capital management and the regulatory ratios, which is also a part of the IFRS consolidated financial statements, please refer to the section "CRR regulatory ratios" (page 22) and to the section "Risk management within comprehensive bank management" (page 41) in the combined management report.

Financial instruments disclosures

58 Disclosures on fair values of financial assets and liabilities

in € thousand	31/12/2022		31/12/2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at fair value	**7,586,200**	**7,586,200**	**10,602,265**	**10,602,265**
Financial assets measured at fair value through profit or loss	**32,015**	**32,015**	**2,542**	**2,542**
Financial assets mandatorily measured at fair value through profit or loss	32,015	32,015	2,542	2,542
Positive fair values of hedging instruments	31,855	31,855	2,435	2,435
Loans and advances to customers	160	160	107	107
Financial assets measured at fair value through other comprehensive income	**7,554,185**	**7,554,185**	**10,599,723**	**10,599,723**
Financial assets mandatorily measured at fair value through other comprehensive income	7,543,891	7,543,891	10,581,797	10,581,797
Investments	7,543,891	7,543,891	10,581,797	10,581,797
Financial assets designated at fair value through other comprehensive income	10,294	10,294	17,926	17,926
Investments	10,294	10,294	17,926	17,926
Financial assets measured at amortised cost	**76,975,911**	**69,056,140**	**74,317,249**	**78,789,043**
Cash and cash equivalents	79,727	79,727	997,958	997,958
Loans and advances to banks	8,795,888	8,443,723	8,042,897	8,489,182
Loans and advances to customers	66,161,828	58,841,365	62,978,389	66,916,878
of which *Bauspar* loans	3,154,998	3,154,998	2,511,111	2,511,111
Investments	1,924,480	1,677,337	2,292,638	2,379,658
Other assets	13,988	13,988	5,367	5,367
Finance leases	**1,207**	**1,207**	**1,077**	**1,077**
Loans and advances to banks	460	460	528	528
Loans and advances to customers	747	747	549	549

in € thousand	31/12/2022 Carrying amount	31/12/2022 Fair value	31/12/2021 Carrying amount	31/12/2021 Fair value
Financial liabilities measured at fair value	**219,761**	**219,761**	**5,196**	**5,196**
Negative fair values of hedging instruments	219,761	219,761	5,196	5,196
Financial liabilities measured at amortised cost	**79,628,700**	**78,390,639**	**77,697,196**	**77,699,972**
Deposits from banks	10,458,624	9,652,390	9,452,412	9,475,765
of which *Bauspar* deposits	1,274,666	1,274,666	1,567,121	1,567,121
Deposits from customers	66,851,313	66,627,631	66,732,902	66,723,811
of which *Bauspar* deposits	66,310,064	66,087,126	66,194,326	66,184,278
Issued bonds	2,509,594	2,078,511	1,506,159	1,484,625
Other liabilities	32,107	32,107	15,771	15,771
Fair value changes of hedged items in portfolio hedges of interest rate risk	-222,938	–	-10,048	–
Financial guarantee contracts and loan commitments (provisions)	**7,404**	**7,404**	**8,413**	**8,413**
Leases	**12,517**	**12,517**	**14,680**	**14,680**
Other liabilities	12,517	12,517	14,680	14,680

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

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

59 Fair value hierarchy

Financial instruments accounted for at fair value are categorised within the hierarchy in line with the fair value measurement method and the underlying assumptions.

Financial instruments are transferred between Level 1 and 2 due to the disappearance or emergence of active markets. They are transferred when there is a change in the inputs relevant for categorisation in the fair value hierarchy. Financial instruments are transferred between Level 1 and Levels 2 and 3 of the fair value hierarchy on the basis of a change in the estimated market observability of the inputs used in the valuation techniques. There were no transfers in the reporting period.

Fair values in Level 1 of the hierarchy are calculated by reference to prices in active markets for the financial instrument in question (quoted market prices). In the reporting period, investments in the category “Financial assets mandatorily measured at fair value through other comprehensive income” amounting to €7,543,891 thousand (previous year: €10,581,797 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 €31,855 thousand (previous year: €2,435 thousand) and with a negative fair value of €219,761 thousand (previous year: €5,196 thousand) in the “Financial instruments at fair value through profit or loss” category were accounted for in Level 2 of the hierarchy.

The fair value of equity instruments such as shares and other variable-yield securities and interests in subsidiaries and associates in the fair value OCI category that are categorised within Level 3 of the fair value is measured using an income capitalisation approach in which future income and dividends (unobservable inputs) based on projected figures and estimates are discounted using risk parameters.

The carrying amount of equity instruments in the fair value OCI category allocated to Level 3 changed from €17,926 thousand to €10,294 thousand in the financial year due to additions of €2,316 thousand (previous year: €5,201 thousand), changes in fair value of €4,400 thousand (previous year: €-3,850 thousand) and the effects of the change in the basis of consolidation amounting to €-14,348 thousand (previous year: €0 thousand).

The DCF method is applied as a valuation technique to measure the fair value of loans and advances to customers. The probability of default was identified as a non-observable input and was 35% at the reporting date.

60 Assets and liabilities not measured at fair value in the balance sheet

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

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

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

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

The fair value measurements of assets and liabilities (see Note 58) that are not measured at fair value in the balance sheet, but for which fair value is disclosed, are categorised as follows into the levels of the fair value hierarchy:

	Level 1		Level 2		Level 3	
in € thousand	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**	**31/12/2022**	**31/12/2021**
Assets	**1,677,337**	**2,379,658**	**10,644,071**	**12,260,947**	**56,734,733**	**64,148,439**
Cash and cash equivalents	–	–	79,727	997,958	–	–
Loans and advances to banks	–	–	8,443,723	8,489,182	–	–
Loans and advances to customers	–	–	2,106,632	2,768,440	56,734,733	64,148,439
of which *Bauspar* loans	–	–	–	–	3,154,998	2,511,111
Investments	1,677,337	2,379,658	–	–	–	–
Other assets	–	–	13,988	5,367	–	–
Liabilities	**2,078,511**	**1,484,625**	**8,950,335**	**8,463,948**	**67,369,197**	**67,759,812**
Deposits from banks	–	–	8,377,723	7,908,644	1,274,666	1,567,121
of which *Bauspar* deposits	–	–	–	–	1,274,666	1,567,121
Deposits from customers	–	–	540,505	539,533	66,087,126	66,184,278
of which *Bauspar* deposits	–	–	–	–	66,087,126	66,184,278
Issued bonds	2,078,511	1,484,625	–	–	–	–
Financial guarantee contracts and loan commitments (provisions)	–	–	–	–	7,404	8,413
Other liabilities	–	–	32,107	15,771	–	–

61 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities regularly reference standard master agreements, although these standard master agreements generally do not meet the offsetting criteria of IAS 32.42, as the legal right to offset under these agreements depends on the occurrence of a future event.

The following tables present financial assets that are subject to a legally enforceable bilateral netting agreement or similar agreement:

in € thousand	Gross amount of financial instruments before offsetting	Net amount of financial instruments (recognised amount)	Related amounts of financial instruments not set off	Related amounts not set off in the balance sheet		Net amount
				Financial Instruments	Cash collateral received/furnished	
Balance as at 31/12/2022						
Financial assets						
Derivative financial instruments	31,855	31,855	31,855	–	–	–
Total	**31,855**	**31,855**	**31,855**	**–**	**–**	**–**
Financial liabilities						
Derivative financial instruments	219,761	219,761	31,855	–	187,905	–
Total	**219,761**	**219,761**	**31,855**	**–**	**187,905**	**–**
Balance as at 31/12/2021						
Financial assets						
Derivative financial instruments	2,435	2,435	2,435	–	–	–
Total	**2,435**	**2,435**	**2,435**	**–**	**–**	**–**
Financial liabilities						
Derivative financial instruments	5,196	5,196	2,435	–	2,761	–
Repurchase agreements	2,715,561	2,715,561	–	2,657,239	33,700	24,622
Total	**2,720,757**	**2,720,757**	**2,435**	**2,657,239**	**36,461**	**24,622**

62 Repurchase agreements

Transfers in which the transferred assets remain on the balance sheet were performed in the Schwäbisch Hall Group in the financial year exclusively under genuine repurchase agreements between Bausparkasse Schwäbisch Hall AG and DZ BANK AG on the basis of the German master agreement for repurchase agreements at standard market conditions. The *Bausparkasse* acts exclusively as a securities provider. The master agreement provides for the unrestricted availability of the securities for the transferee or their transfer as collateral in absence of default by the counterparty, as well as the return of the same class. If the fair value of the securities transferred under the repurchase agreements increases or decreases, the relevant entity may be required to provide further collateral or require the provision of collateral.

Debt securities in the class of financial assets measured at fair value and financial assets measured at amortised cost were transferred in repurchase agreements (repos). There were no longer any repos at the reporting date.

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.

in € thousand	Carrying amount of financial assets sold under repurchase agreements	Related financial liabilities measured at amortised cost
Balance as at 31/12/2021		
Financial assets mandatorily measured at fair value through other comprehensive income	**1,822,496**	**1,866,433**
Investments	1,822,496	1,866,433
Financial assets measured at amortised cost	**766,105**	**849,128**
Investments	766,105	849,128
Total	**2,588,601**	**2,715,561**

Additional cash collateral in the amount of €33,700 thousand was provided on 31 December 2021 as part of repurchase agreements, which was recognised as loans and advances to banks. The fair value of the securities sold under repurchase agreements was €2,657,239 thousand at the closing date.

63 Collateral

On the reporting date, loans and advances to customers amounting to €122,293 thousand (previous year: €139,958 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 2022, the cover pool amounted to €3,515 million (previous year: €1,842 million), with mortgage *Pfandbriefe* with a nominal value of €2,511 million (previous year: €1,506 million) outstanding.

64 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	2022	2021
Derivative financial instruments mandatorily measured at fair value through profit or loss	**-7,036**	**-151**
Financial assets measured at fair value through other comprehensive income	**-2,250,379**	**-516,276**
Financial assets mandatorily measured at fair value through other comprehensive income	-2,255,678	-513,932
Net gains and losses recognised in profit or loss	41,085	133,013
Net gains and losses recognised in other comprehensive income	-2,296,763	-646,945
Financial assets designated at fair value through other comprehensive income	5,299	-2,344
Net gains and losses recognised in profit or loss	899	1,506
Net gains and losses recognised in other comprehensive income	4,400	-3,850
Financial assets measured at amortised cost	**1,188,934**	**1,282,680**
Financial liabilities measured at amortised cost	**-577,267**	**-832,136**

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	2022	2021
Interest income	**1,303,311**	**1,399,408**
from financial assets measured at cost, including finance leases	1,202,965	1,293,476
from financial assets measured at fair value through other comprehensive income	100,346	105,932
Interest expense on financial liabilities measured at amortised cost, including finance leases	**-577,766**	**-832,614**

INCOME AND EXPENSE ITEMS FROM COMMISSIONS

Net fee and commission income includes fee and commission expenses of €86,476 thousand (previous year: €108,139 thousand) and fee and commission income of €47,076 thousand (previous year: €42,987 thousand) from financial assets and financial liabilities that are not measured at fair value through profit or loss.

65 Hedge accounting

RISK MANAGEMENT STRATEGY

Fair value hedges are recognised as part of the risk management strategy to eliminate or mitigate accounting mismatches.

HEDGED ITEMS

Fair value hedged accounting is used in hedges of interest rate risk. Risk of interest rate changes in this context means the risk that the fair value or a fixed-income financial instruments will be adversely affected by a change in market interest rates. The hedged financial assets are financial assets in the “Financial assets measured at fair value through other comprehensive income” category, and the financial liabilities are deposits from customers measured at amortised cost. Asset- and liability-side interest rate risk portfolios are identified and designated as hedged items in portfolio hedge accounting (portfolio fair value hedges). During the term of the hedging relationship, these portfolios are exposed to changes in the volume and number of included contracts, which are taken into account as part of the regular hedging cycle.

The hedging relationships are normally designated for one month. They are then closed and redesignated on the basis of the changed overall portfolio.

HEDGING INSTRUMENTS

Interest rate swaps are designated as hedging instruments to account for hedges of the fair value of financial assets and liabilities.

The hedging instruments are reported in positive and negative fair values of hedging instruments.

EFFECTIVENESS TEST

Hedge accounting requires the hedge to be effective both prospectively and retrospectively. The entity seeks to establish an effective hedging relationship for each maturity band to which at least one hedging instrument has been allocated. For this purpose, changes in the fair values of the hedging items, including the attributable future contractual cash flows, must almost fully offset changes in the fair values of the hedging instruments.

In the case of portfolio hedges, there is no direct economic relationship between the hedged item and the hedging instruments. The approximate offsetting of the changes in fair value is ensured by determining an individual hedge ratio based on the sensitivities of the hedged item and the hedging instruments.

Hedge effectiveness is tested and demonstrated at each month-end.

Portfolio hedges that continue to be accounted for in accordance with IAS 39 are deemed to be effective if changes in the fair values of the hedged items and the hedging instruments offset each other within the range of 80% to 125% defined by IAS 39. If this test establishes that the hedge is not sufficiently effectively, it must be terminated retrospectively as at the date of the most recent effective test.

In fair value hedges, prospective and retrospective effectiveness is tested using a regression model.

To do this, the accumulated changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments.

GAINS AND LOSSES AND INEFFECTIVENESS OF HEDGE ACCOUNTING

Hedge ineffectiveness results from opposing changes in the fair value of hedging instruments and hedged items that do not fully offset each other.

Hedge ineffectiveness is recognised in “Other gains or losses on valuation of financial instruments” in the income statement. Hedge ineffectiveness may arise in fair value hedges of interest rate risk. This is because the changes in the fair values of hedged items and hedging instruments may not fully offset each other because of differences relating to maturities, cash flows and discount rates.

SCOPE OF RISKS MANAGED USING HEDGES AND IMPACT ON CASH FLOWS

Information on the volume of hedged items and hedging instruments that were designated in hedging relationships to hedge risk in interest rate changes is presented in the following:

in € thousand	Carrying amount	Nominal amount of hedging instruments	Adjustments from fair value hedges contained in carrying amount of hedged items		Changes in fair value as basis for measuring ineffectiveness for the period
			Existing hedging relationships	Terminated hedging relationships	
Balance as at 31/12/2022					
Assets	**875,269**	**430,000**	**32,873**	**–**	**-1,093**
Positive fair values of hedging instruments	31,855	430,000			32,270
Investments	843,414		32,873	–	-33,363
Liabilities	**2,231,108**	**2,255,000**	**-222,938**	**–**	**11,705**
Deposits from customers	2,011,347		-222,938	–	229,570
Negative fair values of hedging instruments	219,761	2,255,000			-217,865
Balance as at 31/12/2021					
Assets	**2,435**	**255,000**	**–**	**–**	**-8,900**
Positive fair values of hedging instruments	2,435	255,000			-8,900
Investments	–		–	–	–
Liabilities	**754,666**	**495,000**	**-10,048**	**–**	**8,806**
Deposits from customers	749,470		-10,048	–	32,406
Negative fair values of hedging instruments	5,196	495,000			-23,600

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

in €	≤ 3 months	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Balance as at 31/12/2022					
To hedge interest rate risk	–	–	–	1,330,000,000	1,355,000,000
Average hedged interest rate in %	–	–	–	1.280	1.420
Total	**–**	**–**	**–**	**1,330,000,000**	**1,355,000,000**
Balance as at 31/12/2021					
To hedge interest rate risk	–	–	–	50,000,000	700,000,000
Average hedged interest rate in %	–	–	–	0.130	0.160
Total	**–**	**–**	**–**	**50,000,000**	**700,000,000**

66 Nature and extent of risks arising from financial instruments

The disclosures on the nature and extent of risks arising from financial instruments (IFRS 7.31-42) are in part contained in the combined management report and in part in the notes to the IFRS consolidated financial statements.

The disclosures on credit risk in accordance with IFRS 7.35A-36 and the maturity analysis in accordance with IFRS 7.39(a) and (b) are made directly in the notes to the IFRS consolidated financial statements.

The disclosures listed in the following, which are also part of the IFRS consolidated financial statements, are contained in the sections of the combined management report stated in the following:

- IFRS 7.33-34 (qualitative and quantitative disclosures): section "Risk management within comprehensive bank management" (page 41);
- IFRS 7.39(c) (managing liquidity risk): section "Liquidity risk" (page 49);
- IFRS 7.40-42 (market risk): section "Market risk" (page 48).

CREDIT RISK MANAGEMENT PRACTICES

The rules for recognising impairment losses are based on the calculation of expected losses in the lending business, from investments and from other assets. The application of the impairment loss rules is limited to financial assets as well as loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. These include:

- financial assets measured at amortised cost;
- debt instruments held as financial assets measured at fair value through other comprehensive income.

The impairment rules also apply to:

- loan commitments and financial guarantee contracts under IFRS 9 and not measured at fair value through profit or loss;
- lease receivables;
- trade receivables.

Under IFRS 9, the three-stage approach is used to calculate expected losses, with additional consideration of POCIs:

- Stage 1: a 12-month expected credit loss is applied to financial assets without a significantly increased credit risk compared with the acquisition date and not impaired at acquisition. Interest is recognised in the basis of the gross carrying amount.
- Stage 2: loss allowances are calculated in the amount of lifetime expected credit losses for financial assets whose credit risk has increased significantly since initial recognition. Interest is recognised in the basis of the gross carrying amount.
- Stage 3: financial assets are credit-impaired if one or more events have occurred that have a detrimental effect on the estimated future cash flows of that financial asset or if they are considered to be in default in accordance with Article 178 of the Capital Requirements Regulation (CRR). The latter also matches the definition of default within the Schwäbisch Hall Group. Because of the matching indicators and events that are considered Level 3 criteria under IFRS 9 and simultaneously lead to default under Article 178 of the CRR, these classifications are identical. If there is any default, the asset is therefore also categorised within Level 3 as impaired. Loss allowances are likewise recognised in the amount of the lifetime expected credit losses. In addition, interest income is calculated on the amortised cost after loss allowances using the effective interest method.
- POCI: financial assets that are credit-impaired on initial recognition are not assigned to the three-stage model and are measured separately. POCI financial assets are not measured at their gross carrying amount, but rather at their fair value. Accordingly, interest income for POCI financial assets is recognised using a risk-adjusted effective interest rate.

No financial assets that are credit-impaired on initial recognition (purchased or originated credit-impaired assets, POCI) were identified during the reporting period.

The review of whether there has been a significant increase in the credit risk of financial assets or financial guarantee contracts and loan commitments compared with the credit risk at acquisition date is performed monthly, with a special focus at every reporting date. The assessment is made at the level of the financial asset with the aid of quantitative and qualitative analyses.

The quantitative analyses are usually performed by reference to the expected credit risk over the entire residual life of the financial instruments under review. This also takes macroeconomic information into account by transferring these inputs into shift factors for determining the probability of default. The credit risk at the reporting date for the residual maturity for the quantitative transfer criterion is generally compared with the credit risk of the asset estimated at the acquisition date for the relevant maturity. The threshold values that indicate a significant increase in credit risk are generally calculated separately for each portfolio in relation to its historical probability of default migration. Internal risk measurement systems, external credit ratings and risk forecasts are also used to assess the credit risk of financial assets. The maximum value for these transfer thresholds represents an increase of 200% to 300%.

Three qualitative transfer criteria additionally apply. Assets for which forbearance measures have been agreed, assets with business partners that are assigned to the early risk identification watch list or assets that are more than 30 days past due arrears also exhibit a significant increase in default risk and are categorised within Level 2, unless categorisation within Level 3 is necessary. Being more than 30 days past due is a backstop criterion, as financial assets are usually transferred to Level 2 well before a being more than 30 days past due because of the other transfer criteria.

For securities with low default risk or an investment grade rating, the increase in default risk is also measured and changes in the rating are monitored. However, under the low credit risk exemption, crossing the quantitative transfer threshold only leads to a transfer to Level 2 if a qualitative transfer criterion is met or if the security is assigned a rating outside the investment grade range. For Bausparkasse Schwäbisch Hall, this low credit risk exemption does not apply to loans and advances.

If it is established on the reporting date that there is no longer a significant increase in credit risk compared with earlier reporting dates, the financial assets concerned are transferred back to Stage 1 and the loss allowances are returned to the level of the expected 12-month expected credit loss. For retransfer from Stage 3, the default status is not lifted until after a corresponding good behaviour period in line with the regulatory definition.

Expected losses are calculated as the probability-weighted present value of expected defaults over the entire expected maturity from default events within the next twelve months for assets assigned to Stage 1 of the credit loss model and from default events over the entire residual life for assets assigned to Stage 2. The expected losses are discounted at their original effective interest rate. As a rule, this calculation uses the regulatory model harmonised with the requirements of IFRS 9, consisting of probability of default, loss rate (including probability of recovery) and expected loan amount at the date of default. The estimated probability of default in this regard contains not only historical, but also forward-looking default information. These are reflected in the calculation of loss allowances in the form of shifts in the statistically calculated probabilities of default (shift factors). For individual Stage 3 exposures, the expected loss is also calculated using this input-based approach, depending on the portfolio or, in individual cases, on the basis of individual expert estimates about recoverable cash flows and probability-weighed scenarios at the level of individual transactions.

The calculation of expected losses is based on loss histories, which are adjusted in order to forecast future defaults. In addition, two macroeconomic scenarios are included on the basis of experience estimates. For example, these scenarios include future labour market trends, gross domestic product growth, inflation and real estate price movements. To ensure an undistorted expected loss, several scenarios are calculated when determining risk parameters. These are subsequently reflected in the amount of the loss allowance on a probability-weighted basis. The methods and assumptions, including the forecasts, are regularly validated.

Directly recognised impairment losses reduce the carrying amounts of assets directly. In contrast to loss allowances, directly recognised impairment losses are not estimated, but are recognised at a known exact amount if this is justified by the uncollectibility of the debt (for example by disclosing an insolvency ratio). Write-downs can be charged as directly recognised impairment losses and/or the utilisation of existing loss allowances. Directly recognised impairment losses are usually recognised after the completion of all recovery and enforcement measures. Directly recognised impairment losses are also recognised for immaterial minor amounts.

IMPACT OF MACROECONOMIC DEVELOPMENTS

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

Current economic developments are primarily taken into account by updating the macroeconomic forecasts. In doing so, Bausparkasse Schwäbisch Hall used the macroeconomic forecasts for the years 2022–2026 from the DZ BANK’s Research division that are taken into account when determining expected losses.

Expected macroeconomic trends are reflected by adjusting the model-based default probability profiles used in economic and regulatory risk management. The shift factors are used to include current economic trends (“point-in-time focus”) as well as forecasts of future economic conditions for the years in the macroeconomic forecast horizon in the calculation of loss allowances. These shift factors are derived through existing stress testing models from macroeconomic inputs for various levels of probability of default. These PD shift factors are based on DZ BANK’s macroeconomic forecasts.

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

The methodology for the override process of the model shift factors at Group level is unchanged as at 31 December 2021. A plausibility check of the shift factors continues to take account of the industry-wide impact. In the past, this industry-wide impact only related to the Covid-19 pandemic. Since the beginning of 2022, the industry-wide impact encompasses all identifiable material increases in risk attributable to current developments or influencing factors in the economic environment that are not yet reflected in the rating. In financial year 2022, in addition to the after-effects of the Covid-19 pandemic, these include above all the Ukraine war, the shortage of raw materials, especially gas, supply chain bottlenecks and high inflation, accompanied by sharp increases in energy prices.

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

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

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

The baseline scenario is predicated on the assumption that high energy prices will cause a recession. It is assumed that a physical gas shortage can be avoided. The recessionary phase should be pronounced in the six-month winter period. This is supported by a number of very negative leading indicators as well as initial hard data, such as a decline in new orders in Germany. A slight economic recovery phase is expected to follow in the six summer months of 2023. A "double dip" in the six-month winter period 2023/24, i.e. a further technical recession due to a tense energy supply situation, is not ruled out in the baseline scenario for Germany and the eurozone. Uncertainty about the effects of planned policy packages in Germany and the other eurozone countries to contain consumer price trends is still very high at the end of 2022. The instruments being discussed have mostly not yet been fully elaborated or adopted into law. Especially structural reasons resulting from decarbonisation or a possible trend towards deglobalisation could push up the long-term inflation rate trend to a greater extent than previously assumed. The base scenario with a 80% weighting corresponds to DZ BANK's forecasts of November 2022.

The risk scenario is predicated on the assumption that there will be an aggravated energy crisis – characterised by a very cold winter, gas shortages, disruptions in the supply of electricity and second-round effects. In this risk scenario, it is assumed that – in contrast to the baseline scenario – the energy supply situation in Europe will significantly deteriorate. Several aspects could contribute to this escalation. Very cold winter temperatures as well as problems with the deliveries of liquefied petroleum gas planned for January 2023 will exacerbate the supply situation. A delay in the return of French nuclear power plants to the electricity grids will also result in greater use of natural gas for electricity generation, which in turn will aggravate the gas shortage situation and lead to greater depletion of storage facilities, which will also have an impact on subsequent years. The European economy will enter an even more severe recessionary phase due to rationing and even more severe production cuts in the winter months. Inflation rates will be even higher compared with the baseline scenario. They will reach double digits in both Germany and the eurozone in 2023, at 10% each. In addition, inflationary pressures will become more entrenched and stronger second-round effects due to significantly higher collective wage settlements will strengthen upward price pressures. In the subsequent years, inflation will remain consistently well above the ECB's target level of 2.0% and will only fall slowly to 3.5% by 2026. The risk scenario is included in the weighting with a 20% probability.

In particular, the following macroeconomic forecasts for the years 2022 to 2026 are also included in the calculation of expected loss as at the reporting date, with the ECB scenarios of December 2022 also lying within their range:

		2022	2023	2024	2025	2026
Unemployment, Germany						
Base scenario	in %	3.00	3.40	3.30	3.20	3.00
Risk scenario	in %	3.00	3.60	3.40	3.20	3.00
Real GDP growth, Germany (seasonally and calendar-adjusted)						
Base scenario	as % year-on-year	1.50	-2.00	1.75	1.25	1.00
Risk scenario	as % year-on-year	1.50	-3.50	2.00	1.25	1.00
Inflation, Germany						
Base scenario	as % year-on-year	8.50	6.50	3.00	2.00	2.00
Risk scenario	as % year-on-year	8.50	10.00	7.00	5.00	3.00

The calculated values were validated using Group-wide expert surveys and supplemented by management's estimates. This ensures that the shift factors used correspond to the technical expectations as well as to the forecast changes in the macroeconomic factors for the calculation of expected losses.

The adjustments described represent adjustments to inputs in the models for reflecting the macroeconomic developments. It was not therefore necessary to develop additional post-model adjustments in the Schwäbisch Hall Group.

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

The macroeconomic developments did not lead to any significant transfers in the reporting period between the stages of the credit loss model for the gross carrying amounts of financial instruments in the classes "Financial assets measured at fair value", "Financial assets measured at amortised cost" and the nominal amounts of the class "Financial guarantee contracts and loan commitments".

Additions to loss allowances, which are presented in the statement of changes in loss allowances, are also attributable to the changes in the macroeconomic forecasts used to determine expected losses.

LOSS ALLOWANCES AND GROSS CARRYING AMOUNTS

In the Bausparkasse Schwäbisch Hall Group, loss allowances are recognised for the amount of expected credit losses for the classes "Financial assets measured at fair value", "Financial assets measured at amortised cost", "Finance leases" and "Financial guarantee contracts and loan commitments". Trade receivables form part of the class "Financial assets measured at amortised cost".

There are finance lease receivables with a gross carrying amount of €1,245 thousand (previous year: €1,110 thousand) in the Schwäbisch Hall Group. A loss allowance of €37 thousand (previous year: €33 thousand) was recognised on these receivables.

FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Stage 1	
in € thousand	**Loss allowances**	**Fair value**
Balance as at 01/01/2021	**1,750**	**10,320,620**
Additions/increase in credit utilisation	1,095	1,945,314
Reversals and repayments	-919	-1,028,117
Amortisation, changes in fair value	–	-656,020
Other changes	-55	–
Balance as at 31/12/2021	**1,871**	**10,581,797**
Additions/increase in credit utilisation	2,412	2,279,174
Reversals and repayments	-2,109	-2,975,331
Amortisation, changes in fair value	–	-2,341,749
Other changes	-95	–
Balance as at 31/12/2022	**2,079**	**7,543,891**

FINANCIAL ASSETS MEASURED AT AMORTISED COST

in € thousand	Stage 1		Stage 2		Stage 3	
	Loss allowances	**Gross carrying amount**	**Loss allowances**	**Gross carrying amount**	**Loss allowances**	**Gross carrying amount**
Balance as at 01/01/2021	**42,386**	**66,292,376**	**59,153**	**4,092,631**	**84,062**	**633,361**
Additions/increase in credit utilisation	10,836	24,307,341	1,556	104,335	–	–
Change to financial assets due to stage transfer	91,263	-201,929	-89,636	64,229	-1,627	137,700
Transfer from Stage 1	-5,672	-1,597,644	5,544	1,552,930	128	44,714
Transfer from Stage 2	93,808	1,354,829	-104,413	-1,611,143	10,605	256,314
Transfer from Stage 3	3,127	40,886	9,233	122,442	-12,360	-163,328
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	-7	-2,524	-4,149
Reversals and repayments	-6,357	-19,991,373	-15,736	-651,970	-11,582	-141,640
Changes in risk parameters	-83,647	–	107,963	–	11,437	–
Additions	33,754	–	159,370	–	51,225	–
Reversals	-117,401	–	-51,407	–	-39,788	–
Changes due to contract modifications	–	-67	–	-1,916	–	37
Amortisation	–	-109,312	–	11,929	–	1,089
Currency translation differences and other changes	-129	-25,760	-22	-1,647	378	-235
Balance as at 31/12/2021	**54,352**	**70,271,276**	**63,278**	**3,617,584**	**80,144**	**626,163**
Additions/increase in credit utilisation	9,239	27,772,795	1,721	164,840	–	–
Change to financial assets due to stage transfer	105,599	-685,876	-97,810	666,992	-7,789	18,884
Transfer from Stage 1	-4,072	-1,837,911	3,966	1,809,640	106	28,271
Transfer from Stage 2	105,531	1,116,156	-117,768	-1,318,061	12,237	201,905
Transfer from Stage 3	4,140	35,879	15,992	175,413	-20,132	-211,292
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	–	–	-60	-2,152	-4,196
Reversals and repayments	-4,861	-24,300,050	-11,028	-616,469	-10,450	-114,093
Changes in risk parameters	-106,300	–	125,073	–	13,740	–
Additions	20,613	–	177,853	–	30,342	–
Reversals	-126,913	–	-52,780	–	-16,602	–
Changes due to contract modifications	–	1	–	-192	–	-109
Amortisation	–	-94,887	–	-9,320	–	1,095
Currency translation differences and other changes	-452	-116,822	-286	-24,546	-373	-2,749
Changes in the basis of consolidation	–	17,295	–	–	–	–
Balance as at 31/12/2022	**57,577**	**72,863,732**	**80,948**	**3,798,829**	**73,120**	**524,995**

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 01/01/2021	**7,947**	**6,141,505**	**–**	**–**	**1**	**112**
Additions/increase in credit utilisation	12,559	6,968,423	1	12	–	–
Change to financial assets due to stage transfer	178	-67,265	46	51,175	-224	16,090
Transfer from Stage 1	-83	-72,807	62	71,635	21	1,172
Transfer from Stage 2	35	1,255	-195	-30,619	160	29,364
Transfer from Stage 3	226	4,287	179	10,159	-405	-14,446
Reversals and repayments	-8,238	-6,898,634	-1,011	-7,689	-679	-5,510
Changes in risk parameters	-5,922	–	1,935	–	1,823	–
Currency translation differences and other changes	-3	-327	–	–	–	–
Balance as at 31/12/2021	**6,521**	**6,143,702**	**971**	**43,498**	**921**	**10,692**
Balance as at 01/01/2022	6,521	6,143,702	971	43,498	921	10,692
Additions/increase in credit utilisation	3,732	6,430,886	34	829	–	–
Change to financial assets due to stage transfer	1,301	-89,285	-1,359	78,979	58	10,306
Transfer from Stage 1	-285	-96,219	258	84,800	27	11,419
Transfer from Stage 2	1,378	5,271	-1,750	-6,919	372	1,648
Transfer from Stage 3	208	1,663	133	1,098	-341	-2,761
Reversals and repayments	-5,406	-7,935,247	-746	-53,968	-575	-11,366
Changes in risk parameters	-1,505	–	2,996	–	482	–
Additions	3,510	–	4,410	–	965	–
Reversals	-5,015	–	-1,414	–	-483	–
Change in the basis of consolidation	–	–	–	–	–	–
Currency translation differences and other changes	-21	-2,097	–	–	–	-30
Balance as at 31/12/2022	**4,622**	**4,547,959**	**1,896**	**69,338**	**886**	**9,602**

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 €39,660 thousand (previous year: €279,523 thousand) before contract adjustments. Modification losses on these assets amounted to €-301 thousand (previous year: €-1,843 thousand).

The gross carrying amount of financial assets for which cash flow adjustments were made that were allocated to Stage 2 and Stage 3 of the credit loss model since initial recognition, but which were transferred into Stage 1 of the credit loss model during the reporting period, amounts to €123,419 thousand (previous year: €24,301 thousand).

MAXIMUM EXPOSURE TO CREDIT RISK

The Schwäbisch Hall Group is exposed to credit risk arising from financial instruments. The maximum exposure to credit risk constitutes the fair values, amortised cost or nominal amounts of financial instruments. Collateral is not taken into account. The following collateral is held to hedge the maximum exposure to credit risk:

		of which secured by				
in € thousand	Maximum credit risk	Warranties, guarantees	Land charges, mortgages	Chattel mortgages / assignments / pledging of receivables	Financial collateral	Other collateral
Balance as at 31/12/2022						
Financial assets measured at fair value	**7,575,907**	**–**	**1,113,778**	**359,296**	**–**	**722,832**
Financial assets measured at fair value through profit or loss	32,016	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	7,543,891	–	1,113,778	359,296	–	722,832
Financial assets measured at amortised cost	**76,975,912**	**131,417**	**51,608,429**	**751,537**	**9,077,518**	**2,084,638**
of which: credit-impaired	–	–	342,213	–	60,757	1,292
Financial guarantee contracts and loan commitments	**4,626,899**	**–**	**4,121,322**	**–**	**7,132**	**3,871**
of which: credit-impaired		–	6,149	–	3	–
Balance as at 31/12/2021						
Financial assets measured at fair value	**10,584,339**	**–**	**170,918**	**286,308**	**–**	**870,440**
Financial assets measured at fair value through profit or loss	2,542	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	10,581,797	–	170,918	286,308	–	870,440
Financial assets measured at amortised cost	**74,317,249**	**129,743**	**49,487,274**	**891,729**	**8,839,363**	**2,643,024**
of which: credit-impaired	–	–	435,258	–	77,775	3,776
Financial guarantee contracts and loan commitments	**6,197,892**	**–**	**5,584,162**	**–**	**8,920**	**1,186**
of which: credit-impaired		–	6,942	–	103	–

CREDIT CONCENTRATION RISK

The Bausparkasse Schwäbisch Hall Group's credit risk exposure from financial instruments is broken down by sector using the Bundesbank industrial sector codes and geographically using the annually updated International Monetary Fund (IMF) country group classification. The volume, measured using fair values and gross carrying amounts of financial assets or the credit risk arising from financial guarantee contracts and loan commitments, is classified based on the following rating classes:

- investment grade: equivalent to internal rating grades 1A–2A;
- non-investment grade: equivalent to internal rating grades 2B–3E;
- default: equivalent to internal rating grades 4A–4B;
- not rated: no rating necessary or not rated.

A detailed overview of internal rating grades can be found in the Opportunity and risk report in the Combined management report. The “not rated” category comprises counterparties for which no rating classification is required.

CREDIT RISK CONCENTRATIONS BY SECTOR

in € thousand		Financial sector	Public sector (administration/ government)	Corporates	Retail
Balance as at 31/12/2022					
Investment grade		**14,664,993**	**4,771,119**	**1,881,675**	**49,960,383**
Fair value	Stage 1	4,398,546	1,714,435	1,430,910	–
Gross carrying amount	Stage 1	10,257,059	3,055,491	399,190	45,639,742
	Stage 2	391	–	13,981	1,254,133
Nominal amount	Stage 1	8,997	1,193	37,594	3,061,154
	Stage 2	–	–	–	5,354
Non-investment grade		**53,498**	**–**	**736,541**	**16,757,740**
Gross carrying amount	Stage 1	18,409	–	602,618	12,885,642
	Stage 2	30,802	–	59,185	2,438,487
	Stage 3	1	–	131	9,500
Nominal amount	Stage 1	4,286	–	69,537	1,365,198
	Stage 2	–	–	5,070	58,913
	Stage 3	–	–	–	–
Default		**–**	**–**	**4,366**	**520,456**
Gross carrying amount	Stage 3	–	–	4,366	510,854
Nominal amount	Stage 3	–	–	–	9,602
Not rated		**5,475**	**–**	**2,609**	**738**
Gross carrying amount	Stage 1	5,420	–	775	634
	Stage 2	55	–	1,778	17
	Stage 3	–	–	56	87

in € thousand		Financial sector	Public sector (administration/ government)	Corporates	Retail
Balance as at 31/12/2021					
Investment grade		**14,673,491**	**7,797,823**	**2,397,571**	**45,711,260**
Fair value	Stage 1	4,180,499	4,379,974	2,021,324	–
Gross carrying amount	Stage 1	10,488,955	3,417,849	321,094	41,275,724
	Stage 2	1,022	–	15,984	1,342,635
Nominal amount	Stage 1	3,015	–	39,169	3,090,085
	Stage 2	–	–	–	2,816
Non-investment grade		**50,034**	**–**	**695,643**	**19,331,995**
Gross carrying amount	Stage 1	15,721	–	555,228	14,190,745
	Stage 2	32,790	–	43,897	2,179,489
	Stage 3	–	–	71	7,224
Nominal amount	Stage 1	1,523	–	94,019	2,915,891
	Stage 2	–	–	2,428	38,254
	Stage 3	–	–	–	392
Default		**–**	**–**	**9,042**	**619,965**
Gross carrying amount	Stage 3	–	–	8,901	609,806
Nominal amount	Stage 3	–	–	141	10,159
Not rated		**6,047**	**–**	**2,237**	**713**
Gross carrying amount	Stage 1	5,913	–	572	584
	Stage 2	134	–	1,610	23
	Stage 3	–	–	55	106

CREDIT RISK CONCENTRATIONS BY COUNTRY

in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets	Supranational institutions
Balance as at 31/12/2022						
Investment grade		**66,295,705**	**4,974,782**	**2,109**	**5,574**	**–**
Fair value	Stage 1	3,875,519	3,668,372	–	–	–
Gross carrying amount	Stage 1	58,118,447	1,225,394	2,067	5,574	–
	Stage 2	1,219,940	48,565	–	–	–
Nominal amount	Stage 1	3,076,445	32,451	42	–	–
	Stage 2	5,354	–	–	–	–
Non-investment grade		**16,850,276**	**694,714**	**906**	**1,883**	**–**
Gross carrying amount	Stage 1	12,969,641	534,888	689	1,451	–
	Stage 2	2,405,187	122,742	113	432	–
	Stage 3	–	9,632	–	–	–
Nominal amount	Stage 1	1,412,397	26,520	104	–	–
	Stage 2	63,051	932	–	–	–
	Stage 3	–	–	–	–	–
Default		**499,177**	**24,995**	**197**	**453**	**–**
Gross carrying amount	Stage 3	489,707	24,863	197	453	–
Nominal amount	Stage 3	9,470	132	–	–	–
Not rated		**–**	**8,822**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	6,829	–	–	–
	Stage 2	–	1,850	–	–	–
	Stage 3	–	143	–	–	–

in € thousand		Germany	Other industrialised nations	Advanced economies	Emerging markets	Supranational institutions
Balance as at 31/12/2021						
Investment grade		**63,018,660**	**7,375,553**	**2,204**	**7,033**	**176,695**
Fair value	Stage 1	4,639,005	5,766,097	–	–	176,695
Gross carrying amount	Stage 1	54,044,843	1,450,302	2,204	6,273	–
	Stage 2	1,252,499	106,962	–	180	–
Nominal amount	Stage 1	3,079,520	52,169	–	580	–
	Stage 2	2,793	23	–	–	–
Non-investment grade		**19,437,689**	**635,787**	**1,993**	**2,203**	**–**
Gross carrying amount	Stage 1	14,401,045	356,927	1,810	1,912	–
	Stage 2	2,027,097	228,726	62	291	–
	Stage 3	–	7,295	–	–	–
Nominal amount	Stage 1	2,969,593	41,719	121	–	–
	Stage 2	39,954	728	–	–	–
	Stage 3	–	392	–	–	–
Default		**593,224**	**34,856**	**212**	**715**	**–**
Gross carrying amount	Stage 3	582,999	34,781	212	715	–
Nominal amount	Stage 3	10,225	75	–	–	–
Not rated		**–**	**8,997**	**–**	**–**	**–**
Gross carrying amount	Stage 1	–	7,069	–	–	–
	Stage 2	–	1,767	–	–	–
	Stage 3	–	161	–	–	–

67 Maturity analysis

in € thousand	≤ 1 month	> 1 month – 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Balance as at 31/12/2022							
Financial assets	**1,818,066**	**1,797,362**	**7,943,385**	**26,661,308**	**58,966,270**	**10,294**	**97,196,685**
Cash and cash equivalents	79,727	–	–	–	–	–	79,727
Loans and advances to banks	747,723	637,640	4,047,222	1,759,574	1,972,438	–	9,164,597
Loans and advances to customers	701,826	1,132,302	3,634,694	21,040,273	48,835,052	–	75,344,147
Positive fair values of hedging instruments [1]	484	462	–	15,119	27,765	–	43,830
Investments	275,208	26,930	261,362	3,846,328	8,130,186	10,294	12,550,308
Other assets	13,098	28	107	14	829	–	14,076
Financial liabilities	**-756,052**	**-24,156**	**-405,389**	**-3,631,198**	**-8,663,490**	**-68,025,975**	**-81,506,260**
Deposits from banks	-209,359	-6,769	-352,899	-3,385,352	-5,986,753	-1,274,666	-11,215,798
Deposits from customers	-528,871	-366	-675	-5,789	-7,274	-66,751,309	-67,294,284
Issued bonds	–	–	-23,925	-96,700	-2,603,900	–	-2,724,525
Negative fair values of hedging instruments [1]	-768	-2,021	-27,890	-143,219	-65,563	–	-239,461
Other liabilities	-17,054	-15,000	–	-138	–	–	-32,192
Financial guarantee contracts and loan commitments	**-4,625,371**	**–**	**–**	**–**	**-1,527**	**–**	**-4,626,898**
Balance as at 31/12/2021							
Financial assets	**2,880,772**	**1,368,631**	**4,584,994**	**25,537,809**	**57,252,886**	**17,926**	**91,643,018**
Cash and cash equivalents	997,958	–	–	–	–	–	997,958
Loans and advances to banks	1,179,074	376,154	460,348	2,965,706	3,642,540	–	8,623,822
Loans and advances to customers	493,263	957,563	3,350,847	19,651,364	43,319,672	–	67,772,709
Positive fair values of hedging instruments [1]	435	–	1,475	1,788	-706	–	2,992
Investments	205,568	34,914	772,191	2,918,936	10,290,555	17,926	14,240,090
Other assets	4,474	–	133	15	825	–	5,447
Financial liabilities	**-700,795**	**-1,067,857**	**-1,767,807**	**-1,795,270**	**-4,688,145**	**-68,346,171**	**-78,366,045**
Deposits from banks	-219,809	-1,056,514	-1,765,213	-1,758,244	-3,139,132	-1,567,121	-9,506,033
Deposits from customers	-477,709	-21	-2,747	-29,074	-28,289	-66,779,050	-67,316,890
Issued bonds	–	–	-2,050	-9,200	-1,512,200	–	-1,523,450
Negative fair values of hedging instruments [1]	325	678	2,203	1,417	-8,524	–	-3,901
Other liabilities	-3,602	-12,000	–	-169	–	–	-15,771
Financial guarantee contracts and loan commitments	**-6,195,974**	**–**	**–**	**–**	**-1,918**	**–**	**-6,197,892**

[1] Net values

The maturity analysis compares contractual cash inflows with a positive sign with contractual cash outflows with a negative sign. For financial guarantee contracts and loan commitments, the cash outflows are disclosed as at the earliest possible stage.

The contractual maturities do not correspond to the actually expected cash inflows and outflows, particularly in the case of financial guarantee contracts and loan commitments.

Other disclosures

68 Financial guarantee contracts and loan commitments

in € thousand	31/12/2022	31/12/2021
Loan commitments	**4,626,172**	**6,196,534**
Credit facilities to customers	4,626,172	6,196,534
Financial guarantee contracts	**727**	**1,358**
Loan guarantees	–	294
Other guarantees and warranties	727	1,064
Total	**4,626,899**	**6,197,892**

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

69 Revenue from contracts with customers

DISCLOSURES ON REVENUE FROM CONTRACTS WITH CUSTOMERS BY OPERATING SEGMENT

in € thousand	*Bausparen* and Housing Financing Domestic	Other Domestic	*Bausparen* and Housing Financing Non-Domestic	Consolidation	Total
Financial year 2022					
Revenue types	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**
Fee and commission income from the *Bauspar* business	39,187	–	5,485	–	44,672
Fee and commission income from cross-selling	84,325	–	3,337	–	87,662
Other operating income	27,947	55,305	595	-34,994	48,853
Primary geographical markets	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**
Germany	151,459	55,305	–	-34,994	171,770
Rest of Europe	–	–	9,417	–	9,417
Type of revenue recognition	**151,459**	**55,305**	**9,417**	**-34,994**	**181,187**
At a point in time	151,459	71	9,417	-2,304	158,643
Over time	–	55,234	–	-32,690	22,544
Financial year 2021					
Revenue types	**110,328**	**47,783**	**9,800**	**-47,783**	**120,128**
Fee and commission income from the *Bauspar* business	37,143	–	5,844	–	42,987
Fee and commission income from cross-selling	73,185	–	3,956	–	77,141
Other operating income	–	47,783	–	-47,783	–
Primary geographical markets	**110,328**	**47,783**	**9,800**	**-47,783**	**120,128**
Germany	110,328	47,783	–	-47,783	110,328
Rest of Europe	–	–	9,800	–	9,800
Type of revenue recognition	**110,328**	**47,783**	**9,800**	**-47,783**	**120,128**
At a point in time	110,328	–	9,800	–	120,128
Over time	–	47,783	–	-47,783	–

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

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

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

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

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

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

CHANGES IN RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

in € thousand	Other receivables (other assets)
Balance as at 01/01/2022	**–**
Additions	15,735
Disposals	9,616
Other changes	2,715
Balance as at 31/12/2022	**8,835**

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

70 Employees

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

	2022	2021
Female employees	**2,408**	**1,975**
Full-time employees	1,232	1,081
Part-time employees	1,176	894
Male employees	**1,526**	**1,293**
Full-time employees	1,384	1,172
Part-time employees	142	121
Total employees	**3,934**	**3,268**

	2022	2021
Female junior employees	70	66
Male junior employees	147	130
Total junior employees	**217**	**196**

71 Group auditors and consulting fees

The total fees charged by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, as the Group auditor are as follows, classified by type of service:

in € thousand	2022	2021
Audit services	789	662
Other assurance services	27	–
Other services	–	9
Total	**816**	**671**

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

72 Remuneration of the Management Board and Supervisory Board of Bausparkasse Schwäbisch Hall

The remuneration of the Management Board of Bausparkasse Schwäbisch Hall in the Group under IAS 24.17 amounted to €4,595 thousand in the reporting period (previous year: €4,534 thousand) under IFRSs. These are broken down into current benefits of €2,681 thousand (previous year: €2,628 thousand), termination benefits of €1,008 thousand (previous year: €1,044 thousand) and share-based payments of €906 thousand (previous year: €862 thousand). Remuneration of the Management Board in the reporting period and the previous year includes the total bonus awarded for each year. The remuneration of the Supervisory Board amounts to €292 thousand (previous year: €292 thousand) and consists of current benefits.

There are defined benefit obligations of €7,092 thousand (previous year: €12,066 thousand) for members of the Management Board. Provisions of €48,605 thousand (previous year: €55,415 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 €3,587 thousand in the reporting period (previous year: €3,490 thousand), and €292 thousand (previous year: €292 thousand) for the Supervisory Board.

The total remuneration of former members of the Management Board and their surviving dependants under section 314(1) no. 6(b) of the HGB amounted to €3,069 thousand (previous year: €3,061 thousand). Provisions of €60,357 thousand (previous year: €50,411 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 €371 thousand on an arm’s length basis (previous year: €335 thousand).

The members of the Advisory Board were paid attendance fees of €89 thousand.

73 Share-based payment transactions

Bausparkasse Schwäbisch Hall has entered into agreements with the members of its Management Board, the managing directors of Schwäbisch Hall Kreditservice GmbH, the divisional managers and selected executives (risk takers) on the payment of multi-year variable remuneration. Share-based payment is awarded if the variable remuneration reaches or exceeds €50,000.

The amount of the variable remuneration depends on the achievement of agreed targets. The targets of the members of the Management Board of Bausparkasse Schwäbisch Hall have a multi-year assessment basis and include the core goals of the corporate strategy; the targets of all other risk takers have a one-year assessment basis. The parameters considered in the remuneration are key performance indicators that are relevant to the management of a *Bausparkasse*.

If the variable remuneration reaches or exceeds €50,000, 20% of the bonus is paid immediately in the following year and 20% after a one-year retention period. 60% of the bonus payment is spread over a deferral period of up to five years and is subject to a subsequent retention period of one year in each case. All amounts designated for deferred payment during the deferral period and during the retention period are linked to the development of the enterprise value of the Bausparkasse.

The enterprise value is determined annually by means of an enterprise valuation. The reduction in the enterprise value results in a decrease in the retained bonus components within defined bandwidths. If the enterprise value grows, there is no increase in the retained shares.

Negative performance contributions are taken into account in the determination of the bonus as well as in the determination of the proportionate deferrals and at the end of the retention period. This can lead to a decrease in or loss of the variable remuneration. In addition, a bonus component already paid out can be clawed back and claims for payment of a bonus can be extinguished up to two years after the end of the respective retention period if the manager or risk taker was significantly involved in or responsible for conduct that led to significant losses or a significant regulatory sanction for the institution, or seriously violated relevant external or internal rules regarding suitability and conduct (claw-back arrangements).

The following overview shows changes in share-based remuneration components not yet paid out:

in € thousand	Management Board	Risk takers
Share-based remuneration not paid out as at 01/01/2021	**1,740**	**328**
Share-based remuneration granted in reporting period	632	63
Share-based remuneration paid out that was granted in financial year 2019	-174	-25
Share-based remuneration paid out that was granted in financial year 2018	-103	-10
Share-based remuneration paid out that was granted in earlier financial years	-350	-106
Share-based remuneration not paid out as at 31/12/2021	**1,745**	**250**
Share-based remuneration granted in reporting period	655	403
Share-based remuneration paid out that was granted in financial year 2020	-158	-16
Share-based remuneration paid out that was granted in financial year 2019	-104	-15
Share-based remuneration paid out that was granted in earlier financial years	-284	-81
Share-based remuneration not paid out as at 31/12/2022	**1,854**	**541**

74 Events after the reporting period

There were no events after the reporting period required to be reported under IAS 10.

75 Related party disclosures

Transactions are entered into with related parties in the course of usual business activity. Related parties are subsidiaries, joint ventures, associates, including their subsidiaries, DZ Bank AG, as the parent company, the companies it controls and the companies over which it exercises significant influence. Related persons are key management personnel who are directly or indirectly responsible and accountable for the planning, management and supervision of the activities of Bausparkasse Schwäbisch Hall, as well as their close family members. In the Schwäbisch Hall Group, the members of the Management Board and Supervisory Board of Schwäbisch Hall AG and DZ Bank AG are deemed to be key management personnel for the purposes of IAS 24.

Related party transactions involve typical *Bauspar* products and financial services that were concluded on an arm's length basis.

There were loans to related persons of €371 thousand at the end of the financial year (previous year: €335 thousand) in the Schwäbisch Hall Group. Note 72 contains detailed information on the remuneration of key management personnel.

The following table shows the relationships with the parent company, unconsolidated subsidiaries, other related parties, pension plans for employees and joint ventures:

in € thousand	31/12/2022	31/12/2021
Interest income and current income	**74.686**	**84.836**
DZ Bank AG (parent company)	50.217	51.444
Other related parties	24.466	33.392
Pension plans for employees	3	–
Interest expenses	**-23.165**	**17.254**
DZ Bank AG (parent company)	-23.116	17.525
Other related parties	-49	-271
Fee and commission income	**22.059**	**25.193**
DZ Bank AG (parent company)	2.392	5.439
Subsidiaries	2.399	535
Other related parties	17.268	19.219
Fee and commission expenses	**-3.680**	**-1.763**
DZ Bank AG (parent company)	-599	-258
Subsidiaries	-1.897	-195
Other related parties	-1.184	-1.310
Other net operating income	**13.656**	**9.119**
DZ Bank AG (parent company)	8.524	9.119
Subsidiaries	663	–
Other related parties	4.469	–
Gains or losses on derecognition of financial assets measured at amortised cost	**-2.022**	**836**
DZ Bank AG (parent company)	-2.022	836
Loans and advances to banks	**5.837.341**	**4.573.044**
DZ Bank AG (parent company)	5.202.500	3.530.879
Other related parties	634.841	1.042.165
Loans and advances to customers	**160**	**–**
Pension plans for employees	160	–
Positive fair values of hedging instruments	**31.855**	**2.435**
DZ Bank AG (parent company)	31.855	2.435
Investments	**1.717.533**	**2.013.370**
DZ Bank AG (parent company)	882.321	980.557
Other related parties	835.212	1.032.813

in € thousand	31/12/2022	31/12/2021
Other assets	**4.024**	**2.749**
DZ Bank AG (parent company)	394	386
Subsidiaries	1.624	826
Other related parties	2.006	1.430
Pension plans for employees	–	107
Deposits from banks	**9.052.021**	**7.732.529**
DZ Bank AG (parent company)	9.052.021	7.732.529
Deposits from customers	**7.378**	**58.762**
Subsidiaries	7.378	58.762
Negative fair values of hedging instruments	**219.761**	**5.196**
DZ Bank AG (parent company)	219.761	5.196
Other liabilities	**103**	**312**
Subsidiaries	103	312
Financial guarantee contracts	**5**	**680**
Subsidiaries	5	680
Loan commitments	**801**	**854**
Pension plans for employees	801	854

Loans and advances to banks result primarily from investments in short-term time deposits amounting to €3,262 million (previous year: €0 million) and in registered bonds (€2,151 million; previous year: €3,685 million), of which €534 million (previous year: €941 million) related to registered *Pfandbriefe* and €373 million (previous year: €513 million) to covered bonds of DZ Bank AG. Interest rates on short-term investments ranged from 0.29% to 3.22%, and on registered bonds from 0.724% to 2.395%.

The balance due to other related companies presented in financial investments results entirely from bearer *Pfandbriefe*. The bearer bonds issued by the parent company are unsecured. Interest rate received on financial investments ranges between 0.01% and 3.125%.

The liabilities from the issue of unsecured promissory note loans to DZ Bank AG amounted to €9,047 million as at 31 December 2022 (previous year: €4,906 million), of which a nominal €50 million (previous year: €50 million) related to senior non-preferred and a further €400 million to subordinated liabilities in accordance with Article 45 of the BRRD. Interest rate received ranges between 0.000% and 5.015%.

76 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 Accounting and Reporting, Financial Control (incl. Management of the Collective),
Risk Control, Legal and Compliance, Lending Activities
(Member of the Management Board until 30 April 2022)

Mike Kammann
Responsible for Accounting and Reporting, Financial Control (incl. Management of the Collective),
Risk Control, Legal and Compliance, Lending Activities
(assumed responsibility from 1 May 2022)

Peter Magel
Responsible for Sales, Regional Offices, Trading

Kristin Seyboth
Responsible for Process Management, IT Operations, IT Solutions and Projects, IT Control,
Purchasing and Supplier Management, Savings Activities
(Member of the Management Board from 1 May 2022)

GENERAL EXECUTIVE MANAGERS

Claudia Klug

Dr Mario Thaten

77 Supervisory bodies

SUPERVISORY BOARD

Dr Cornelius Riese
– Chairman of the Supervisory Board –
Co-Chief Executive Officer
DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Ninon Kiesler
– Deputy Chair of the Supervisory Board –
Employee
Bausparkasse Schwäbisch Hall AG

Ulrike Brouzi
Member of the Management Board
DZ BANK AG Deutsche Zentral-Genossenschaftsbank

Oliver Frey
Member of the Management Board
Vereinigte Volksbank eG

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

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Frank Hawel
Regional Head of Financial Services
ver.di – Regional district of Baden-Württemberg

Roland Herhoffer
Employee
Schwäbisch Hall Kreditservice GmbH

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

Manfred Klenk
Employee
Schwäbisch Hall Facility Management GmbH

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

Thomas Leiser
Senior employee
Bausparkasse Schwäbisch Hall AG
(Member of the Supervisory Board from 10 February 2022)

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

Silvia Ofori
Former employee
Schwäbisch Hall Kreditservice GmbH
(Member of the Supervisory Board until 31 May 2022)

Frank Overkamp
Chief Executive Officer
Volksbank Gronau-Ahaus eG

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

Heiko Schmidt
Employee
Bausparkasse Schwäbisch Hall AG

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

Manfred Stang
Chief Executive Officer
Sparda-Bank West eG

Werner Thomann
Chief Executive Officer
Volksbank Rhein-Wehra eG

Bernhard Vogel
Employee
Bausparkasse Schwäbisch Hall AG
(Member of the Supervisory Board from 1 June 2022)

OMBUDSMAN

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

Harald Christ
Businessman

78 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, Munich
Mike Kammann	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Peter Magel	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*) Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

EMPLOYEES

Claudia Klug (General Executive Manager)	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall (*)
Dr Rainer Eichwede	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*)
Christian Oestreich	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Dr Dirk Otterbach	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall (*)
Frank Schurr	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

ALSO WITHIN THE GROUP

As at the reporting date, offices were also held on the statutory supervisory bodies of the following large corporations in Germany.

Andrea Hartmann	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

79 List of shareholdings

Name	Location of registered office	Country	Ownership interest (%)	Share of voting rights (%)	Equity in € thousand	Profit or loss in € thousand
Consolidated subsidiaries						
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.	Budapest	Hungary	51.25	51.25	159,543	13,646
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.	Budapest	Hungary	51.25	51.25	8,515	554
Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft.	Budapest	Hungary	51.25	51.25	-1,395	-346
Schwäbisch Hall Kreditservice GmbH	Schwäbisch Hall	Germany	100.00	100.00	155,166	104,480
Schwäbisch Hall Facility Management GmbH	Schwäbisch Hall	Germany	100.00	100.00	21,612	4,069
Schwäbisch Hall Wohnen GmbH	Schwäbisch Hall	Germany	100.00	100.00	1,425	-1,878
BAUFINEX GmbH	Schwäbisch Hall	Germany	70.00	70.00	995	-888
Consolidated structured subsidiaries						
UIN Union Investment Institutional Fonds Nr. 817	Frankfurt/Main	Germany	–	–	2,762,671	13,342
Equity-accounted joint ventures						
Prvá stavebná sporitel’ňa, a. s.	Bratislava	Slovakia	32.50	32.50	291,197	6,585
Sino-German Bausparkasse Co. Ltd.	Tianjin	China	24.90	24.90	404,049	10,290
Unconsolidated subsidiaries						
Schwäbisch Hall Transformation GmbH	Schwäbisch Hall	Germany	100.00	100.00	3,187	-1,133
BAUFINEX Service GmbH	Berlin	Germany	35.00	52.50	25	–
VR Kreditservice GmbH	Hamburg	Germany	100.00	100.00	25	–
Unconsolidated associates						
Impleco GmbH	Berlin	Germany	50.00	50.00	3,914	-2,617

80 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 2022:

in € thousand	Not allocated		Allocated		Total	
	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand	Number of contracts	*Bauspar* sum in € thousand
A. Portfolio at end of previous year	**7,170,309**	**298,032,184**	**489,553**	**14,121,199**	**7,659,862**	**312,153,383**
B. Additions in financial year by						
1. New business honoured (contracts)[1]	381,990	26,689,195	–	–	381,990	26,689,195
2. Transfer	14,574	518,256	452	15,451	15,026	533,707
3. Allocation waiver and revocation of allocation	5,925	264,948	–	–	5,925	264,948
4. Splitting	111,136	–	17	–	111,153	–
5. Allocation or acceptance of allocation	–	–	470,558	13,826,830	470,558	13,826,830
6. Other	77,793	3,814,642	22	2,278	77,815	3,816,920
Total	**591,418**	**31,287,041**	**471,049**	**13,844,559**	**1,062,467**	**45,131,600**
C. Disposals in financial year by						
1. Allocation or acceptance of allocation	470,558	13,826,830	–	–	470,558	13,826,830
2. Reduction	–	1,065,530	–	–	–	1,065,530
3. Dissolution	390,764	12,645,054	368,322	9,600,362	759,086	22,245,416
4. Transfer	14,574	518,256	452	15,451	15,026	533,707
5. Merging[1]	57,622	–	–	–	57,622	–
6. Contract expiration	–	–	86,785	2,512,336	86,785	2,512,336
7. Allocation waiver and revocation of allocation	–	–	5,925	264,948	5,925	264,948
8. Other	77,793	3,814,642	22	2,278	77,815	3,816,920
Total	**1,011,311**	**31,870,312**	**461,506**	**12,395,375**	**1,472,817**	**44,265,687**
D. Net additions/disposals	**-419,893**	**-583,271**	**9,543**	**1,449,184**	**-410,350**	**865,913**
E. Portfolio at end of financial year	**6,750,416**	**297,448,913**	**499,096**	**15,570,383**	**7,249,512**	**313,019,296**

[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	**64,354,949,530.72**
II. Additions in financial year	
1. Savings amounts (including offset house-building premiums)	10,051,843,006.44
2. Repayment amounts [1] (including offset house-building premiums)	1,210,870,538.52
3. Interest on *Bauspar* deposits	727,571,997.58
4. Technical security reserve	–
Total	**76,345,235,073.26**
B. Withdrawals	
I. Withdrawals in financial year	
1. Allocated sums, where disbursed	
a) *Bauspar* deposits	8,308,081,773.49
b) Building loans	1,863,032,372.69
2. Repayment of *Bauspar* deposits on as yet unallocated *Bauspar* contracts	2,588,556,261.68
3. Technical security reserve	226,016,952.25
II. Surplus of additions	
(amounts not yet disbursed) at end of the financial year [2]	**63,359,547,713.15**
Total	**76,345,235,073.26**

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	122,161,058.84
b) *Bauspar* loans from allocations not yet disbursed	2,835,725,583.95

Schwäbisch Hall, 14 February 2023

Bausparkasse Schwäbisch Hall Aktiengesellschaft
Bausparkasse der Volksbanken und Raiffeisenbanken

Management Board

Klein **Kammann** **Magel** **Seyboth**

Independent Auditor’s Report

Independent Auditor’s Report

To Bausparkasse Schwäbisch Hall Aktiengesellschaft
– Bausparkasse der Volksbanken und Raiffeisenbanken –, Schwäbisch Hall

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, Schwäbisch Hall, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, and the consolidated statement of comprehensive income, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the financial year from 1 January to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, which is combined with the Company’s management report, for the financial year from 1 January to 31 December 2022. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to § [Article] 289f Abs. [paragraph] 4 HGB [Handelsgesetzbuch: German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2022, and of its financial performance for the financial year from 1 January to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report“ section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:
I. Measurement of Bauspar-specific provisions (provisions relating to building society operations)
II. Loss allowances for the building loans business

Our presentation of these key audit matters has been structured in each case as follows:
1. Matter and issue
2. Audit approach and findings
3. Reference to further information

Hereinafter we present the key audit matters:

I. MEASUREMENT OF BAUSPAR-SPECIFIC PROVISIONS (PROVISIONS RELATING TO BUILDING SOCIETY OPERATIONS)

1. In the Group's consolidated financial statements *Bauspar*-specific provisions (provisions relating to building society operations) amounting to €1,053 million are reported under the "Provisions" balance sheet item. These include *Bauspar*-specific provisions that relate to the Bausparkasse's obligations from interest bonuses (particularly loyalty bonuses) on *Bauspar* deposits. Under the Bausparkasse's tariff terms and conditions, bonuses are granted to *Bauspar* customers subject to the occurrence of various conditions, such as the *Bauspar* customer's election to exercise their option to receive the interest bonus, the observance of a waiting period, which, if the option is exercised, begins on the valuation date on which the target valuation figure and a certain minimum *Bauspar* deposit are reached, the attainment of a minimum term of the *Bauspar* contract, and the waiver of the right to draw down the allocated *Bauspar* loan. The bonuses represent obligations that are uncertain as to their amount and timing. They are measured at the best estimate of the expenses required to settle the present obligation at the reporting date. The estimate is made on the basis of the results of the *Bauspar*-specific simulation calculations (collective simulations). In the course of selecting the parameters for these simulation calculations, the executive directors make assumptions regarding new business, the future behaviour of *Bauspar* customers on the basis of historical data and the forecast capital market rate of interest, and the forecast period. A bandwidth method is used to determine the simulation calculation, which forms the basis for recognising the provision by the executive directors. The forecast quality of the models used for the *Bauspar*-specific simulation calculation is validated on an annual basis. If the future behaviour of *Bauspar* customers is influenced by factors that are not taken into account in the simulation calculation, adjustments are made by the executive directors. The calculation of the *Bauspar*-specific provisions required the use of judgments and assumptions by the executive directors. Minor changes in these assumptions in the model used for the *Bauspar*-specific simulation calculations can have a material impact on the measurement of the *Bauspar*-specific provisions for interest bonuses.

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

2. Given the significance of *Bauspar*-specific provisions for the Group's overall business, as part of our audit we assessed the methods used by the Group for the *Bauspar*-specific simulation calculations, and the integrated estimates, assumptions and adjustments made by the executive directors together with our internal specialists for *Bauspar*-specific mathematics. The assessment was based on our industry expertise and experience, among other things. We also evaluated the Group's process for determining and recognising *Bauspar*-specific provisions. Furthermore, we assessed the forecast quality of the model used based on the accuracy of past forecasts. Therewith, we assessed the results of the Group's calculations leading to the balance of the provisions, evaluated the consistent application of the underlying models and assessed the rationale for the adjustment of model results.

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

3. The Group's disclosures relating to *Bauspar*-specific provisions are contained in sections 6, 26 and 55 of the notes to the consolidated financial statements.

II. LOSS ALLOWANCES FOR THE BUILDING LOANS BUSINESS

1. One of the primary focal points of the Group's business activities is the building loan business, which is reported in the Group's consolidated financial statements under the "Loans and advances to banks" and "Loans and advances to customers" balance sheet items. The measurement of the loss allowances for the building loans business is determined in particular by the structure and quality of the portfolio, general economic factors and the executive directors' estimates with respect to future loan defaults, including the consideration of macroeconomic developments on the building loans business.

   Specific valuation allowances on receivables from building loans are determined on the basis of parameters using histories of losses, which are adjusted for forecast future losses, or individual estimates by experts as to the recoverable cash flows using probability-weighted scenarios at the individual transaction level. Existing collateral is taken into account. The amount of the specific valuation allowances reflects the difference between the outstanding loan amount and the present value of the returns expected from the exposure.

Statistical models for estimating the expected credit loss in accordance with IFRS 9 are used to determine the global valuation allowances on building loans. Building loans for which the credit risk has not increased significantly since initial recognition are measured at the amount equal to the 12-month expected credit losses. For building loans for which the credit risk has increased significantly since initial recognition or which have defaulted, the specific and global valuation allowances are measured at the amount equal to the lifetime expected credit losses. The calculation is based on the following parameters: probability of default; loss ratio; and expected loan amount at the time of default. On the one hand, the probability of default and loss ratio take into account historical information. On the other hand, current economic developments and forward-looking assumptions on macroeconomic development are incorporated in the form of shifts in the statistically determined probabilities of default and loss ratios (shift factors). Considering the macroeconomic changes that resulted from the Ukraine war, increased inflation, potential difficulties in energy supply and the aftermath of Covid-19 pandemic, which were not observed to this extent in the past, the executive directors have made an expert-based adjustment to the shift factors.

The loss allowances for the building loans business is, firstly, of great significance for the assets, liabilities, and financial performance of the Group in terms of amount and, secondly, involves considerable scope for judgment on the part of the executive directors with regard to forecasts of macroeconomic variables and scenarios as well as the expected cash flows from a building loan. Furthermore, the measurement parameters applied, which are subject to material uncertainties including the impacts of macroeconomic developments, have a significant impact on the recognition and the amount of any loss allowances required. Against this background, this matter was of particular significance during our audit.

2. As part of our audit, we initially assessed the appropriateness of the relevant IT system and the Group's relevant internal control system and tested the effectiveness of the controls, particularly with regard to the collection of business data, the risk classification of borrowers, the determination of loss allowances, and the validation of the measurement models. Moreover, we evaluated the measurement of receivables from building loans, including the proper application of the accounting policies and the appropriateness of estimated values, on the basis of sample testing of loan exposures. For this purpose, we assessed, among other things, the available documentation of the Group with respect to the economic circumstances as well as the recoverability of the related collateral. In addition, for the purpose of assessing the specific and global valuation allowances, we evaluated the measurement models used by the Group, the underlying inputs, macroeconomic assumptions and parameters results of the validation procedures. We involved our internal specialists in the field of mathematical finance for the purpose of auditing the measurement models. We assessed the executive directors' estimate as to the impact of macroeconomic developments with respect to the borrower's financial circumstances and the appropriateness of the model parameters and assumptions. We examined the necessity of the expert-based adjustment of the shift factors and assessed how it was determined. Based on our audit procedures, we were able to satisfy ourselves that overall the assumptions made by the executive directors for the purpose of testing the impairment of the building loans portfolio are appropriate, and that the controls implemented by the Group are appropriate.

3. The Group's disclosures relating to loss allowances for the building loans business are contained in sections 23, 34, 50 and 66 of the notes to the consolidated financial statements.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the statement on corporate governance pursuant to § 289f Abs. 4 HGB (disclosures on the quota for women on executive boards) as an unaudited part of the group management report.

The other information comprises further all remaining parts of the Financial Report 2022 – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information mentioned above and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report disclosures audited in terms of content or with our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated

financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 27 April 2022. We were engaged by the supervisory board on 28 October 2022. We have been the group auditor of the Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, Schwäbisch Hall, without interruption since the financial year 2021.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Stuttgart, 14 February 2023

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board

SUPERVISORY BOARD AND COMMITTEES

In financial year 2022, 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 focus of the topics discussed in 2022 was, on the one hand, on the "TOP-Prioritäten" and the "Strategische Initiativen" of the *Bausparkasse* to become the leading product and solutions provider in the cooperative "building and living" ecosystem; on the other hand, the Supervisory Board discussed in detail the implementation of the NEXT programme as well as the various measures to improve the profit earnings situation. Another focus in the context of sustainability was on measures in the action areas of strategy, regulation, market development and business activities.

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 2022, 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. In this context, an updated skills matrix was adopted for both the Management Board and for the Supervisory Board.

There were no indications of any fundamental and far-reaching conflicts of interest involving members of the Supervisory Board.

Based on its own assessment, the Supervisory Board had adequate financial and human resources at its disposal in the reporting period to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. For example, Bausparkasse Schwäbisch Hall AG offers to cover the costs for participation by the members of the Supervisory Board in an external provider's modular advanced training programme tailored specifically to the needs of Supervisory Board members, which they can make use of on an individual basis as needed (including topics such as overall bank management, corporate strategy, bank regulation and corporate governance). In addition, the Supervisory Board organised a workshop with experts in financial year 2022 that focused in particular on *Bauspar*-specific issues relating to the duties of the Supervisory Board. The main focus was on the topics of "Credit risk situation under changed overall conditions", "Target balance sheet and interest rate dependency of the business model" and the "Building and living" ecosystem.

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 internal audit report and the compliance report.

The Supervisory Board discussed the aforementioned issues with the Management Board, advised it and monitored its management activities. The Supervisory Board was at all times involved in decisions of fundamental importance.

MEETINGS OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The Supervisory Board held three regular meetings in financial year 2022. The joint Risk and Audit Committee met twice. The Nomination Committee met three times and the Remuneration Committee met twice. It was not necessary for the Mediation Committee to meet during financial year 2022. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2022 and participated in the written resolution procedures of the relevant bodies.

In its meetings, the Supervisory Board primarily received and discussed the report by the Management Board on current business performance, the earnings and risk position, and the strategic outlook. The Supervisory Board examined the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG as well as the consolidated financial statements and the Group management report as at 31 December 2021, 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 27 April 2022, including the resolutions contained in the agenda.

The Supervisory Board's committees discharged their duties prescribed by law and the Articles of Association and – where necessary – adopted relevant recommendations for resolutions to the Supervisory Board. The committee chairs reported regularly to the Supervisory Board on the work of the committees.

The Supervisory Board addressed the issue of succession planning for the Management Board in detail. In this context, the retirement of the Chief Executive Officer on 31 December 2023, his succession and the resulting prolongation of the contract of the future Chief Executive Officer, as well as a new appointment to the Management Board, were discussed, and – in line with the recommendation of the Nomination Committee – a resolution was passed. Additionally, the Supervisory Board approved the implementation of the amendments to the EBA Suitability Guidelines in the internal general guideline on the requirements for the suitability of the members of the Management Board and the Supervisory Board, including their annexes, and elected new members to two 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 addressed the structure of the employee remuneration systems, the appropriateness of the remuneration systems, the Remuneration Report and the determination of the total amount of variable remuneration for financial year 2021.

In the course of its duties, the joint Risk and Audit Committee also addressed the election of the auditor for financial year 2022 and supervised the engagement of the auditor for non-audit services.

In urgent cases, the Supervisory Board approved significant transactions via the written resolution procedure. Furthermore, the Chairman of the Supervisory Board was also kept informed about significant developments and decisions outside of the meetings. Additionally, the Chairman of the Supervisory Board and the Chief Executive Officer of Bausparkasse Schwäbisch Hall AG, as well as the chairs of the Supervisory Board's committees and the responsible members of the Management Board, had regular discussions ahead of key decisions and significant transactions.

COOPERATION WITH THE AUDITORS

PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, audited the annual financial statements and consolidated financial statements prepared by the Management Board for financial year 2021 as well as the management report and Group management report, including the accounting, and issued an unqualified auditor's opinion in each case. The audit reports were submitted to the members of the Supervisory Board in a timely manner and discussed in detail. The Supervisory Board concurred with the findings of the audit.

ADOPTION OF THE ANNUAL FINANCIAL STATEMENTS

During their meetings, the Supervisory Board and the joint Risk and Audit Committee established from among its members examined in detail the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements and the Group management report for the period ended 31 December 2022. The Chair of the joint Risk and Audit Committee comprehensively informed the Supervisory Board about the extensive deliberations of the committee regarding the aforementioned annual financial statements and management reports. The representatives of the auditor took part in the meeting of the Supervisory Board to adopt the annual financial statements and in the preparatory meeting of the joint Risk and Audit Committee, in order to report in detail on the material findings of the audit. They were also available to members of the Supervisory Board to provide information. The Supervisory Board did not raise any objections to the financial reporting.

It is not necessary to prepare a report on relationships with affiliated companies (dependent company report) due to the profit and loss transfer agreement between DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main and Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, which was extended for at least a further five years in March 2021.

In the course of its audit of the 2022 annual financial statements, the auditor did not find any indications that transactions were carried out with affiliated companies that were not at arm's length during the reporting period.

At its meeting on 1 March 2023, the Supervisory Board approved the annual financial statements of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements as at 31 December 2022 prepared by the Management Board. The annual financial statements is therefore adopted.

CHANGES IN THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Following the departure of Dr Volker Kreuziger from Bausparkasse Schwäbisch Hall AG, Thomas Leiser was appointed to the Supervisory Board by the court as the new representative of the senior employees effective 10 February 2022. Bernhard Vogel also joined the Supervisory Board as employee representative and successor to Silvia Ofori effective 1 June 2022.

Effective 1 October 2023, the Supervisory Board appointed Dr Mario Thaten as a new member of the Management Board of the *Bausparkasse* on the recommendation of the Nomination Committee. Reinhard Klein will leave the Board of Management on 31 December 2023.

The Supervisory Board would like to thank the Management Board and all of the employees of the Schwäbisch Hall Group for their work in 2022.

Schwäbisch Hall, March 2023

Bausparkasse Schwäbisch Hall AG
– Bausparkasse der Volksbanken und Raiffeisenbanken –

Dr Cornelius Riese
Chairman of the Supervisory Board

Advisory Board of Bausparkasse Schwäbisch Hall AG

Advisory Board of Bausparkasse Schwäbisch Hall AG

The task of the Advisory Board is to advise the Management Board as part of an active exchange of views.

Bausparkasse Schwäbisch Hall's Advisory Board consists of up to 40 members, at least 75% of whom are full-time members of the management boards of cooperative banks. The remaining members may be representatives of cooperative associations, central banks and other network companies or customer groups:

Jochen Kerschbaumer
– Chairman of the Advisory Board –
Member of the Management Board
Wiesbadener Volksbank eG,
Wiesbaden

Martin Schöner
– Deputy Chairman of the Advisory Board –
Member of the Management Board
Volksbank Karlsruhe Baden-Baden eG,
Karlsruhe

Uwe Abel
Chief Executive Officer
Mainzer Volksbank eG,
Mainz

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

Jürgen Beerkircher
Chief Executive Officer
Volksbank Backnang eG,
Backnang

Holger Benitz
Member of the Management Board
Vereinigte Volksbank eG
Bramgau Osnabrück Wittlage,
Osnabrück
(Member of the Advisory Board since 27 April 2022)

Friedhelm Beuse
Member of the Management Board
Volksbank Münsterland Nord eG,
Rheine

Ingo Freidel
Member of the Management Board
Volksbank Stendal eG,
Hanseatic City of Stendal
(Member of the Advisory Board since 27 April 2022)

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

Klaus Gimperlein
Spokesman of the Management Board
VR Bank Metropolregion Nürnberg eG,
Nuremberg
(Member of the Advisory Board since 27 April 2022)

Albert Griebl
Spokesman of the Management Board
VR-Bank Rottal-Inn eG,
Pfarrkirchen
(Member of the Advisory Board until 27 April 2022)

Dr Hauke Haensel
Chief Executive Officer
Volksbank Pirna eG,
Pirna

Gerd Haselbach
Spokesman of the Management Board
Raiffeisenbank im Kreis Calw eG,
Neubulach

Joachim Hausner
Chief Executive Officer
VR Bank Bamberg-Forchheim eG,
Bamberg

Stephan Heinisch
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Volksbank Freiburg eG,
Freiburg
(Member of the Advisory Board until 27 April 2022)

Martin Heinzmann
Chief Executive Officer
Volksbank Mittlerer Schwarzwald eG,
Wolfach
(Member of the Advisory Board since 27 April 2022)

Björn Henkel
Member of the Management Board
VR-Bank Mitte eG,
Duderstadt
(Member of the Advisory Board since 27 April 2022)

Helmut Hollweck
Member of the Management Board
PSD Bank Nürnberg eG,
Nuremberg
(Member of the Advisory Board since 27 April 2022)

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Volkach

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Sparda-Bank Hamburg eG,
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Dr Veit Luxem
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Volksbank Mönchengladbach eG,
Mönchengladbach
(Member of the Advisory Board until 25 October 2022)

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Darmstadt

Willi Obitz
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Volksbank eG Gera · Jena · Rudolstadt,
Rudolstadt

Heino Oehring
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Harzer Volksbank eG,
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Brandenburger Bank Volksbank Raiffeisenbank eG,
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(Member of the Advisory Board until 27 April 2022)

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Bank 1 Saar eG,
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Martin Rudolph
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(Member of the Advisory Board until 27 April 2022)

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Peter Scherf
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Volksbank Herford-Mindener Land eG,
Minden

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

Stefan Sendlinger
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Sparda-Bank West eG,
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Volksbank Nienburg eG,
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Georg Straub
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Volksbank Lindenberg eG,
Lindenberg

Karsten Voß
Member of the Management Board
Volksbank Raiffeisenbank eG,
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Dr Gerhard Walther
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VR-Bank Mittelfranken West eG,
Ansbach
(Member of the Advisory Board until 27 April 2022)

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

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

Service

Service

Memberships

BAUSPARKASSE SCHWÄBISCH HALL IS A MEMBER OF THE FOLLOWING PROFESSIONAL ASSOCIATIONS AND INSTITUTIONS OF THE HOUSING AND BANKING SECTORS:

National Association of German Cooperative Banks (BVR), Berlin

German Cooperative and *Raiffeisen* Confederation – reg. assoc. (DGRV), Berlin

German *Raiffeisen* Confederation – reg. assoc. (DRV), Berlin

German Association for Housing, Urban and Spatial Development – reg. assoc. (DV), Berlin

Association of Private *Bausparkassen* – reg. assoc., Berlin

vhw – Bundesverband für Wohnen und Stadtentwicklung –
reg. assoc. (Federal association for housing and urban development), Berlin

Association of German *Pfandbrief* Banks – reg. assoc. (vdp), Berlin

Arbeitsgemeinschaft Baden-Württembergischer Bausparkassen
(Working Group of Baden-Württemberg *Bausparkassen*), Stuttgart

European Federation of Building Societies, Brussels

IUHF International Union for Housing Finance, Brussels

The Institute of International Finance (IIF), Washington DC

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Regional offices

Division	Address	Telephone
North-East Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg-West Pomerania, Lower Saxony, Saxony, Saxony Anhalt, Schleswig-Holstein, Thuringia	Überseering 32 22297 Hamburg	040 82222-1600
South Bavaria and Baden-Württemberg	Crailsheimer Straße 52 74523 Schwäbisch Hall	0791 46-2276
West Hesse, North Rhine-Westphalia, Rhineland-Palatinate, Saarland	Lyoner Straße 15 60528 Frankfurt/Main	069 669097-60
Specialised banks Cooperative institutions (throughout Germany)	Lyoner Straße 15 60528 Frankfurt/Main	069 669097-0

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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
Slovakia	**Prvá stavebná sporiteľňa, a. s.** Bajkalská 30 829 48 Bratislava 25 SLOVAKIA	+ 421 2 58231-111	+ 421 2 43422-919	www.pss.sk
Hungary	**Fundamenta-Lakáskassza** Lakás-takarékpénztár Zrt. Alkotás utca 55–61 1123 Budapest HUNGARY	+ 36 1 411-8000	+ 36 1 411-8001	www.fundamenta.hu

DZ BANK Group

The DZ BANK Group forms part of the German Cooperative Banking Group, which comprises around 750 local cooperative banks and is one of Germany's largest private-sector financial services organisations measured by total assets. Within the German Cooperative Banking Group, DZ BANK AG functions as a central institution. Its task is to support the work of the local cooperative banks and to boost their competitiveness. It is also active as a commercial bank and is the holding company for the DZ BANK Group.

The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, Union Investment Group, VR Smart Finanz and various other specialised institutions. With their strong brands, the companies of the DZ BANK Group constitute key pillars in the range of financial products and services offered by the German Cooperative Banking Group. The DZ BANK Group deploys its strategy and range of services for the cooperative banks and their customers through its four business lines – Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

This combination of banking, insurance, *Bausparen* and investment services offerings has a long and successful tradition in the German Cooperative Banking Group. The specialised institutions in the DZ BANK Group provide highly competitive products at reasonable prices within their specific areas of expertise. This ensures that the cooperative banks in Germany are able to offer their customers a comprehensive range of outstanding financial services.

LEGAL NOTICE AND ACKNOWLEDGEMENTS

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