Bausparkasse Schwäbisch Hall AG

Financial Report 2019

Genossenschaftliche FinanzGruppe
Volksbanken Raiffeisenbanken

Schwäbisch Hall
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At a glance

Bausparkasse Schwäbisch Hall AG	2019	2018
New business		
Bausparen (presented, in € billion)	28.46	29.70
Housing financing (total, in € billion)	23.81	15.17
Contracted business		
Bauspar sum (honoured, in € billion)	313.38	305.70
Contracts (in millions)	8.24	8.34
Loans and loan commitments (total, in € billion)	54.16	48.49
Number of customers (in millions)	7.16	7.24

Schwäbisch Hall Group Non-domestic, including joint ventures [1)]	2019	2018
New business		
Bausparen (presented, in € billion)	7.16	12.04
Housing financing (total, in € billion)	1.47	1.41
Contracted business		
Bauspar sum (honoured, in € billion)	40.02	62.09
Contracts (in millions)	2.06	3.40
Loans and loan commitments (total, in € billion)	2.55	2.58
Number of customers (in millions)	1.77	3.02

Schwäbisch Hall Group IFRS key financial indicators in € million [2)]	2019	2018
Profit/loss before taxes	189	295
Net profit	166	212
Balance sheet total	77,469	71,667
Equity	5,700	5,157

Schwäbisch Hall Group regulatory ratios in %	2019	2018
Common Equity Tier 1 capital ratio	31.4	30.4
Total capital ratio	31.4	30.4
Leverage ratio for Bausparkasse Schwäbisch Hall AG	5.6	5.9

Moody's ratings	2019	2018
Bank rating	Aa1	–
Hypothekenpfandbriefe (German mortgage covered bonds)	Aaa	–

Human Resources	2019	2018
Employees (full-time equivalents in the Group)	2,904	2,882
Trainees and apprentices	191	192

[1] In contrast to 2018, the figures for 2019 do not include ČMSS, as the interest was sold in full as at 31 May 2019.
[2] The income statement amounts for ČMSS relate to the period January 1 to May 31 2018, as the interest in ČMSS was sold in full as at 31 May 2019.

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

DEAR READERS,

An affordable home, and preferably one that they own, is and remains a popular topic for people in Germany: 1.5 million households are planning to buy their own home in the next two to three years alone. At the same time, Germany is suffering from a shortfall of one million homes. What this means is that the already high level of demand for real estate will be sustained until at least 2045 in many parts of the country. These are the findings of a study by the University of Freiburg that was commissioned by the Schwäbisch Hall Foundation. Climate protection is bringing additional momentum to the housing market, as climate change can only be reversed if the existing housing stock is modernised and made more energy-efficient.

Both of these need solid financing: and that's our core business. We are Germany's largest *Bausparkasse* and one of the leading providers of housing finance. We owe this position to the outstanding commitment of our employees in the back office and the sales force, and to the trust-driven cooperation with our partners in the German Cooperative Banking Group. Together with the cooperative banks, we brokered housing finance packages worth more than €16.7 billion in 2019, generating growth of 10 per cent. At €28.5 billion, the *Bauspar* volume also stayed at a high level.

Our net profit for 2019, which declined year-on-year, was impacted by non-recurring effects and historically low interest rates. The persistently low interest rate is hitting *Bauspar* business especially hard because it puts an extraordinary strain on net interest income, and hence a key earnings component. Under these circumstances, we consider this development to be satisfactory.

To enable us to respond to new market challenges and changes in our customers' needs, we are investing in forward-looking topics, such as modernising our IT environment and digitalisation initiatives. We also founded the digital brokerage marketplace Baufinex, which has already established a strong position in the market and is growing steadily. The interaction between digital services and regional market expertise generates benefits for our customers and strengthens the German Cooperative Banking Group as a provider for the digital era.

Schwäbisch Hall is well positioned for the future, and we look forward to the coming financial year.

Sincerely,

Reinhard Klein (Chief Executive Officer)

Jürgen Gießler

Mike Kammann

Peter Magel

Combined management report

Fundamental information about the Group

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

THE COMPANY

The Schwäbisch Hall Group (SHG) is a socially responsible real estate financing provider for building society operations and a member of the DZ BANK Group. As a subsidiary partner of the cooperative banks, SHG primarily supports the DZ BANK Group's vision of jointly focusing on the cooperative banks to enable the German Cooperative Banking Group (Genossenschaftliche FinanzGruppe – GFG) to sustainably consolidate its position as a leading integrated financial services provider in Germany. Together with the cooperative banks, SHG offers a range of concepts in Germany for retirement provision, asset formation and home ownership, as well as housing financing from a single source. The customer service employees at Schwäbisch Hall and the more than 3,300 sales force experts ensure that more than seven million customers receive expert advice and customer service.

Outside Germany, Schwäbisch Hall is represented in China, Luxembourg, Slovakia and Hungary. Excluding Schwäbisch Hall's Luxembourg branch, the foreign investees have more than 1.7 million customers.

GERMAN COOPERATIVE BANKING GROUP

Bausparkasse Schwäbisch Hall AG is part of the DZ BANK Group and firmly embedded in the German Cooperative Banking Group. The DZ BANK Group's strategic focus is aligned with its guiding principle of operating as a "network-oriented central banking institution and integrated financial services group". Its business activities concentrate on the cooperative banks and their customers in their home market. Together with specialist institutions such as Bausparkasse Schwäbisch Hall, the cooperative banks form a community: the German Cooperative Banking Group. It offers a broad range of services, from retirement provision through real estate and housing financing, down to insurance and funds. With its approximately 850 cooperative banks, their more than 10,000 bank branches and 30 million customers, it is the leading integrated financial services partner in Germany and plans to further consolidate this position.

Bausparkasse Schwäbisch Hall is a member of the institutional protection scheme established by the National Association of German Cooperative Banks (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – BVR), Berlin. It has entered into a profit and loss transfer agreement with DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.

ARCHITECTURE AND BUSINESS MODEL OF THE SCHWÄBISCH HALL GROUP

Architecture of the Schwäbisch Hall Group

The Bausparkasse Schwäbisch Hall Group mainly consists of its parent company, Bausparkasse Schwäbisch Hall AG. Unless expressly stated otherwise, the information disclosed in this combined management report refers to both the Bausparkasse Schwäbisch Hall Group as well as Bausparkasse Schwäbisch Hall AG. The Schwäbisch Hall Group includes Bausparkasse Schwäbisch Hall AG and its subsidiaries and investees in Germany and other countries. Bausparkasse Schwäbisch Hall AG operates the *Bauspar* (contractual savings and loans for housing) and housing financing business in Germany and manages the domestic and foreign activities of its subsidiaries and investees.

Its domestic subsidiaries provide services for SHG.

Its largest subsidiary is Schwäbisch Hall Kreditservice GmbH (SHK), which handles new and existing business on behalf of Bausparkasse Schwäbisch Hall AG. With a portfolio of about 11 million contracts and approximately 1,750 employees, together with its subsidiary VR Kreditservice GmbH, Hamburg, SHK is a market leader in the field of standardised processing of loans and *Bauspar* products.

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

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

Segments of the Schwäbisch Hall Group

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

The following companies are included in the consolidated financial statements:

Segments of the Schwäbisch Hall Group

BAUSPAREN DOMESTIC

Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (parent company)

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

Specialised fund

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

BAUSPAREN NON-DOMESTIC

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

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

BAUSPAR AND LOAN PROCESSING

Schwäbisch Hall Kreditservice GmbH (SHK), Schwäbisch Hall

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

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

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

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

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

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

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

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

Business model

With its strategic target vision "HORIZONT 2025", Schwäbisch Hall has defined the framework for a process of transformation: from being a "*Bausparkasse* with a housing financing business segment" to becoming a leading real estate financing provider with *Bausparen* and Housing Financing as its two core business segments. In its Housing Financing core business segment, Schwäbisch Hall is positioned as a partner of the cooperative banks. It concentrates on traditional *Bauspar* loans, its own *Bauspar*-backed immediate financing products, including Riester-subsidised financing (*Wohn-Riester* home ownership pensions), building loans and brokering real estate loans for the cooperative banks. In its *Bausparen* core business segment, Schwäbisch Hall's product range will be enhanced to improve product profitability.

Factors influencing the core business segments

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

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

Key performance indicators

The key performance indicators (KPIs) for earnings, volume, productivity and capital adequacy, as well as the economic return on risk-adjusted capital (RORAC), are outlined below for SHG:

- **Earnings measures under International Financial Reporting Standards (IFRS):**
  The earnings measures (in particular loss allowances, profit before taxes and net profit) are presented in the chapter "Financial performance of the Group and the segments" in this Group management report as well as in the "Loss allowances" disclosures (note 32) in the notes to the consolidated financial statements.

- **IFRS volume measures:**
  Equity and total assets are the key performance indicators for volume measures. They are presented in the "Group financial position and net assets" chapter in this Group management report, as well as in the consolidated financial statements (balance sheet as at 31 December 2019) and in the disclosures on "Equity" (note 56) in the notes to the consolidated financial statements.

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

- **Capital adequacy:**
  SHG's regulatory capital adequacy KPIs (total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio) are presented in the "Regulatory ratios under the CRR" chapter in this Group management report.

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

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

Report on economic position

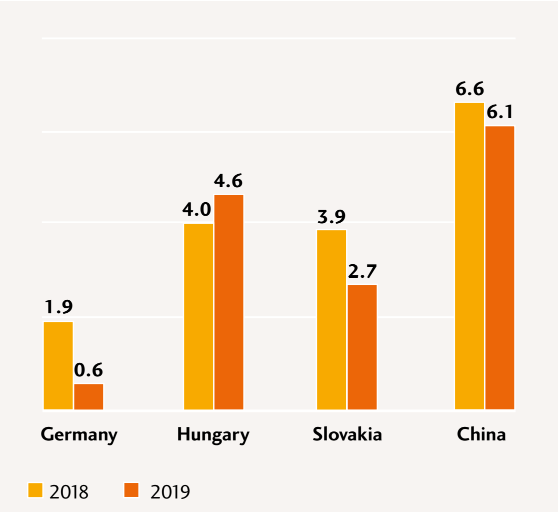
CHANGES IN THE OPERATING ENVIRONMENT

Macroeconomic environment

The growth momentum of global gross domestic product slowed noticeably in 2019. The International Monetary Fund (IMF) is forecasting that 2019 growth will barely reach 3% and hence the lowest increase since the 2008/2009 financial and economic crisis. The trade dispute between the USA and China and the growing uncertainty fuelled by geopolitical risks are the main reasons being blamed for this development. Negative structural factors such as low productivity growth and the adverse consequences of demographic trends for the industrialised nations also impacted growth.

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

GDP growth in SH markets
in %



The sustained upturn in Germany came to a halt for the time being. With an increase of 0.6%, GDP growth in 2019 was significantly less pronounced than in the previous years. This performance reflected the global economic slowdown, which in turn was also attributable to weaker worldwide industrial output. The decline in output was particularly relevant for Germany because of the important role played there by the production of capital goods. The significant technological transformation in the global auto markets also contributed to the recessionary trends in manufacturing industry. However, the weakness in the industrial sector did not spill over into consumer demand and construction activity via the labour market. Private households recorded strong income gains despite the growth in employment slowing down. Together with appreciable increases in collectively agreed wages, government transfer payments such as pensions and child benefits also rose. Another factor was the further sharp fall in mortgage interest rates over the course of the year and the continued acceleration in housing loan awards. At 45.3 million (seasonally adjusted), the number of persons in active employment reached a new all-time high in December 2019. The number of registered unemployed was 2.21 million (rate: 4.9%) at year-end 2019, on a level with the previous year. On an annual average basis, however, unemployment fell to 2.267 million, which was 73,000 fewer than in 2018.

The Eastern European EU member states largely escaped the weak growth in Western Europe in 2019. The main reason for their resilience was robust, strong domestic demand. This was driven by a combination of wage increases due to the labour shortage, looser fiscal policy, rapid credit expansion and significant public investment spending.

Economic growth in Hungary remained dynamic in 2019, although the pace of growth weakened slightly. At 4.6%, GPD growth was the fourth strongest in the European Union. In the view of the Austrian Economic Chambers (WKO), this trend is mainly attributable to the increase in EU development funds for the period from 2014 to 2020 and the resulting public contracts in particular in the construction sector. In addition to numerous large-scale projects funded by the EU and the Hungarian state, the reason for the continued construction boom, which also extends to private housing construction, was that the reduced tax rate of 5% introduced in 2016 will revert to the original 27% starting in 2020. The strong manufacturing industry and the growing domestic purchasing power also contributed to the uptick in growth. The engine of Hungarian manufacturing industry was again the strong automotive sector, which recorded double-digit growth rates. This helped lift Hungarian exports to a new record high of almost €110 billion. The unemployment rate reached a new all-time low of 3.3% in August 2019, with the good employment trend leading to sharp rises in wages (+9.2%) and significant growth in domestic demand.

The economic upswing in Slovakia continued in 2019. At 2.7%, however, GDP growth was down substantially year-on-year. For this small, open and strong industrial economy, the issues affecting the external environment (Brexit, trade conflicts) were problematic, as was the weaker growth in the eurozone. The unemployment rate fell to a new low despite the economic slowdown. Rising wages, buoyed by the public sector and administrative measures, led to an expansion in private consumption. The automotive sector remained the backbone and growth driver of the Slovak economy, which accounted for 44% of total industrial output and 40% of total industrial exports. New production capacity in the automotive sector offset weaker eurozone growth in 2019.

At 6.1%, Chinese economic growth was within the government's defined corridor of 6.0% to 6.5%. The trade war with the USA and the general slowdown in the global economy adversely affected Chinese growth. Despite the external factors, political measures and stimuli were able to stabilise economic growth.

Financial markets and interest rates

As announced, the European Central Bank (ECB) discontinued its monthly bond-buying programme at the beginning of 2019. After years of loose monetary policy, it thus signalled a return to policy normalisation and dashed hopes of an interest rate hike. The looming Brexit, the trade wars between China and the USA and the problems in the eurozone put a damper on optimism for the economy. In particular the lower inflation expectations were cause for concern at the ECB. In June, ECB President Mario Draghi announced a loosening of monetary policy. At its meeting on 12 September 2019, the ECB's Governing Council then decided to cut the deposit interest rate for commercial banks that park excess liquidity with the central bank by ten basis points, from –0.4% to –0.5%, and to leave its key interest rate at 0.0%. In return, it decided to exempt part of the credit institutions' excess liquidity from the negative deposit interest rate. Institutions will no longer have to pay negative interest rates for six times their prescribed minimum reserves. It also announced its intention to resume bond-buying under the asset purchase programme (APP) at a monthly pace of €20 billion starting on 1 November. It also emphasised that the ECB key interest rates will remain at their present or a lower level until the inflation outlook gets close to 2.0%. In December, inflation in the 19 countries of the eurozone remained at 1.0% and hence at its lowest level for more than two and a half years.

A persistently low interest rate has a particularly strong impact on *Bausparkassen* and an extraordinarily negative effect on their net interest income, a key earnings component.

In 2019, the yields on the bond market, which are a benchmark for the market rate of interest for real estate loans, remained at a very low level in historical terms. Ten-year German Bunds were yielding –0.23% at the end of 2019, compared with 0.25% at the end of 2018.

Housing construction activity

The sustained upward trend since 2010 for private housing construction in Germany continued in 2019, in line with expectations. A significant investment backlog for housing construction is continuing to stimulate new construction activity. However, with an estimated 297,500 housing units completed in 2019 (Central Association of German Construction Companies), the German government's target of 375,000 homes was again clearly missed.

According to estimates by the EUROCONSTRUCT network, the number of homes completed in Hungary, at around 27,000 housing units, was up by more than 50% over the comparative figure for 2018. This trend is partly attributable to the CSOK home-buying subsidy programme launched by the government. Families with three children receive a government subsidy equivalent to approximately €32,400 when they build or purchase a home, and can obtain a low-interest bank loan in the same amount for the purpose of financing. Moreover, the rate of value added tax on new residential properties was reduced from 27% to 5% for the period 2016 to 2019.

The construction industry in Slovakia remained on its growth trajectory in 2019. The number of homes completed already rose by 13% to more than 19,000 in 2018, but estimates by the European market research network for the construction sector (EUROCONSTRUCT) indicate that considerably more housing units were completed in 2019 in Slovakia than in the previous year, at 20,300.

For many years now, the Chinese real estate sector has only known one direction: upward. The key factor in 2019 was the strong rate of housing construction growth as a result of the continuing push towards urbanisation. Despite the slowdown in economic momentum and growing general uncertainty, property developers continued to systematically invest in residential property construction. The reason for this is that – due not least to a lack of alternative investments – the domestic market nowhere near saturated.

Changes in the regulatory framework for *Bausparkassen*

The Federal Council (*Bundesrat*) adopted a law to improve the house-building premium (*Wohnungsbauprämie*) on 29 November 2019. The government uses the house-building premium to reward responsible home ownership savings at an early stage. To be able to buy residential property, the first requirement is for the monthly financing instalments to be paid reliably. This in turn means that the borrower's regular income must be sufficient to do this. Secondly, the necessary equity capital has to be saved in advance. The house-building premium constitutes government support for equity capital formation.

The change in the law has brought the following improvements for *Bauspar* customers: the income limits have been aligned with general price growth and increased by almost 37% to an annual taxable income of €35,000 for singles and €70,000 for couples. The associated gross income can be considerably higher, depending on individual allowances. The maximum eligible savings amount has also been adjusted for inflation, rising to €700 or €1,400. The subsidy rate was also increased, from 8.8% to 10%. As a result, the maximum government savings allowance for singles rose from €45 to €70, and for married couples from €90 to €140. This represents a 50% increase in the support amounts. Thanks to the new upper income limits starting in 2021, support for targeted home ownership savings is considerably more attractive again, and above all it will reach more people.

COURSE OF BUSINESS OF THE GROUP AND THE SEGMENTS

Group

In a persistently tough competitive environment, SHG maintained its leading position in the *Bauspar* market and substantially expanded its new business in real property finance for retail customers. With a volume of €9.3 billion (+16.3%), SHG wrote a new record in housing financing. The decline in new *Bauspar* business to €35.6 billion (–11.4%) was attributable primarily to FLK and is a result of a pull-forward effect in 2018, triggered by the discontinuation of the house-building premium in Hungary. In the view of the Management Board, SHG has achieved an overall strong sales performance.

Bausparen Domestic segment

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

Bausparen core business segment

Schwäbisch Hall reinforced its position as the number one *Bausparkasse* in Germany. Its market share for new business honoured reached 29.7% and was thus only slightly below the 30% (2018: 30.6%). As at the end of 2019, Bausparkasse Schwäbisch Hall had 7.16 million customers (2018: 7.24 million), with a stock of 8.2 million contracts honoured (2018: 8.3 million).

At €28.5 billion, new *Bauspar* business in Germany declined by 4.2% year-on-year (2018: €29.7 billion). With 523,533 contracts concluded, this corresponds to a 5.5% over the 2018 comparative figure (554,285). The average *Bauspar* sum for new contracts was €54,360 (2018: €53,583), and hence slightly higher than the prior-year amount.

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

	in %
under 20 years old	9.1
20 to under 25 years old	8.3
25 to under 30 years old	10.0
30 to under 40 years old	20.7
40 to under 50 years old	17.1
50 to under 60 years old	18.5
60 years old or more	16.3

In financial year 2019, 50,000 *Wohn-Riester* (home ownership pension) subsidised old-age provision contracts were concluded with Schwäbisch Hall. Schwäbisch Hall's portfolio now includes almost 689,000 *Wohn-Riester* contracts.

The volume of *Bauspar* deposits increased by €3.1 billion or 5.1% in 2019 to €63.7 billion. This was attributable to the high volume of savings deposits received and a proportionately low allocation volume as a consequence of the low interest rate environment.

The *Bauspar* sum for the stock of contracts increased by 2.5%, from €305.7 billion at end-2018 to €313.4 billion as at the end of 2019. The average *Bauspar* sum for the stock of contracts increased from €36,672 at the end of 2018 to €38,038 at the end of 2019, corresponding to 3.7% growth. Additions to the allocation fund increased by €271 million to €11.4 billion.

384,354 *Bauspar* contracts (2018: 355,026) were allocated in 2019. At €9.8 billion, the allocated *Bauspar* volume was up 8.2% on the previous year's level of €9.1 billion. The volume of loans provided, net of allocation cancellations and loan waivers was €6.7 billion (2018: €5.7 billion).

Housing Financing core business segment

Schwäbisch Hall again generated a record new business volume in 2019 in its Housing Financing business segment. Brokerage of its own suspended repayment financing (interest-only loans) accounted for €6.0 billion of the total volume of €16.7 billion (2018: €15.2 billion), with brokerage of *Fuchs* building loans accounting for €2.1 billion. In addition, financing schemes with a volume of €6.7 billion were brokered for GFG institutions. Schwäbisch Hall *Bauspar* loans and bridging loans accounted for a further €2.0 billion. These figures do not include the business relating to advance payment loans by the cooperative banks that are backed by a *Bauspar* contract, which amounted to €7.1 billion (2018: €6.8 billion). At year-end, the total portfolio of building loans (calculated according to German GAAP) was €48.5 billion, approximately 10.9% higher than at the end of 2018 (€43.8 billion). €2.4 billion of this amount related to *Bauspar* loans (+0.6%), €42.8 billion to advance payment and bridging loans (+9.6%) and €3.3 billion (+43.4%) to other building loans.

Cross-Selling business segment

With a total volume of €0.8 billion in 2019 (2018: €1.3 billion), Cross-Selling product sales fell significantly short of the previous year's level (–34.4%). The total volume does not include the volume of term life insurance policies brokered in connection with building loans, which rose by almost 10% to approximately €838 million.

As part of its sales partnership, Schwäbisch Hall's sales force brokered around 101,000 financing and investment products for its cooperative partner institutions (–13.8% compared with 2018).

Bausparen **Non-domestic segment**

Overview

The Group's *Bausparkassen* outside Germany again cemented their leading market positions in a challenging environment. Overall, the foreign *Bausparkassen* included in Schwäbisch Hall's consolidated financial statements concluded 276,810 new contracts in 2019, compared with 453,779 in 2018. The volume of new business decreased significantly year-on-year to €7.2 billion (2018: €9.2 billion). This decline is attributable to FLK, which was impacted by a pull-forward effect from the abolition of the house-building premium. The average *Bauspar* sum for the new contracts was €25,900 and hence up considerably over the previous year (€20,300). The companies' stock of contracts in foreign business declined slightly at the end of 2019 to 2.06 million (2018: 2.08 million contracts); the *Bauspar* sum rose by 4.6% to €40.0 billion (2018: €38.5 billion).

Unless otherwise indicated, the percentage deviations have been calculated on the basis of the applicable national currency. The amounts were adjusted to reflect the contribution of ČMSS, which was sold at the end of May 2019.

Hungary

FLK's new business in Hungary in 2019 was shaped by the unexpected abolition of the house-building premium for new *Bauspar* contracts in mid-October 2018.

The 56,900 new contracts and a *Bauspar* sum of around €1.0 billion fell well short of the previous year's figures (273,900 contracts, *Bauspar* sum of €3.6 billion), as expected. In 2018, many Hungarians made the most of the period until the act came into force and concluded a *Bauspar* contract carrying a bonus. At €561 million, savings funds received were up appreciably on the previous year's figure of €536 million (+7.7%). *Bauspar* deposits rose by 14.8% to €1.7 billion (2018: €1.6 billion). The volume of *Bauspar* loans granted increased by 5.3% compared with the previous year (€164 million) to reach €167 million. Overall, FLK's portfolio of housing financing loans amounted to €1.4 billion at the end of the year and was thus 10.8% higher than the previous year's volume of €1.3 billion. In 2019, FLK granted approximately 15.9% of all housing loans provided by Hungarian banks.

Slovakia

PSS maintained its strong position in the Slovak housing financing market, with a total of 123,584 *Bauspar* contracts concluded (2018: 112,225) and an overall *Bauspar* sum of €2.1 billion (2018: €2.0 billion). Savings funds received amounted to €646 million, compared with €639 million in the previous year. The volume of *Bauspar* deposits declined slightly to €2.7 billion (–2.4%). *Bauspar* loans reached a total volume of €171 million, a 1.4% decline on the previous year's figure of €174 million. PSS enjoyed success in 2019 with a product offered over the internet (online tariff). Both the number of online contracts sold (2019: 46,400; 2018: 50,600) and the contract volume of €674 million (2018: €703 million) developed in line with expectations. Moreover, more than 36% of contracts were concluded over the internet. At the end of reporting period, PSS's portfolio included housing financing loans with a total value of €2.3 billion, with the result that its total stock of housing financing loans was up 0.7% year-on-year.

China

With new business of more than €4.1 billion, SGB again recorded significant growth in 2019 compared with the previous year (€3.5 billion). In terms of the number of *Bauspar* contracts concluded, it reached a new record of approximately 96,300 (2018: 67,600). *Bauspar* deposits rose from €1,139 million in 2018 to €1,736 million. Savings funds received rose significantly to €5,425 million (2018: €2,715 million). At €390 million, *Bauspar* loans were up on the previous year (€364 million). Including mortgage loans, the volume of housing financing totalled €2.0 billion. The decline by approximately €0.6 billion is attributable to the planned reduction in the portfolio of mortgage loans (due to regulatory requirements); by contrast, the portfolio of advance payment loans increased significantly.

Bauspar and Loan Processing segment

In its credit processing activities for Bausparkasse Schwäbisch Hall, SHK processed a record new volume of €8.1 billion in financial year 2019 (2018: €6.8 billion) for *SofortBauGeld*, which was also significantly higher than the projected €6.8 billion. Other capacity strains resulted from the organisational and process-related conditions established for the first-ever placement of *Pfandbriefe* (German covered bonds) by Bausparkasse Schwäbisch Hall on the capital markets, planned for 2020. The slight decline in the *Bausparkasse's* new *Bauspar* business only eased these strains to a minor extent.

In 2019, enhancing Schwäbisch Hall's IT systems again focused on NEXT, a major IT project to modernise the core banking system based on SAP standard software.

In its subsidised lending business, SHK processed around 65,000 new loan applications on behalf of DZ BANK AG, compared with 63,000 in 2018.

FINANCIAL PERFORMANCE OF THE GROUP AND THE SEGMENTS

Group

The sharp year-on-year drop in net profit was driven by non-recurring effects. At €189 million, profit/loss before taxes was down €106 million year-on-year. This decline was driven by the significant fall in interest rates over the course of the year. This required additional allocations to *Bauspar*-specific provisions for legacy tariffs at Bausparkasse Schwäbisch Hall, and depressed net interest income by €280 million. An offsetting non-recurring effect from the sale of the ČMSS investee resulted in proceeds of €99 million. In light of the new historically low interest rate and their negative impact on the *Bauspar* business, especially legacy tariffs, the Board of Management still considers the actual results achieved to be satisfactory.

Financial performance of the Schwäbisch Hall Group

			Change	
in € million	**2019**	**2018**	**absolute**	**in %**
Net interest income	450	760	– 310	– 40.8
Interest income	1,586	1,598	– 12	– 0.8
Interest expenses	– 1,137	– 841	– 296	– 35.2
Income from investments in joint ventures using the equity method	1	3	– 2	– 66.7
Loss allowances	– 4	– 11	7	63.6
Net fee and commission income	– 28	– 40	12	30.0
Fee and commission income	93	86	7	8.1
Fee and commission expenses	– 121	– 126	5	4.0
Gains and losses on investments	163	5	158	> 100.0
Other gains or losses on valuation of financial instruments	18	8	10	> 100.0
Gains or losses on derecognition of financial assets measured at amortised cost	18	14	4	28.6
Administrative expenses	– 486	– 480	– 6	– 1.3
of which personnel expenses	– 225	– 221	– 4	– 1.8
of which other administrative expenses	– 210	– 214	4	1.9
of which depreciation/amortisation	– 51	– 45	– 6	– 13.3
Other net operating income	58	39	19	48.7
Profit/loss before taxes	**189**	**295**	**– 106**	**– 35.9**
Income taxes	– 23	– 83	60	72.3
Net profit	**166**	**212**	**– 46**	**– 21.7**

Interest income remained largely stable despite the considerable year-on-year drop in interest rates. Interest income from *Bauspar* loans declined slightly by €4 million. As the total portfolio was stable, the primary factor here were the lower interest rates for the more recent tariffs. Despite lower average interest rates, income from advance payment and bridge financing loans and other building loans increased by €32 million in the wake of the growth in business in recent years. Investment interest declined significantly by €40 million in light of the low capital market interest rates.

Interest expenses were attributable mainly to *Bauspar* deposits. Despite the increase in volumes, the introduction of low-interest *Bauspar* tariffs and the implementation of portfolio measures ensured a year-on-year reduction in current interest expense. The increase in interest expenses resulted from additions to *Bauspar*-specific provisions. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to make payments of interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Additions to these provisions amounted to €473 million in the reporting period (provisions as at 31 December 2019: €1,388 million). As well as additions of €193 million (2018: €189 million), there were special allocations of €280 million, €57 million of which was attributable to new portfolio measures.

The income from investments in joint ventures using the equity method contains adjustments to the equity-method carrying amount of PSS (€– 6 million) and the ratable earnings contribution by ČMSS (€+ 7 million) until that company was deconsolidated.

Net measurement gains from lending business improved by €7 million, due principally to the validation of credit risk parameters and adjustments to loss allowances for loan commitments at Bausparkasse Schwäbisch Hall. Excluding these items, loss allowances are at the very positive level reached in the previous year, despite the significant increase in housing financing business over the past few years.

Bausparkasse Schwäbisch Hall includes arrangement fees and acquisition commissions in its effective interest rate calculation where they are directly associated with the acquisition of *Bauspar* deposits. This reduced fee and commission expense by €107 million in 2019 (2018: €107 million). On the other hand, net interest income was negatively affected by the amortisation of deferred commissions. The improvement in net fee and commission income is attributable to the slowdown in new *Bauspar* business, resulting in lower commission payments not required to be deferred.

Gains and losses on investments resulted mainly from the disposal of the interest in ČMSS (€99 million). The contribution from sales of listed bearer bonds is attributable to UIN Fund No. 817 (€45 million) and Bausparkasse Schwäbisch Hall (€19 million).

Other measurement gains or losses on financial instruments relate primarily to interest rate swap transactions (€16 million) at Schwäbisch Hall in advance of the introduction of hedge accounting.

Gains or losses on derecognition of financial assets measured at amortised cost are attributable to the sale of registered bonds at Bausparkasse Schwäbisch Hall.

Personnel expenses only increased slightly because of higher collectively agreed wages and new permanent hires in the expanding Housing

Financing core business segment. Other administrative expenses were also on a level with the previous year.

The increase in other net operating income resulted from the reversal of provisions.

The cost/income ratio, which is the ratio of administrative expenses to total operating income, was 71.6% for the Schwäbisch Hall Group in the reporting period, compared with 61.1% in 2018. Economic RORAC was 7.1% (2018: 11.0%).

After deducting non-controlling interests of €11 million (2018: €11 million), net profit of €155 million (2018: €202 million) before profit transfer is attributable to Bausparkasse Schwäbisch Hall.

Financial performance of the *Bausparen* Domestic segment

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

Financial performance of the *Bausparen* Domestic segment

			Change	
in € million	**2019**	**2018**	**absolute**	**in %**
Net interest income	381	708	– 327	– 46.2
Interest income	1,495	1,510[1]	– 15	– 1.0
Interest expenses	– 1,118	–826	– 292	– 35.4
Current income from investments in subsidiaries and joint ventures, and dividend income	4	24	– 20	– 83.3
Loss allowances	– 2	– 10	8	80.0
Net fee and commission income	– 32	– 39	7	17.9
Fee and commission income	84	76	8	10.5
Fee and commission expenses	– 116	– 115	– 1	– 0.9
Gains and losses on investments	297	– 16	313	>100.0
Other gains or losses on valuation of financial instruments	18	8	10	>100.0
Gains or losses on derecognition of financial assets measured at amortised cost	18	6[1]	12	>100.0
Administrative expenses	– 416	– 460	44	9.6
of which personnel expenses	– 93	– 88	– 5	– 5.7
of which other administrative expenses	– 280	– 332	52	15.7
of which depreciation/amortisation	– 43	– 40	– 3	– 7.5
Other net operating income	41	22	19	86.4
Segment profit before taxes	**305**	**219**	**86**	**39.3**

[1] Amount adjusted

Gains and losses on investments are attributable chiefly to the sale of the interest in ČMSS (€+233 million), with disposals of securities accounting for €64 million.

Expenses for loss allowances fell significantly. The year-on-year decline in loss allowances was driven by the validation of credit risk parameters and adjustments to loss allowances for loan commitments. Expenses for loss allowances otherwise remained stable. This reflects the positive economic situation in Germany, in particular the low and further declining unemployment.

The decrease in other administrative expenses is attributable to cost allocations with SHK (€+52 million). Schwäbisch Hall benefited here from the lower personnel expenses at SHK due to the positive change in the fair value of plan assets and lower additions to pension provisions.

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

Financial performance of the *Bausparen* Non-domestic segment

The *Bausparen* Non-domestic segment comprises the joint venture *Bausparkassen* PSS and SGB as well as the FLK subsidiary. The ČMSS joint venture *Bausparkasse* was deconsolidated on 31 May 2019. The earnings contribution from the joint venture *Bausparkassen* attributable to Schwäbisch Hall is reported in the income from investments in joint ventures using the equity method. The aggregate profit before taxes (€56 million) of the *Bausparkassen* included in the *Bausparen* Non-domestic segment was up significantly year-on-year (2018: €46 million). The increase in segment profit before taxes to €29 million (2018: €28 million) is attributable to SGB.

Financial performance of the *Bausparen* Non-domestic segment

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

FLK was able to match its strong result for the previous year in 2019, recording a slight improvement in net interest income. The volume-driven increase in interest income for suspended repayment and bridging loans more than offset the decline in interest income from financial investments and the increase in interest expenses for *Bauspar* deposits. Expenses for loss allowances remained stable despite the expanded lending business. Net fee and commission income improved significantly. Whereas fee and commission income was on a level with the previous year, fee and commission expenses fell sharply due to the lower new *Bauspar* business. Administrative expenses were down slightly year-on-year. FLK's profit before taxes therefore increased slightly by €2 million to €28 million.

In Slovakia, PSS significantly increased net interest income in 2019. Whereas interest income from financing and financial market transactions increased slightly, interest expenses for *Bauspar* deposits were reduced significantly.

This reflected the switch to lower interest rates for current tariffs. Expenses for loss allowances increased because of higher past due payments for financing. Net fee and commission income declined slightly because of lower income from account management fees, a growing share of no-fee internet tariffs and lower fees for contract terminations. Administrative expenses were down slightly despite the general salary increases in Slovakia and higher expenses for the bank levy payable. At €20 million, profit before taxes was on a level with the good prior-year result.

SGB's profit before taxes was €8.1 million in 2019 (2018: €– 1.7 million). The main reasons for this were higher interest income from advance payment loans, lower funding costs, lower non-personnel operating expenses and the positive non-recurring effect of an office relocation in Chongqing. The decision on any profit distribution is expected to be made in the first half of 2020.

Financial performance of the *Bausparen* Non-domestic segment

2018 in € million	**FLK**	**PSS**	**SGB**	**Total**	**Reconciliation equity-method JVs**	**Non-domestic segment**
Net interest income	68	56	43	167	– 99	68 [1]
Interest income	86	103	129	318	– 232	86 [1]
Interest expenses	– 18	– 47	– 86	– 151	133	– 18
Income from investments in joint ventures using the equity method	–	–	–	–	2	2
Loss allowances	– 2	– 1	– 3	– 6	4	– 2
Net fee and commission income	– 1	16	– 2	13	– 14	– 1
Fee and commission income	10	17	9	36	– 26	10
Fee and commission expenses	– 11	– 1	– 11	– 23	12	– 11
Gains and losses on investments	–	–	–	–	–	– [1]
Other gains or losses on valuation of financial instruments	–	–	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	8	– 7	–	1	7	8 [1]
Administrative expenses	– 44	– 35	– 36	– 115	71	– 44
of which depreciation/amortisation	– 5	– 4	– 4	– 13	8	– 5
Other net operating income	– 3	– 7	– 4	– 14	11	– 3
Profit before taxes/ segment profit before taxes	**26**	**22**	**– 2**	**46**	**– 18**	**28**
Income taxes	– 4	– 5	–	– 9	5	– 4
Profit or loss after tax from continuing operations	22	17	– 2	37	– 13	24
Other comprehensive income or loss	– 5	–	– 4	– 9	4	– 5
Total comprehensive income	**17**	**17**	**– 6**	**28**	**– 9**	**19**
Shareholding	51.25 %	32.50 %	24.90 %			
Share of profit or loss for the year	11	5	–			
Dividend received	4	–	–			

[1] Amounts adjusted

Financial performance of the *Bauspar* and Loan Processing segment

in € million	2019	2018	Change absolute	Change in %
Net interest income	2	5	– 3	– 60.0
Interest income	2	5	– 3	– 60.0
Interest expenses	–	–	–	–
Loss allowances	–	–	–	–
Net fee and commission income	–	–	–	–
Fee and commission income	–	–	–	–
Fee and commission expenses	–	–	–	–
Gains and losses on investments	–	–	–	–
Other gains or losses on valuation of financial instruments	–	–	–	–
Gains or losses on derecognition of financial assets measured at amortised cost	–	–	–	–
Administrative expenses	– 120	– 120	–	–
of which personnel expenses	– 115	– 115	–	–
of which other administrative expenses	– 5	– 5	–	–
of which depreciation/amortisation	–	–	–	–
Other net operating income	112	164	– 52	– 31.7
Segment profit before taxes	**– 6**	**49**	**– 55**	**>– 100**

Financial performance of the *Bauspar* and Loan Processing segment

SHK's segment profit fell sharply in the reporting period. Although administrative expenses remained stable, the revenue reported in other net operating income declined significantly. The decrease is attributable to the reduced offsetting of retirement benefit obligations, which benefited from the positive performance of SHK's plan assets and lower additions to pension provisions. Net interest income is generated by investing cash funds. In 2018, this item contained an earnings contribution from the early call of term deposits.

GROUP FINANCIAL POSITION AND NET ASSETS

Changes in the Schwäbisch Hall Group's balance sheet

Net assets

in € million	31.12.2019	31.12.2018	Change absolute	Change in %
Assets				
Loans and advances to banks	11,209	12,440	– 1,231	– 9.9
Loans and advances to customers (net)	53,867	47,826	6,041	12.6
Positive fair values from hedging instruments	3	–	3	
Positive fair values from derivative financial instruments	–	12	– 12	– 100.0
Investments	11,906	10,979	927	8.4
Other assets	484	410	74	18.0
Total assets	**77,469**	**71,667**	**5,802**	**8.1**
Equity and liabilities				
Deposits from banks	6,142	4,476	1,666	37.2
Deposits from customers	63,607	60,335	3,272	5.4
Fair value changes of hedged items in portfolio hedges of interest rate risk	– 4	–	– 4	
Negative fair values from hedging instruments	5	–	5	
Provisions	1,695	1,454	241	16.6
Other liabilities	324	245	79	32.2
Equity	5,700	5,157	543	10.5
Total equity and liabilities	**77,469**	**71,667**	**5,802**	**8.1**

The Schwäbisch Hall Group's total assets rose by €5.8 billion (8.1%) as at 31 December 2019 to €77.5 billion. On the asset side, the growth in total assets is mainly attributable to increased loans and advances to customers, while on the equity and liabilities side it reflects higher deposits from customers. Both of these trends are attributable to the increased volume of business.

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

The Group's volume of non-collective housing financing in loans and advances to customers increased by 11.4% to €47.8 billion (2018: €42.9 billion).

Bausparkasse Schwäbisch Hall's loan-deposit ratio I, i.e. the ratio of *Bauspar* loans to *Bauspar* deposits, decreased from 3.9% to 3.7% at the end of 2019. Its loan-deposit ratio II – i.e. the ratio of *Bauspar* loans plus suspended repayment and bridging loans to *Bauspar* deposits – increased from 68.4% to 70.99% at the end of 2019. This trend is chiefly the result of the positive new business in housing financing over the past few years.

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

Due to statutory requirements, FLK's cash funds of €331.2 million (nominal amount: €321.4 million) are mainly invested in Hungarian government bonds.

The derivative financial instruments entered into with DZ BANK (interest rate swaps) amounting to €425 million (nominal amount) serve exclusively to manage Bausparkasse Schwäbisch Hall's general interest rate risk. Portfolio fair value hedge accounting (PFVHA) under IAS 39 (EU carve-out) was implemented in 2019 to account for these hedges. In PFVHA, *Bauspar* deposits (measured at amortised cost) are hedged against interest rate risk by means of dynamic asset-liability management. The net fair value of the interest rate swaps was €–2 million as at 31 December 2019.

Deposits from banks exclusively relate to German credit institutions, including €3.9 billion (2018: €2.7 billion) relating to DZ BANK. They include *Bauspar* deposits of €1.6 billion (2018: €1.6 billion).

Deposits from customers primarily comprise *Bauspar* deposits of €63.2 billion (2018: €60.0 billion).

The further increase in *Bauspar* deposits to a record level of €64.9 billion (2018: €61.6 billion) resulted mainly from the high volume of new business in the recent years as well as muted demand for *Bauspar* funds.

The growth in the Schwäbisch Hall Group's equity was due to the positive financial performance and the increase in the reserve for debt instruments measured at fair value through other comprehensive income. Equity also includes the technical security reserve of €278 million (2018: €278 million).

REGULATORY RATIOS UNDER THE CRR

The Group's regulatory capital calculated under the Capital Requirements Regulation (CRR) totalled €4,554.5 million as at 31 December 2019 (2018: €4,372.8 million). Schwäbisch Hall does not have any Additional Tier 1 or Tier 2 instruments. Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,162.2 million as at 31 December 2019 (2018: €1,149.2 million). This growth is mainly attributable to the increase in the lending business.

The Group's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio rose from 30.4% as at 31 December 2018 to 31.4% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

CRR regulatory ratios

in € million	31. Dec. 2019 [1]	31. Dec. 2018
Capital		
Common Equity Tier 1 capital	4,554.5	4,372.8
Additional Tier 1 capital	0	0.0
Tier 1 capital	4,554.5	4,372.8
Tier 2 capital	0	0.0
Total capital	**4,554.5**	**4,372.8**
Capital requirements		
Credit risk (including equity investments)	1,054.1	997.3
Market risk	0	41.3
Operational risk	108.1	110.6
Total	1,162.2	1,149.2
Capital ratios		
Total capital ratio (minimum value: 4.5 %)	31.4 %	30.4 %
Tier 1 capital ratio (minimum value: 6.0 %)	31.4 %	30.4 %
Common Equity Tier 1 capital ratio (minimum value: 8.0 %)	31.4 %	30.4 %

[1] Provisional figures

Target/actual comparison of the previous year's forecast

Overall, changes in the key business and earnings indicators were in line with the expectations described in the Report on expected developments in the 2018 Annual Report. However, the unexpectedly sharp drop in interest rates in 2019 negatively impacted net interest income in particular.

The goals and expectations for financial year 2019 described in the Report on expected developments in the Group's 2018 Annual Report are compared with the actual trends and any discrepancies are accounted for.

Expected developments (FR* 2018)	Actual performance	Comparison
Business development		
New *Bauspar* business in the *Bausparen* Domestic segment on a level with the previous year.	New *Bauspar* business €28.5 billion (2018: €29.7 billion)	Almost in line with forecast
Stable housing financing business in the *Bausparen* Domestic segment	New housing financing business €16.7 billion (2018: €15.2 billion)	Forecast exceeded
Bausparen Non-domestic segment: significant decrease in new *Bauspar* business at FLK due to discontinuation of subsidy, slight decline overall at PSS and SGB.	New *Bauspar* business €7.2 billion (2018: €9.2 billion)	In line with forecast
Bauspar and Loan Processing segment: revenues almost stable	Significant decrease in revenue to €112 million (2018: €164 million)	Decrease due largely to a non-recurring factor (offsetting of pension expense)
Financial performance		
Group: sharp decline in net interest income and slightly higher administrative expenses result in a significant decrease in profit/loss before taxes, earnings may be additionally impacted by ECB interest rate adjustment.	Sharp decline in net interest income and slightly higher administrative expenses. Earnings additionally impacted by ECB interest rate cut	In line with forecast
Group: moderate increase in loss allowances in line with loan portfolio	Loss allowances down significantly year-on-year.	Decrease due solely to a non-recurring factor (validation of credit risk parameters)
***Bausparen* Domestic:** significant decrease in profit/loss before taxes due mainly to low interest rate environment.	Significant decrease in net interest income and profit/loss before taxes (see also Group)	In line with forecast
***Bausparen* Domestic:** the expected no more than slight increase in new Bauspar business will lead to stable net fee and commission income	New *Bauspar* business declined, significant improvement in net fee and commission income	Forecast not reached
***Bausparen* Non-domestic:** overall, the *Bausparkassen* outside Germany are expecting a positive performance, with profit/loss before taxes down slightly year-on-year	Significant increase in profit/loss before taxes	Performance better than expected
***Bauspar* and Loan Processing:** slightly positive result	Significantly negative result	Forecast not reached

* Financial report

Non-financial statement

Bausparkasse Schwäbisch Hall is included in the consolidated non-financial statement of DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, and is therefore not required to issue its own non-financial statement. The consolidated non-financial statement is presented in the "Non-financial statement" section of DZ Bank Group's 2019 Annual Report and can be downloaded (in German) from the following website: www.berichte2019.dzbank.de.

Report on expected developments

CHANGES IN MACROECONOMIC CONDITIONS

Many economic experts again revised their growth forecasts for 2020 downwards at the end of the year. The Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF) both reduced their forecasts for world economic growth by 0.1 and 0.2 percentage points, respectively, to 2.9% and 3.4%. Global economic growth was most recently as weak as this in 2001 and 2002, when it posted growth rates of 2.5% and 3%. The IMF cut its relatively optimistic forecast in light of the ongoing trade war between China and the USA, the protracted withdrawal negotiations of the UK with the EU and the negative structural factors such as low productivity growth and the adverse consequences of demographic trends for the industrialised nations. That is because the IMF is predicting that around 70% of the expected acceleration in economic momentum will rest on the assumption that growth in a small group of emerging economies, such as Russia, India and Brazil, will experience a substantial recovery.

The forecasts by economic experts for Germany differ very sharply in some cases. The most pessimistic forecast of economic prospects comes from the OECD, which is predicting growth of merely 0.4% for 2020. The reason given for this is Germany's export-heavy economy, which is particularly vulnerable to foreign trade risks and a further slowdown in global trade. By contrast, the joint forecast issued by the leading German economic institutes is predicting a significant increase in GDP to 1.1%. They are forecasting a gradual recovery in exports and an upturn in capital spending at the beginning of 2020. However, the growth rate overstates actual economic momentum, because around 0.4% of growth is due to the fact that there will be more working days than in 2019. Overall, German economic expansion is set to remain weak in 2020.

For Hungary, the leading Budapest economic research institute GKI Economic Research Co. is expecting GDP growth to fall by 4.3% to 2.7% in 2020. The reasons given are the deterioration in the export environment, the slowdown in EU transfers that stimulate investment and the worsening trends in the expectations of Hungarian companies. By contrast, inflation is only expected to decline slightly in 2020, to around 3.3%, due in particular to the persistent weakness of the Hungarian currency, the forint. Real income growth is also likely to slow to an expected 4.5% in 2020 (2018: 6.5%). Despite the persistent labour shortage, pressure to improve competitiveness is holding back wage increases. Following an annual average of 3.5%, the unemployment rate is set to fall slightly below this figure in 2020, which is one of the lowest in the EU.

The Slovak economy is one of the most dynamic in the European Union. For 2020, the government is expecting GDP to grow by 2.9%, compared with 1.6% in the EU, driven by exports and private consumption. According to forecasts by the government-affiliated Institute for Financial Policy, exports will increase by 4.3% and imports by 3.8%. Passenger car exports in particular are driving the continuing strong momentum. Slovakia's private households are also extremely enthusiastic spenders. For 2020, the government is predicting nominal wage growth rate of nearly 6%. The number of unemployed is expected to continue to decline, with the jobless rate set to fall below 6%.

The Chinese government is expecting the economy to grow by "around 6%" in 2020, thereby cutting its own growth target. Analysts from

Moody's and Bloomberg, for example, reckon that growth will probably fall below the 6% mark due to the effects of the coronavirus und the trade war with the USA. Further growth in private consumption, stronger capital spending by businesses, primarily in new technologies, and a stable real estate market will be needed for China to achieve the targets. As in the past, this is expected to be supported by state intervention and aid.

CHANGES IN PRIVATE HOUSING CONSTRUCTION AND BUILDING REFURBISHMENT

Germany

A forecast by BauInfoConsult expects little change in the current positive level of construction activity in the traditional residential property segment. The Central Association of German Construction Companies (ZDB) is expecting 300,000 completed homes in 2020, compared with 297,500 in 2019. The development of the housing market is thus continuing to approach equilibrium, which will offer slight relief of the pressure on rents. Moreover, since mortgage interest rates are not expected to fall any further, their inflationary impact on the buyer market will no longer apply. However, tensions on the housing market are still not likely to ease in the short term. Together with a lack of building land, especially in metropolitan areas, rising construction prices and a shortage of craft workers are holding back private housing construction.

Foreign markets

Hungary's housing construction will continue to benefit from a favourable economic environment in 2020. Rising incomes and an optimistic outlook for business prospects are drawing international investors to the Hungarian market for residential property. On the other hand, a lack of skilled workers and rising costs are grounds for concern. Demand for residential property is also being driven by government subsidy measures, in particular the CSOK home-buying subsidy programme. Housing construction will be further stimulated through the temporary decrease until end-2019 in the standard rate of VAT for new residential properties from 27% to 5%. The EUROCONSTRUCT European research and consulting network is expecting around 27,000 new housing units to be built in Hungary in 2020, as in the previous year.

In Slovakia, EUROCONSTRUCT is forecasting 20,600 housing completions in 2020, around 300 more than in 2019. The construction industry is only benefiting from the current upturn in Slovakia to a limited extent. Construction firms are suffering problems due to the increasing shortage of skilled workers, while sharp rises in residential property prices in Bratislava in particular are curbing consumer demand. The refurbishment of the approximately 600,000 precast concrete apartment blocks that were built between 1960 and 1990 remains an important step towards being able to provide adequate living space in the coming years.

The real estate market remains one of the pillars of the Chinese economy, accounting – directly or indirectly – for around 30% of GDP. To contain overheating tendencies, in particular in metropolitan regions, the government has launched a range of measures to cool down the real estate market. These measures are focused on megacities such as Beijing, Shanghai or Shenzhen. Although residential property prices declined compared with 2018, they remained at a high level in the 70 largest cities, at an average of more than 8%. In addition, residential property transactions declined by 10% year-on-year.

According to an expert poll by Reuters, average real estate price growth of only around 3.1% is expected for 2020. This means that the government measures to cool down real estate prices are likely to have an effect in 2020 as well. Due to the strained situation in large cities, experts are expecting construction to switch to the surrounding countryside, which offers better overall conditions in terms of prices and restrictions.

The rental market continues to play more of a subordinate role. However, experts expect that the political goal of affordable housing will also lead to the expansion of the rental market. According to real estate consultants JLL, approximately 750,000 new rental properties will be constructed in the above cities by 2022.

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

Development of the Group

The persistently low capital market interest rates continue to shape expectations of the Schwäbisch Hall Group's business development (in line with MaRisk) in financial year 2020. A significant decline in the volume of new business in the *Bausparen* core business segment, whereas new business in the Housing Financing core business segment will likely increase slightly.

A number of factors will continue to impact financial performance in 2020: the continued extremely low interest rates; higher costs due to the sustained increase in regulatory requirements; significant scheduled investments recognized as expenses in the *Bausparen* and especially the Housing Financing strategic core business segments, with the modernisation of IT platforms at Bausparkasse Schwäbisch Hall in particular. Profit/loss before taxes is therefore expected to decline significantly by comparison with financial year 2019.

Net interest income adjusted for the non-recurring effect from the recognition of mathematical *Bauspar* provisions in 2019 is expected to decline significantly year-on-year. This is attributable to the persistent low interest rate environment together with legacy tariffs with high interest rates. The expected further portfolio growth for non-collective loans and the newly introduced low-interest *Bauspar* tariffs will have a positive effect. An unexpected adjustment to the ECB's key interest rate and deposit interest rate could have an additional negative impact on net interest income in financial year 2020.

Loss allowances will only increase slightly by comparison with the previous year, developing in line with the loan portfolio and long-term standard risk costs. The expected moderate trend for loss allowances reflects the solid economic situation and the high level of employment in Germany.

A slight increase in the housing financing business, accompanied by a noticeable downturn in new *Bauspar* business, will lead to stable net fee and commission income.

Administrative expenses are set to increase significantly in 2020. 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, strict cost discipline at Bausparkasse Schwäbisch Hall will moderate the increase 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. Nonetheless, a slight rise is expected in financial year 2020.

Economic RORAC is set to decline in financial year 2020 due to a significant decrease in expected earnings.

Liquidity position and net assets

For financial year 2020, Bausparkasse Schwäbisch Hall is again assuming that savings for *Bauspar* contracts will remain stable in its operational liquidity management. Funds provided by institutional investors and DZ BANK are additionally available. A high level of new *Bauspar* business is assumed for the structural refinancing of Bausparkasse Schwäbisch Hall.

From today's perspective, Schwäbisch Hall expects that it will continue meeting the economic and regulatory capital adequacy requirements in financial year 2020.

SEGMENT DEVELOPMENT

Development of *Bausparen* Domestic

In Germany, the *Bausparkasse* will again operate in a challenging environment in 2020 that is expected to be shaped by low interest rates, high regulatory requirements and increasing digitalisation. In light of this, the *Bausparkasse* is expecting the following sales performance in the two core business segments: following the significant increase to the new record level, Schwäbisch Hall is expecting no more than slight growth in the housing financing business in 2020. New *Bauspar* business is expected to contract significantly in 2020, following the decrease in the reporting period.

The *Bausparkasse* expects profit/loss before taxes to be down significantly year-on-year in 2020.

Without taking into account the increased recognition of provisions in 2019, net interest income is expected to decline significantly year-on-year in 2020, due to the expected continued stable low interest rate environment. The probable further increase in the portfolio of non-collective loans and the newly introduced *Fuchs Bauspar* tariffs are having a positive effect, although they are unable to cushion the decrease attributable to the low interest rates, particularly in the area of financial investments.

Loss allowances will likely increase only slightly, despite the volume growth of the past few years. The forecast favourable employment situation in Germany will have a positive impact here.

A slight increase in the housing financing business, accompanied by a noticeable downturn in new *Bauspar* business, will lead to stable net fee and commission income.

Administrative expenses are set to rise appreciable. With continuing strong capital spending to reinforce the *Bausparen* and especially Housing Financing strategic core business segments, administrative expenses will climb considerably year-on-year, despite the cost reduction measures we have initiated.

Accordingly, even if all of its sales and cost targets are achieved, Schwäbisch Hall is expecting a sharp decline in profit/loss before taxes in its *Bausparen* Domestic segment in 2020, due mainly to the low interest rate environment.

Development of *Bausparen* Non-domestic

Overall, we are expecting the non-domestic *Bausparkassen* outside Germany to perform positively in 2020. In light of the continued upward economic trends, and supported by low interest rates, demand for financing products is expected to remain at a high level. Thanks to attractive financing opportunities, we expect the *Bausparkassen* in the Eastern European EU member states to benefit particularly strongly from this trend. Overall, new business figures in the Housing Financing and *Bausparen* core business segments will fall slightly below the good prior-year level. Profit/loss before taxes is expected to be down slightly year-on-year.

FLK will continue its strategic realignment in 2020 by developing additional business segments and focusing on housing financing in its core business segment, where it is expecting a significant increase in the volume of new business. FLK is expecting a slight year-on-year increase in new *Bauspar* business. Net interest income and net fee and commission income will be on a level with the previous year. Administrative costs are projected to rise slightly because of inflation. Profit/loss before taxes is expected to be down slightly year-on-year. FLK is also benefiting from its buoyant business performance in recent years and the expansion of its housing financing portfolios.

In Slovakia, PSS is anticipating the volume of new business in 2020 to be on a level with the previous year. It will continue to focus clearly on the lending business with attractive financing opportunities. PSS is expecting its net interest income to increase slightly due to the adjustment of the interest rates on *Bauspar* contracts. While net fee and commission income is predicted to match the previous year's level, higher administrative expenses will only partially offset the improvement in net interest income. However, other net operating income is also expected to decrease. The doubling of the banking levy resolved by the Slovak parliament in December 2019 will additionally impact earnings by approximately €5 million starting in 2020. Profit/loss before taxes is therefore expected to decrease considerably year-on-year.

At SGB, the focus of financial year 2020 will be on the continued profitable and sustainable expansion of its business model for private housing financing. It is predicting sustained stable growth in new business for financial year 2020. The increase in *Bauspar* deposits and the *Bauspar* loan portfolio (including suspended repayment and bridging loans) and further improvements in the funding structure will be core issues, as in the previous year. SGB expects the positive financial performance ushered in since 2019 to continue in 2020. As a result, profit/loss before taxes is expected to be up on the 2019 result.

***Bauspar* and Loan Processing development**

SHK is working continuously with Bausparkasse Schwäbisch Hall on the strategic evolution of the Schwäbisch Hall Group. IT modernisation will lay the foundations for the digitalisation of the value chain. The second stage of the new SAP-based core banking system is expected to go live in March 2020, and work for the next stages is continuing in parallel. At the same time, the advisory systems are being reorganised in terms of both content and technology. Processing volumes are therefore expected to rise slightly in Processing in 2020. These are expected to result in a sharp year-on-year increase in revenue and a moderate profit before taxes.

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

FINANCIAL PERFORMANCE

Earnings position

Income statement

in € million	2019	2018	Change absolute	Change in %
Net interest income	566	779	– 213	– 27.3
Net fee and commission income	– 265	– 239	– 26	– 10.9
Administrative expenses	– 390	– 473	83	17.5
Partial operating result	– 89	67	– 156	< – 100
Other net operating income	22	5	17	>100
Loss allowances	274	– 11	285	>100
Operating profit after loss allowances	**207**	**61**	**146**	**>100**
Reversal of technical security reserve	–	–	–	–
Allocation to fund for general banking risks	– 170	– 1	– 169	< – 100
Income taxes	– 21	– 44	23	52.3
Profit transfer	– 16	– 16	–	–
Net profit for the financial year	**–**	**–**	**–**	**–**

Operating profit after loss allowances rose by €146 million year-on-year, from €61 million to €207 million. This result is attributable to a significant decline in net interest income, which was more than offset by the proceeds from the disposal of the interest in ČMSS. Whereas the traditionally negative net fee and commission income deteriorated significantly due to new business, a sharp drop in administrative expenses contributed to the rise in earnings.

Bausparkasse Schwäbisch Hall's interest income, including current income from specialised funds and equity investments, rose by €54 million. Despite the continuing low interest rates, interest income from bridging loans, suspended repayment loans and other building loans experienced a volume-driven increase in income (€+ 37 million) due to the significant business expansion in recent years. This more than offset the decline in earnings from *Bauspar* loans (€– 5 million). Interest income from the investment of available funds in registered securities and bearer bonds, including specialised funds, rose sharply (€+ 51 million), while income from investees declined by €19 million. The €10 million decrease in income from profit transfer is attributable to SHK.

Bausparkasse Schwäbisch Hall's interest expenses increased by €266 million to €1,055 million and are attributable predominantly to *Bauspar* deposits. Despite the increase in volumes, the introduction of low-interest *Bauspar* tariffs and the implementation of portfolio measures ensured a year-on-year reduction in current interest expense.

The increase in interest expenses resulted from additions to *Bauspar*-specific provisions. These primarily reflect the discounted future obligations of Bausparkasse Schwäbisch Hall to make payments of interest incentives to *Bauspar* customers who waive contractually guaranteed loans. Additions to these provisions amounted to €478 million in the reporting period (provisions as at 31 December 2019: €1,377 million). As well as additions of €198 million (2018: €203 million), there were special allocations of €280 million, €57 million of which was attributable to new portfolio measures. Other interest expenses generated income of €7 million (€+6 million).

The negative fee and commission balance increased from €–239 million to €–265 million. The main reason for this was the record new business in the Housing Financing core business segment, which led to higher commission payments (€–37 million) to Schwäbisch Hall's sales force and to the cooperative banks.

At €390 million, administration expenses, netted with cost allocations of €4 million (2018: €4 million) to the subsidiaries, were down €83 million year-on-year.

€73 million (2018: €107 million) of the administrative expenses is attributable to personnel expenses. Although expenses for wages and salaries rose by €3 million, expenses for pension liabilities fell substantially. This was attributable primarily to the gains on the fair value measurement of plan assets invested in specialised funds under a CTA (€+32 million).

The reduction in other administrative expenses is due mainly to cost allocations with SHK (€–52 million). Schwäbisch Hall benefited here from the lower personnel expenses at SHK due to the positive change in the fair value of plan assets and lower additions to pension provisions.

Depreciation of fixed assets increased by €3 million.

Net measurement gains from lending business improved by €1 million to €–2 million. This reduction was due to the validation of credit risk parameters (€+4.4 million) and adjustments to loss allowances for loan commitments (€+3.7 million). Excluding these items, loss allowances are at the positive level reached in the previous year, despite the significant increase in housing financing business over the past few years.

Net measurement gains on the securities portfolio amounted to €42 million in the reporting period, compared with €15 million in the previous year. These gains are attributable to the disposal of bearer bonds and registered bonds.

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

As at 31 December 2019, €278 million was appropriated to the technical security reserve (TSR), which therefore amounts to 0.4% (2018: 0.5%) of *Bauspar* deposits. €170 million was appropriated to the fund for general banking risks.

The profit to be transferred to DZ BANK on the basis of a profit and loss transfer agreement amounts to €16 million (2018: €16 million). The cost/income ratio was 120.5% (2018: 86.9%).

Net assets

Bausparkasse Schwäbisch Hall's total assets as at 31 December 2019 increased by €5.2 billion to €74.5 billion, reaching a new high.

The business volume amounted to €79.3 billion (2018: €74.2 billion). This figure includes both the total assets and the other commitments of the *Bausparkasse* amounting to €4.8 billion.

The *Bausparkasse* was able to significantly expand its lending volume in 2019. Building loans rose by €4.8 billion to a new record high of €48.5 billion at year-end 2019. While demand for *Bauspar* loans remained muted due to the interest rate environment, the volume of non-collective housing financing increased significantly.

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

Net assets

			Change	
in € million	**31.12.2019**	**31.12.2018**	**absolute**	**in %**
Building loans	48,518	43,759	4,759	10.9
of which: *Bauspar* loans	2,370	2,357	13	0.6
Suspended repayment and bridging loans	42,832	39,090	3,742	9.6
Other	3,316	2,312	1,004	43.4
Financial investments	25,580	25,233	347	1.4
Loans and advances	14,866	14,948	– 82	– 0.5
Securities	10,714	10,285	429	4.2
Fixed assets	366	346	20	5.8
Other assets	77	46	31	67.4
Bauspar deposits	63,674	60,583	3,091	5.1
Other liabilities	5,052	3,410	1,642	48.2
of which: borrowings	4,628	2,966	1,662	56.0
Provisions	1,572	1,318	254	19.3
Technical security reserve	278	278	–	–
Fund for general banking risks	2,153	1,983	170	8.6
Equity	1,812	1,812	–	–
Total net assets	**74,541**	**69,384**	**5,157**	**7.4**

The increase in *Bauspar* deposits to the record high of 63.7 billion was driven primarily by the high level of new business in recent years as well as the muted demand for *Bauspar* loans due to the interest rate environment.

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

The derivative financial instruments entered into with DZ BANK (interest rate swaps) amounting to €425 million (nominal amount) serve exclusively to manage Bausparkasse Schwäbisch Hall's general interest rate risk. They were included in the measurement of the banking book at net realisable value. The fair value of the interest rate swaps, including accrued interest, was €–2 million as at 31 December 2019.

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 2019. As at 31 December 2019, the LCR was 249.4% (2018: 406.9%).

Management of Bausparkasse Schwäbisch Hall's longer-term liquidity incorporates any of the *Bausparkasse's* liquidity-related business positions using liquidity gap analyses and then compares them with the existing liquidity reserves. Liquidity risk is managed using established limits that ensure management action can be taken at an early stage. The liquidity reserves taken into account in the course of liquidity management primarily consist of highly liquid securities as well as the option of borrowing from the ECB, 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 IFRS as the accounting framework for reports to which national GAAP is to be applied. Bausparkasse Schwäbisch Hall exercised this option and has prepared its regulatory reports on the basis of IFRS since 30 June 2017. Bausparkasse Schwäbisch Hall's regulatory capital calculated in compliance with the CRR amounted to a total of €4,282.8 million as at 31 December 2019 (2018: €4,178.5 million). Schwäbisch Hall does not have any Additional Tier 1 or Tier 2 instruments. Its Common Equity Tier 1 capital primarily consists of subscribed capital, capital reserves, retained earnings and accumulated other comprehensive income.

The regulatory capital requirements were calculated to be €1,058.9 million as at 31 December 2019 (2018: €951.6 million). This growth is mainly attributable to the increase in the lending business.

Bausparkasse Schwäbisch Hall's total capital ratio, Tier 1 capital ratio and Common Equity Tier 1 capital ratio declined from 35.1% as at 31 December 2018 to 32.4% as at the reporting date. The statutory minimum regulatory ratios were clearly exceeded at all times during the reporting period.

The CRR introduced the concept of a leverage ratio for credit institutions. This is the ratio of a bank's Tier 1 capital to its overall risk position.

In contrast to risk-based equity requirements underpinned by model assumptions, individual items are not assigned an individual risk weighting for the purposes of the leverage ratio, but rather are taken into account on an essentially unweighted basis.

CRR regulatory ratios

in € million	IFRS 31 Dec 2019[1]	IFRS 31 Dec 2018
Capital		
Common Equity Tier 1 capital	4,282.8	4,178.5
Additional Tier 1 capital	0	0.0
Tier 1 capital	4,282.8	4,178.5
Tier 2 capital	0	0.0
Total capital	4,282.8	4,178.5
Capital requirements		
Credit risk (including equity investments)	967.6	858.1
Market risk	0	0.0
Operational risk	91.3	93.5
Total	1,058.9	951.6
Capital ratios		
Common Equity Tier 1 capital ratio (minimum value: 4.5%)	32.4 %	35.1 %
Tier 1 capital ratio (minimum value: 6.0%)	32.4%	35.1 %
Total capital ratio (minimum value: 8.0%)	32.4 %	35.1 %
Liquidity coverage ratio (LCR)	**249.4 %**	**406.9 %**
Leverage ratio	**5.6 %**	**5.9 %**

[1] Provisional figures

MISCELLANEOUS

Corporate Governance Statement in accordance with section 289f(4) of the German GAAP

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

Equal participation of women and men in leadership positions, ACTUAL as at 31 December 2019

	in %
Supervisory Board	35.0
Management Board	0.0
Management level 1	14.0
Management level 2	17.0

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

A target of 12.5% to be achieved by 30 June 2019 was defined for the proportion of women at management level M1 below the Management Board and 20.0% for management level M2.

The target was exceeded at the M1 level in 2019, with a proportion of women of almost 14%. At 17%, the figure for management level M2 fell slightly short of the target. Newly adopted targets will accelerate the proportion of women at management level M1 to 15% by 31 December 2023, with the proportion of women at M2 level remaining at 20%.

Share of women in leadership positions

Management level	Target 2023
M1	15.0
M2	20.0

Opportunity and risk report

FUNDAMENTALS

Preliminary remarks

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

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

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

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

Risk strategy

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

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

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

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

Risk culture

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

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

OPPORTUNITIES

The report on expected developments presents the expected performance of the business segments and the financial position for the 2020 financial year. These factors represent key indicators for determining strategic positioning and the resulting opportunities to increase earnings and reduce costs.

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

- The Federal Government approved the "German Climate Action Plan 2050" back in 2016. This describes how Germany is to become largely carbon neutral by 2050. A roadmap sets out the overarching aims and measures for the construction sector. As a housing financing specialist, Schwäbisch Hall will be able to benefit from the impetus this provides.

- At the end of 2019, the Federal Council (*Bundesrat*) resolved to increase the housebuilding premium from 8.8% to 10% and to adjust the income limits for entitlement to this government incentive. This makes home ownership more attractive and means that even more people will be able to benefit from this support. The *Bausparkasse* thus expects to see additional business opportunities in the area of housing financing in subsequent years.

- The *Baukindergeld* family housing grant is intended to make it easier for families with children and single parents to finance their own home.

- The general conditions for property finance are currently good, particularly due to the sustained low level of interest rates. As a result, real estate demand has been very high for several years. The residential market is set to remain attractive to both private buyers and investors in the future.

- There is growing demand for residential space. This is partly attributable to the rising number of single households, as well as the fact that people increasingly want more living space per person, particularly as they get older.

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

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

In addition, Bausparkasse Schwäbisch Hall expects business opportunities to further increase by using *Pfandbrief* (German covered bonds) for refinancing. Its first *Pfandbrief* was successfully issued in 2019. It is planned to make greater use of this refinancing option starting from 2020.

Despite the challenges faced by the entire housing financing sector in the 2020 financial year, in particular, the Management Board expects the available opportunities to outweigh the stated risks for Bausparkasse Schwäbisch Hall.

RISK MANAGEMENT SYSTEM

Risk management principles

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

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

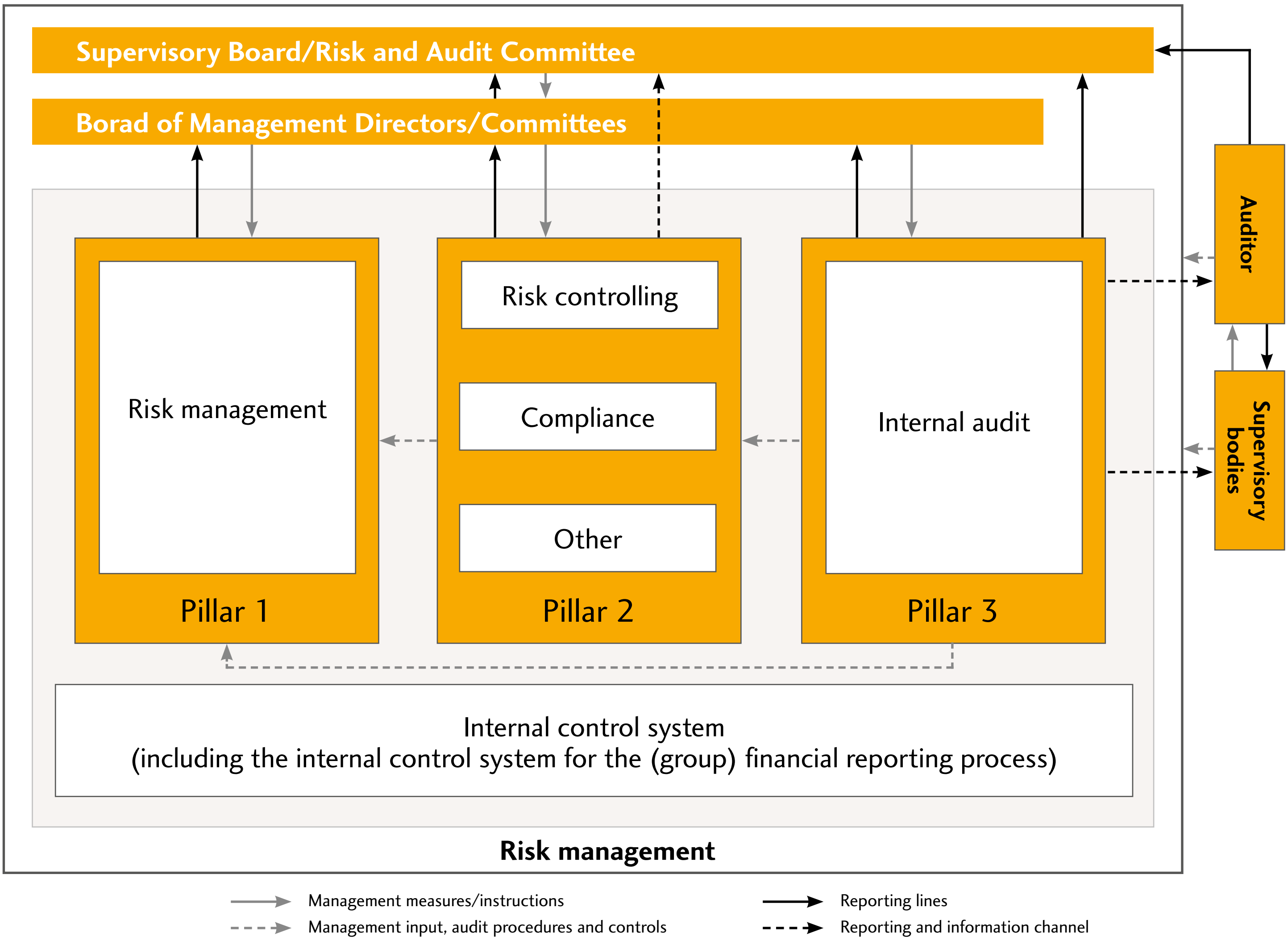
As a part of the DZ BANK Group, Bausparkasse Schwäbisch Hall is integrated into the Group management of the DZ BANK Group and is accordingly subject to its risk policy requirements. The strategic and operational planning process as well as the Group-wide risk management and controlling processes of DZ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

A return on capital calculated in accordance with Section 26a KWG (German Credit Sector Act) is not meaningful due to the profit and loss transfer agreement between Bausparkasse Schwäbisch Hall AG and DZ BANK AG. Consequently, a return on capital in accordance with Section 26a(1)(4) KWG is not disclosed.

Governance

The risk management of the Schwäbisch Hall Group (in line with MaRisk) builds on the risk strategy approved by the Management Board. It is supported by three interconnected pillars integrated into the control and monitoring system. This risk management governance structure is shown schematically in the following figure.

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



Pillar 1: Operational assumption of risks and their management

Pillar 2: Establishment and continued development of a risk management framework; monitoring of compliance with framework by pillar 1 and relevant reporting to the Supervisory Board and Management Board.

Pillar 3: Process-independent review and assessment of risk management and controlling processes in pillars 1 and 2; reporting to the Management Board and the Supervisory Board.

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

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

Risk management

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

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

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

Risk Controlling is responsible for coordinating both committees.

Risk Controlling

Risk Controlling supports the management with regard to all risk policy issues, particularly the development and implementation of the risk strategy and the design of a risk mitigation system.

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

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

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

Compliance

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

Additional functions: data protection, information security and outsourcing management

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

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

The Schwäbisch Hall Group (in line with MaRisk) has implemented an outsourcing management process to ensure the risk-based management of outsourcing relationships. The governance model defines the methods, procedures, roles, responsibilities, competencies and reporting lines that are required for outsourcing to and purchasing services from third parties. It also aims to ensure the standard assessment and management of outsourcing risks as part of operational risks.

Internal audit

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

INTERNAL CONTROL SYSTEM OF THE (CONSOLIDATED) FINANCIAL REPORTING PROCESS

Objective and responsibilities

Bausparkasse Schwäbisch Hall is obligated to prepare annual financial statements and a management report and voluntarily prepares consolidated financial statements and a combined Group management report. The Schwäbisch Hall Group is integrated into the consolidated financial statements of DZ BANK.

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

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

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

Instructions and rules

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

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

Resources and methods

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

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

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

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

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

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

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

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

Information technology

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

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

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

Ensuring and improving effectiveness

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

RISK FACTORS

Overarching risk factors

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

Low-interest environment

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

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

Regulatory environment

As part of the revision of the Capital Requirements Regulation (CRR II), comprehensive new regulations are being prepared for some aspects of regulatory risk assessment. An increase in risk-weighted assets is expected for Bausparkasse Schwäbisch Hall once CRR II comes into force. In addition, a mandatory leverage ratio of 3% was implemented on 1 January 2020. This figure is calculated by dividing a bank's Tier 1 capital by its total exposures. One difference compared with the risk-based capital requirements is that the leverage ratio does not provide for differentiation between risk weightings. Consequently, only the unweighted value is taken into account. Over the long term, the introduction of a binding upper limit could restrict ongoing business for Bausparkasse Schwäbisch Hall given the present and currently growing business volume.

The estimate regarding the eligibility of the share capital, including the related premium, for inclusion in Common Equity Tier 1 capital presented in the last report can be confirmed. Following entry into force of CRR II at the end of June 2019, existing profit and loss transfer agreements are not ineligible if certain prerequisites are met (Article 28(3) CRR II). The BSH profit and loss transfer agreement comes to an end on 31 December 2020. The narrow-scope amendments to the agreement to implement the new requirements of CRR II and satisfy regulatory expectations are included in the new agreement to be entered into in 2021.

Significant risks and associated risk factors

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

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

Risks for Bausparkasse Schwäbisch Hall and associated risk factors

Credit risk

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

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

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

Market risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

Technical risk of a *Bausparkasse*

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

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

The business risk of Bausparkasse Schwäbisch Hall is also covered as part of the institution-specific technical risk of a *Bausparkasse*. Business risk denotes the risk of losses from earnings fluctuations that may arise with the given business strategy and are not covered by other risk types. In particular, this includes the risk that the losses cannot be counteracted through operational measures alone due to changes in significant general conditions (e.g. economic and product environment, customer behaviour, competitive situation).

Equity investment risk

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

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

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

Operational risk

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

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

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

Reputational risk

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

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

Risk and earnings concentrations

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

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

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

RISK MANAGEMENT WITHIN OVERALL BANK MANAGEMENT

Risk monitoring and risk management systems

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

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

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

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

The following risks were identified as significant for 2019:

- Credit risk
- Market risk
- Operational risk
- Equity investment risk
- Technical risk of a *Bausparkasse*
- Liquidity risk
- Reputational risk.

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

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

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

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

Risk-bearing capacity

In general, the term "risk-bearing capacity" is understood to mean the ability to cover all significant risks, taking into account risk concentrations, through equity capital. Ensuring the availability of adequate capital resources (capital adequacy) is considered in light of both economic and regulatory aspects. The requirements of MaRisk are taken into account for the economic assessment, while the regulatory assessment takes into account the requirements of the CRR and German regulations 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 2019, the risk capital requirement under the economic perspective was well within the limit based on internal capital. Economic capital adequacy amounted to 183% as at the 31 December 2019 reporting date. In the course of the financial year, it was above the internal minimum target of 120% at all times.

Normative internal perspective

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

This perspective takes into account the total capital ratio and the leverage ratio. The total capital ratio is determined by dividing the regulatory capital by the regulatory risk-weighted assets of the Schwäbisch Hall Group. The leverage ratio is calculated for Bausparkasse Schwäbisch Hall AG by dividing Tier 1 capital by total risk exposure. As at 31 December 2019, the total capital ratio was 15% and the leverage ratio was 3.5%. It is planned that the total capital ratio and leverage ratio regulatory indicators, as well as details of capital resources, capital requirements and the risk exposure values in the leverage ratio will be disclosed as at 31 December 2019 in the Disclosure Report 2019 – Partial Disclosure Report of Schwäbisch Hall Group (in line with MaRisk) 2019 in the sections Equity, Capital Adequacy and Leverage Ratio.

Stress tests

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

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

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

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

Risk reporting and documentation

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

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

CREDIT RISK

Definition and causes

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

Credit risk strategy

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

Due to *Bausparkassen*-specific requirements, the customer lending business can only issue loans for housing purposes in accordance with the German *Bausparkassen* Act. This is primarily achieved by issuing 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. 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 *Pfandbrief* with an issue rating of at least AA–, regardless of the issuer rating. The majority of securities are invested in covered papers or in papers in the AAA – AA– rating class. A portion of our own investments is invested in foreign bank bonds, government bonds and corporate bonds as well as a specialised fund. For these investments as well, the defined minimum rating of A– was observed, which in the case of the specialised fund relates to the fund level. In addition, there is a fund to cover pension obligations. For this purpose, Bausparkasse Schwäbisch Hall is using the options within the framework of section 4 (3a) of the German *Bausparkassen* Act.

Reporting

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

Internal rating systems

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

- Application and behavioural scoring to calculate probability of default (PD),
- LGD (loss given default) scoring to calculate loss ratios,
- Credit rating for the Schwäbisch Hall Group (in line with MaRisk)'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.

Economic credit portfolio management

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

Reconciliation of lending volume with consolidated financial statements

The lending volume underlying internal group management is reconciled with the consolidated financial statements (please see the above table "Internally managed lending volume").

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

Credit risk mitigation

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

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

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

Collateral

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

Of the traditional lending business in the amount of €47,401.8 million (2018: €42,697.8 million), €44,330.6 million (2018: €39,661 million) is secured by real property and €301.6 million (2018: €339.9 million) by other securities.

Lending volumes as defined by internal management

	Lending volumes as defined by internal management		Reconciliation				Lending volumes in the consolidated financial statements		
			Allocation of lending volume		Scope of consolidation				
in € million	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	
Traditional lending business							0.1	0.1	Loans and advances to banks
	47,401.8	42,697.8	7,516.0	6,422.2	1,416.5	1,305.2	50,526.7	45,618.2	Loans and advances to customers
							5,807.5	4,806.9	Loan commitments
Own investments							3,505.0	2,376.7	Loans and advances to customers
							11,209.3	12,441.1	Loans and advances to banks
	25,737.5	25,512.0	294.2	–312.8	478.3	346.3	2.6	–	Positive fair values from hedging instruments
							–	12.2	Positive fair values from derivative financial instruments
							11,793.1	10,715.4	Bonds and other fixed-income securities
Total	**73,139.3**	**68,209.8**	**7,810.2**	**6,109.4**	**1,894.8**	**1,651.5**	**82,844.3**	**75,970.6**	**Total**

Collateralised lending volume by collateral type

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Guarantees/warranties/risk sub-participations	164.4	130.9	8,488.9	9,468.3	–	–	8,653.3	9,599.2
Land charges/mortgages/registered liens	44,330.6	39,661.0	–	–	–	–	44,330.6	39,661.0
Chattel mortgages/assignments/ pledging of receivables	–	–	–	–	–	–	–	–
Financial collateral	–	–	–	–	–	–	–	–
Other collateral	137.2	209.0	–	–	–	–	137.2	209.0
Total	**44,632.2**	**40,000.9**	**8,488.9**	**9,468.3**	**–**	**–**	**53,121.1**	**49,469.2**

Own investments are mainly invested in issues from public issuers, in development banks of the German federal states and in *Pfandbrief* (covered bonds). As at the 2019 balance sheet date, 68% of securities were covered or invested in the credit rating classes 0a and 0b.

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

Early warning

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

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

ANALYSIS OF THE CREDIT PORTFOLIO

Analysis of economic capital requirement for credit risk

The economic capital requirement for the *Bausparkasse's* credit risk amounted to €414 million (2018: €540 million) as at the end of the financial year. The limit from an economic perspective was €720 million (2018: €728 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 bearing credit risk – 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 credit risk-bearing instrument 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 risk-bearing financial instruments are measured without allowing for credit risk mitigation methods and before loss allowances. In the case of loans, open commitments and banking book securities, the gross lending volume is based on nominal values, while in the case of derivative transactions it is based on credit equivalent amounts.

Lending volume trend

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

Structure of the overall credit portfolio

The sector structure of the credit portfolio shown in the “Lending volume by sector” figure indicates the similarly broad diversification of the customer lending business of Bausparkasse Schwäbisch Hall compared with the previous year. Free liquidity is primarily invested in securities or specialised funds. The lending volume in the finance sector was down by around 4% on the 2018 figure at €18.3 billion. The lending volume in corporates declined by 5% to €199 million. The lending volume in the core retail business grew by a significant 11% to €47,120.0 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 sovereign risk groups. As at 31 December 2019, the loans in the customer lending business and securities investments were concentrated in Germany, with a share of 97% (2018: 97%) of the overall lending volume.

The distribution of the lending volume across maturity ranges can be seen in the “Lending volume by residual maturity” table. In general, retail residential property financing exhibits long-term original maturities. This is largely reflected at the *Bausparkasse* in the form of long-term residual maturity periods. Due to the high new business volume, the share of customer loans with a maturity of more than five years was 96% at year end (2018: 96%).

The “Lending volume by credit rating” figure shows the distribution of the credit portfolio across individual credit ratings. Receivables in default represented by the credit ratings 4a and 4b accounted for 1.1% of the customer lending business as at 31 December 2019 and were therefore slightly below the level of the previous year.

Lending volume by sector

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Financial sector	0.1	0.1	18,203.1	18,934.1	80.6	86.7	18,283.8	19,020.9
Public sector (administration/state)	37.9	22.2	7,254.8	6,282.1	–	–	7,292.7	6,304.3
Corporates	–	–	199.0	209.1	–	–	199.0	209.1
Retail	47,120.0	42,479.5	–	–	–	–	47,120.0	42,479.5
Commercial	232.7	184.0	–	–	–	–	232.7	184.0
Retail customers	46,887.3	42,295.5	–	–	–	–	46,887.3	42,295.5
Miscellaneous	243.8	196.0	–	–	–	–	243.8	196.0
Total	**47,401.8**	**42,697.8**	**25,656.9**	**25,425.3**	**80.6**	**86.7**	**73,139.3**	**68,209.8**

Lending volume by country group

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Germany	47,128.1	42,392.0	23,461.2	23,631.3	42.5	48.5	70,631.8	66,071.8
Industrialised countries	258.7	288.8	2,195.7	1,794.0	38.1	38.2	2,492.5	2,121.0
Advanced economies	4.1	3.9	–	–	–	–	4.1	3.9
Emerging markets	10.9	13.1	–	–	–	–	10.9	13.1
Total	**47,401.8**	**42,697.8**	**25,656.9**	**25,425.3**	**80.6**	**86.7**	**73,139.3**	**68,209.8**

Lending volume by residual maturity

	Traditional lending business		Securities business		Derivative and money market business		Total	
in € million	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
≤ 1 year	416.5	137.4	2,507.4	2,154.5	–	38.2	2,923.9	2,330.1
> 1 year to ≤ 5 years	1,478.2	1,490.9	7,420.7	8,932.1	40.3	41.6	8,939.2	10,464.6
> 5 years	45,507.1	41,069.5	15,728.8	14,338.7	40.3	6.9	61,276.2	55,415.1
Total	**47,401.8**	**42,697.8**	**25,656.9**	**25,425.3**	**80.6**	**86.7**	**73,139.3**	**68,209.8**

Lending volume by credit rating (BVR II)

in € million	Lending volume by credit rating (BVR II)		Securities business		Derivative and money market business		Total	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
0a	–	–	11,290.4	10,732.5	–	–	11,290.4	10,732.5
0b	–	–	221.2	331.6	–	–	221.2	331.6
0c	38.0	22.3	8,893.0	9,353.4	2.2	6.9	8,933.2	9,382.6
0d	–	–	177.1	219.7	–	–	177.1	219.7
0e	–	–	160.7	73.5	–	–	160.7	73.5
1a	–	–	1,077.6	2,428.3	–	–	1,077.6	2,428.3
1b	–	0.1	3,094.8	1,332.5	–	38.2	3,094.8	1,370.8
1c	29.6	32.1	53.2	25.4	38.1	–	120.9	57.5
1d	289.9	304.4	316.6	428.3	–	–	606.5	732.7
1e	1,496.2	1,384.8	295.9	423.7	40.3	41.6	1,832.4	1,850.1
2a	9,374.9	8,323.7	76.4	76.4	–	–	9,451.3	8,400.1
2b	12,751.2	11,659.3	–	–	–	–	12,751.2	11,659.3
2c	11,531.0	10,258.4	–	–	–	–	11,531.0	10,258.4
2d	5,613.9	5,018.9	–	–	–	–	5,613.9	5,018.9
2e	2,352.8	2,095.5	–	–	–	–	2,352.8	2,095.5
3a	1,144.0	1,035.5	–	–	–	–	1,144.0	1,035.5
3b	535.6	525.6	–	–	–	–	535.6	525.6
3c	453.8	376.5	–	–	–	–	453.8	376.5
3d	235.1	225.0	–	–	–	–	235.1	225.0
3e	775.0	711.9	–	–	–	–	775.0	711.9
4a	301.4	279.4	–	–	–	–	301.4	279.4
4b	235.6	248.4	–	–	–	–	235.6	248.4
Miscellaneous	243.8	196.0	–	–	–	–	243.8	196.0
Total	**47,401.8**	**42,697.8**	**25,656.9**	**25,425.3**	**80.6**	**86.7**	**73,139.3**	**68,209.8**

Structure of credit portfolio with impeccable creditworthiness

Own investments were neither overdue nor were value adjustments necessary. As in the previous year, the lending volume from the traditional lending business with impeccable creditworthiness dominated with a 97% share.

Loss allowances

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

- The multi-year probabilities of default calculated for economic management are based on long-term average migration behaviour. They are modified for the purposes of external financial reporting to take account of the currently available macroeconomic outlook in particular.

- The assessment of the expected losses from lending transactions at the time of default is adjusted to meet the requirements of IFRS 9 regarding parameter-based calculation of loss allowances.

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

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

MARKET RISK

Definition and causes

Market risk at Bausparkasse Schwäbisch Hall is composed of the original market risk as well as spread and migration risk arising from the own investments of Bausparkasse Schwäbisch Hall AG. The original market risk describes the risk of losses from financial instruments caused by a change in the interest rates or other price-influencing parameters. Spread risk denotes the risk of losses from financial instruments caused by a change in the credit spread with a constant rating. Migration risk is the risk of losses from financial instruments caused by a change in the rating as a price-influencing parameter.

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

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

Market risk strategy

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

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

Management of market risks

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

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

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

The regulatory standard test limit (ad hoc interest rate shift of +2.0%/–2.0%) of 20% of regulatory capital was adhered to throughout 2019. Furthermore, net present value risk is calculated monthly with a parallel shift in the yield curve of +/–100 basis points.

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

The Bausparkasse Schwäbisch Hall portfolio contains interest rate swaps amounting to €425 million in order to reduce interest rate risk in the overall interest book. There is high sensitivity to falling interest rates due to the existing long duration on the liabilities side of the balance sheet (*Bauspar* deposits). The conclusion of receiver swaps reduces the sensitivity to falling interest rates and only takes place for hedging purposes within the framework of risk management in the Schwäbisch Hall Group (in line with MaRisk).

Limiting

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

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

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

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

Reporting

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

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

Backtesting

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

In the financial year, the number of overruns remained within the expected range.

Stress testing

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

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

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

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

Analysis of market risks

As at 31 December 2019, the capital requirements for original market risks of the Schwäbisch Hall Group (in line with MaRisk) amounted to €564 million (2018: €313 million) under the economic perspective (VaR, 99.9% confidence level, one-year holding period), with a limit of €1,017 million (2018: €744 million). Operating VaR (99% confidence level, ten-day holding period) amounted to €84 million (2018: €47 million) as at 31 December 2019. The VaR remained within the limit at all times during the financial year.

The capital requirements for spread and migration risks under the economic perspective (CVaR, 99.9% confidence level, one-year holding period) amounted to €968 million as at 31 December 2019 (2018: €885 million) with a limit of €1,125 million (2018: €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 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 €451 million and €3,248 million in 2019.

Analysis of liquidity risk

The liquidity risk limits were adhered to at all times in 2019. The LCR fluctuated between 249% and 949% and was therefore clearly above the 100% regulatory minimum value in force for 2019.

TECHNICAL RISK OF A *BAUSPARKASSE*

Definition and causes

Technical risk of a *Bausparkasse* 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 technical risk of a *Bausparkasse*

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

Management of technical risk of a *Bausparkasse*

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 technical risk of a *Bausparkasse* and therefore the risk capital requirement for this risk type.

Limiting

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

Analysis of technical risk of a *Bausparkasse*

The capital requirements for technical risk of a *Bausparkasse* as at 31 December 2019 amounted to €397 million (2018: €553 million), with a limit of €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 technical risk of a *Bausparkasse*.

Stress testing

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

Equity investment 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 quarterly.

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 2019, the economic capital requirement for equity investment risk amounted to €196 million (2018: €269 million). This includes a capital buffer requirement of €5.5 million for foreign currency risks. The limit set as at 31 December 2019 was €250 million (2018: €310 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 €302 million (2018: €432 million) as at 31 December 2019.

OPERATIONAL RISKS

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 risk is not included.

Operational risk strategy

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

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

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

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

Management of operational risks

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

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

- **Loss database**

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

- **Risk indicators**

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

- **Scenario analysis**

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

In the context of risk self-assessments, scenarios for assessing particularly unfavourable configurations, which may not yet have occurred, are identified and measured according to loss amount and probability of occurrence. 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.

Limiting

Operational risks are 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 risks are quantified using the losses actually realised from loss events (ex post) as well as on the basis of scenarios (ex ante). Assumptions on the impact and occurrence of these scenarios are based on internal and external losses as well as expert evaluations. 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 of operational risks 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 risks in the Schwäbisch Hall Group (in line with MaRisk).

Stress testing

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

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

Analysis of operational risk

On 31 December 2019, a capital requirement of €155 million (2018: €195 million) was calculated under the economic perspective to cover the operational risks of the Schwäbisch Hall Group (in line with MaRisk). At no time has the value exceeded the applicable limit. On 31 December 2019, the limit for operational risks amounted to €230 million (2018: €230 million).

REPUTATIONAL RISK

Definition and causes

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

Risk strategy for reputational risk

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

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

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

Management of reputational risk

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

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

With regard to the quantification of operational risks, information on absolute loss amounts as well as information regarding individual potential loss components (loss of earnings, ex gratia payments, damages) are included in the scenarios, which in turn relate to the reputation of the *Bausparkasse*. Furthermore, primary reputational risks are identified and modelled for operational risks.

The loss components of reputational risk are currently factored into the calculation of OpVaR and are taken into account in risk-bearing capacity accordingly.

Limiting

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

Reporting

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

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

Stress testing

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

ENHANCEMENT OF RISK MEASUREMENT METHODS AND THE RISK MONITORING SYSTEM

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

MEASUREMENT OF OVERALL RISK PROFILE

In 2019 the Schwäbisch Hall Group (in line with MaRisk) saw some movement as regards risk capital utilisation within its economic risk-bearing capacity. The risk capital requirement for each risk type only moved within the defined limits in the financial year under review.

The regulatory capital ratios of Bausparkasse Schwäbisch Hall are shown in the economic report on page 24f.

Risks have not been identified that could jeopardise the continuation of the Schwäbisch Hall Group (in line with MaRisk).

Consolidated financial statements

Income statement and Statement of comprehensive income

Income statement

in € thousand	(Notes)	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net interest income	(27)	449,830	760,348
Interest income calculated using the effective interest method		1,584,918	1,596,821 [1]
Current income		997	1,672
Interest expense		– 1,137,002	– 840,830
Income from investments in joint ventures using the equity method		917	2,685
Net fee and commission income	(28)	– 27,568	– 39,853
Fee and commission income		93,768	85,790
Fee and commission expenses		– 121,336	– 125,643
Gains or losses on investments	(29)	162,991	4,542 [1]
Other gains or losses on valuation of financial instruments	(30)	17,569	8,286
Gains or losses on derecognition of financial assets measured at amortised cost	(31)	18,259	13,840 [1]
Loss allowances	(32)	– 3,652	– 11,388
Administrative expenses	(33)	– 486,436	– 480,040
Other net operating income	(34)	57,953	39,073
Profit/loss before taxes		**188,946**	**294,808**
Income taxes	(35)	– 23,276	– 82,346
Net profit		**165,670**	**212,462**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		154,584	201,650
Non-controlling interest shareholders		11,086	10,812

[1] Amount adjusted, see Note 2.

Statement of comprehensive income

in € thousand	(Notes)	1 Jan – 31 Dec 2019	1 Jan – 31 Dec 2018
Net profit		**165,670**	**212,462**
Other comprehensive income/loss		**396,564**	**– 84,962**
Items that may be reclassified to the income statement		**417,763**	**– 75,027**
Gains and losses on debt instruments at fair value through other comprehensive income		631,270	– 97,570
Gains (+)/losses (–) arising during the reporting period		695,323	– 93,028
Gains (+)/losses (–) reclassified to the income statement on disposal		– 64,053	– 4,542
Exchange differences on currency translation of foreign operations		– 4,059	– 4,619
Share of other comprehensive income/loss of equity-accounted joint ventures		– 12,111	– 3,235
Income taxes	(36)	– 197,337	30,397
Items that will not be reclassified to the income statement		**– 21,199**	**– 9,935**
Gains and losses on equity instruments for which the fair value OCI option was exercised		1,010	–
Gains and losses arising from remeasurements of defined benefit plans		– 33,441	– 14,687
Share of other comprehensive income/loss of equity-accounted joint ventures		– 5	93
Income taxes	(36)	11,237	4,659
Total comprehensive income		**562,234**	**127,500**
Attributable to:			
Shareholders of Bausparkasse Schwäbisch Hall		553,126	118,940
Non-controlling interest shareholders		9,108	8,560

Balance sheet

Assets

in € thousand	(Notes)	31 Dec 2019	31 Dec 2018
Cash and cash equivalents	(12, 38)	137,718	36,763
Loans and advances to banks	(13, 39)	11,209,373	12,441,200
Loans and advances to customers	(13, 40)	54,031,730	47,994,902
Positive fair values of hedging instruments	(14, 41)	2,603	–
Positive fair values of derivative financial instruments	(15, 42)	–	12,197
Investments	(16, 43)	11,803,025	10,725,256
Investments accounted for using the equity method	(17, 43)	103,000	254,811
Intangible assets	(18, 44)	183,191	148,557
Property, plant and equipment and right-of-use assets	(19, 45-47)	131,093	117,921
Current income tax assets	(20, 48)	1,854	2,029
Deferred tax assets	(20, 48)	2,527	75,650
Other assets	(21, 49)	27,739	29,010
Loss allowances	(22, 50)	– 164,874	– 170,895
Total assets		**77,468,979**	**71,667,401**

Equity and liabilities

in € thousand	(Notes)	31 Dec 2019	31 Dec 2018
Deposits from banks	(23, 51)	6,141,799	4,475,976
Deposits from customers	(23, 52)	63,607,293	60,335,346
Fair value changes of hedged items in portfolio hedges of interest rate risk		– 3,623	–
Negative fair values of hedging instruments	(14, 53)	4,529	–
Provisions	(24, 54)	1,694,683	1,453,505
Current income tax liabilities	(20, 48)	24,492	59,361
Deferred tax liabilities	(20, 48)	109,498	–
Other liabilities	(21, 55)	190,603	185,896
Equity	(56)	5,699,705	5,157,317
Subscribed capital		310,000	310,000
Capital reserves		1,486,964	1,486,964
Retained earnings		3,258,762	3,103,150
Reserve from fair value OCI equity instruments		– 3,122	– 11,961
Reserve from fair value OCI debt instruments		436,239	1,921
Currency translation reserve		– 6,686	7,891
Non-controlling interests		78,964	73,702
Net profit		138,584	185,650
Total equity and liabilities		**77,468,979**	**71,667,401**

Statement of changes in equity

in € thousand	Subscribed capital	Capital reserves	Earned equity	Reserve from fair value OCI equity instruments	Reserve from fair value OCI debt instruments
Equity as at 1 Jan 2018	**310,000**	**1,486,964**	**3,113,081**	**– 11,957**	**70,844**
Net profit	–	–	201,650	–	–
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	– 67,173
Exchange differences on currency translation of foreign operations	–	–	–	–	–
Remeasurements of defined benefit plans	–	–	– 10,028	–	–
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	97	– 4	– 1,750
Total comprehensive income	**–**	**–**	**191,719**	**– 4**	**– 68,923**
Dividends paid	–	–	–	–	–
Profit transferred due to profit and loss transfer agreement	–	–	– 16,000	–	–
Equity as at 31 Dec 2018	**310,000**	**1,486,964**	**3,288,800**	**– 11,961**	**1,921**
Net profit	**–**	**–**	**154,584**	**–**	**–**
Gains and losses on debt instruments at fair value through other comprehensive income	–	–	–	–	433,933
Gains and losses on equity instruments for which the fair value OCI option was exercised	–	–	– 7,836	8,846	–
Exchange differences on currency translation of foreign operations	–	–	–	–	–
Remeasurements of defined benefit plans	–	–	– 22,204	–	–
Share of other comprehensive income/loss of equity-accounted joint ventures	–	–	2	– 7	385
Total comprehensive income	**–**	**–**	**124,546**	**8,839**	**434,318**
Dividends paid	–	–	–	–	–
Profit transferred due to profit and loss transfer agreement	–	–	– 16,000	–	–
Equity as at 31 Dec 2019	**310,000**	**1,486,964**	**3,397,346**	**– 3,122**	**436,239**

Currency translation reserve	Shareholders' equity	Non-controlling interests	Total equity	in € thousand
11,743	**4,980,675**	**69,042**	**5,049,717**	**Equity as at 1 Jan 2018**
–	201,650	10,812	212,462	Net profit
–	– 67,173	0	– 67,173	Gains and losses on debt instruments at fair value through other comprehensive income
– 2,367	– 2,367	– 2,252	– 4,619	Exchange differences on currency translation of foreign operations
–	–10,028	–	– 10,028	Remeasurements of defined benefit plans
– 1,485	– 3,142	–	– 3,142	Share of other comprehensive income/loss of equity-accounted joint ventures
– 3,852	**118,940**	**8,560**	**127,500**	**Total comprehensive income**
–	–	– 3,900	– 3,900	Dividends paid
–	– 16,000	–	– 16,000	Profit transferred due to profit and loss transfer agreement
7,891	**5,083,615**	**73,702**	**5,157,317**	**Equity as at 31 Dec 2018**
–	**154,584**	**11,086**	**165,670**	**Net profit**
–	433,933	–	433,933	Gains and losses on debt instruments at fair value through other comprehensive income
–	1,010	–	1,010	Gains and losses on equity instruments for which the fair value OCI option was exercised
– 2,081	– 2,081	– 1,978	– 4,059	Exchange differences on currency translation of foreign operations
–	– 22,204	–	– 22,204	Remeasurements of defined benefit plans
– 12,496	– 12,116	–	– 12,116	Share of other comprehensive income/loss of equity-accounted joint ventures
– 14,577	**553,126**	**9,108**	**562,234**	**Total comprehensive income**
–	–	– 3,846	– 3,846	Dividends paid
–	– 16,000	–	– 16,000	Profit transferred due to profit and loss transfer agreement
– 6,686	**5,620,741**	**78,964**	**5,699,705**	**Equity as at 31 Dec 2019**

Cash flow statement

in € thousand	2019	2018
Net profit	**165,670**	**212,462**
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	– 5,610	43,054
Non-cash changes in provisions	400,947	6,324
Other non-cash income and expenses	128,485	– 65,660
Gains and losses on the disposal of assets and liabilities	– 133,092	– 800
Other adjustments (net)	– 455,408	– 772,440
Subtotal	**100,992**	**– 577,060**
Cash changes in assets and liabilities from operating activities		
Loans and advances to banks	1,235,198	1,549,650
Loans and advances to customers	– 6,099,306	– 4,339,521
Other assets from operating activities	– 17,825	– 5,515
Positive and negative fair values of derivative financial instruments	22,715	– 77,720
Deposits from banks	1,667,448	11,547
Deposits from customers	3,243,747	3,437,941
Other liabilities from operating activities	– 155,085	– 130,361
Interest, dividends and income received from equity-accounted joint ventures	1,646,468	1,699,364
Interest paid	– 1,068,792	– 791,952
Income taxes paid	– 6,003	– 241
Cash flows from operating activities	**569,557**	**776,132**
Proceeds from disposals of investments	2,614,799	2,545,463
Proceeds from disposals of property, plant and equipment	11,736	4,165
Proceeds from disposal of intangible assets	4,269	3,272
Payments to acquire investments	– 2,936,961	– 3,195,552
Payments to acquire property, plant and equipment	– 25,825	– 23,456
Payments to acquire intangible assets	– 68,223	– 43,101
Cash flows from investing activities	**– 400,205**	**– 709,209**
Dividends paid to non-controlling interest shareholders	3,846	3,900
Profit transfer	– 16,000	– 25,000
Net change in cash and cash equivalents from other financing activities	– 56,243	– 52,618
Cash flows from financing activities	**– 68,397**	**– 73,718**

in € thousand	2019	2018
Cash and cash equivalents as at 1 Jan	**36,763**	**43,558**
Cash flows from operating activities	569,557	776,132
Cash flows from investing activities	– 400,205	– 709,209
Cash flows from financing activities	– 68,397	– 73,718
Cash and cash equivalents as at 31 Dec	**137,718**	**36,763**

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, balances with central banks and other government institutions, and debt instruments issued by public institutions that are eligible for refinancing 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.

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 2019 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.

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.

In exercising the option under section 315e(3) of the German Commercial Code (*Handelsgesetzbuch* – HGB), the Management Board of Bausparkasse Schwäbisch Hall resolved to prepare voluntary consolidated financial statements in accordance with IFRS in application of section 315e(1) of the HGB. In addition, 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.

The financial year is the same as the calendar year. The consolidated subsidiaries have prepared their annual financial statements as at the 31 December 2019 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 6 March 2020.

02 ACCOUNTING POLICIES AND ESTIMATES

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

The consolidated financial statements as at 31 December 2019 were prepared in accordance with IFRS issued 31 December 2019 and required to be applied in the EU to the IFRS consolidated financial statements as at 31 December 2019.

First-time application of changes in IFRS in financial year 2019
The consolidated financial statements of Bausparkasse Schwäbisch Hall for financial year 2019 apply the following amended financial reporting standards, amendments to IFRS, interpretations issued by the IFRS Interpretations Committee and Improvements to IFRS for the first time:

- IFRS 16 Leases,
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation,
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures,
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement,
- IFRIC 23 Uncertainty over Income Tax Treatments,
- Annual Improvements to IFRS, 2015 – 2017 Cycle.

The requirements of IFRS 16 *Leases* replace those of IAS 17 *Leases* and Interpretations IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC 27 *Evaluating the substance of transactions involving the legal form of a lease*. The new requirements must be applied to annual periods beginning on or after 1 January 2019. In according with the transitional provisions, IFRS 16 is applied within the Bausparkasse Schwäbisch Hall Group using the modified retrospective application method, under which any cumulative adjustment amounts from the first-time application as at 1 January 2019 are recognised in retained earnings. Under this method, IFRS 16 is applied to new and existing contracts that have not yet been performed as at the date of initial application.

Whereas IFRS 16 accounting for lessors is taken over largely unchanged from the existing IAS 17 accounting, apart from additional disclosure requirements, lessee accounting is now based on a right-of-use model. The lessor transfers the right to use the underlying asset to the lessee at the inception of the lease. The lessee undertakes to make corresponding payments for the period of use.

Lessees must therefore recognise right-of-use-assets and lease liabilities for almost all leases. As a result, depreciation of right-of-use assets and interest expenses from the compounding of lease liabilities are recognised in the income statement instead of the operating lease expenses previously recognised under IAS 17. The new standard also contains a new definition of a lease and additional requirements governing presentation and disclosures.

The liabilities from non-cancellable leases to be recognised by lessees at initial recognition of the lease are discounted at the lessee's incremental borrowing rate as at 1 January 2019. Consistent discount rates are used for portfolios of similar former operating leases. The weighted average incremental borrowing rates for land and buildings and for office furniture and equipment at the date of initial application were 2.15% and 2.34%, respectively.

The Bausparkasse Schwäbisch Hall Group measures right-of-use assets at the amount of the lease liabilities, adjusted for the amount of any prepaid or accrued lease payments. Initial direct costs are not considered. In the course of initial application, the Bausparkasse Schwäbisch Hall Group assessed whether there were any provisions for onerous contracts that could be included in the carrying amount of the right-of-use asset in accordance with the practical expedient set out in IFRS 16.C10(b). The assessment indicated that no such provisions for onerous contracts could be identified at the date of initial application.

When assessing the lease term, lessees must use hindsight in cases where contracts contain extension or termination options.

The reconciliation of off-balance-sheet commitments under leasing contracts as at 31 December 2018 under IAS 17 to the recognised lease liability as at 1 January 2019 under IFRS 16 is presented in the following table:

in € thousand	Land and buildings	Office furniture and equipment	Total
Total future minimum lease payments under non-cancellable operating leases as at 31 Dec 2018	**25,416**	**2,590**	**28,006**
Leases not yet commenced to which the lessee is committed	– 23,025	–	– 23,025
Recognition exemptions for short-term leases	– 734	– 117	– 851
Other effects	– 133	– 988	– 1,121
Gross lease liabilities as at 1 Jan 2019	**1,524**	**1,485**	**3,009**
Discounting	– 58	– 65	– 123
Lease liabilities as at 1 Jan 2019	**1,466**	**1,420**	**2,886**

Minimum lease payments from operating leases under IAS 17 amounted to €28,006 thousand as at 31 December 2018, while lease liabilities under IFRS 16 amounted to €2,886 thousand as at the date of initial application.

In the case of leases whose commencement date is after the reporting date (leases not yet commenced to which the lessee is committed), the requirement for lessees to recognise right-of-use assets and lease liabilities at the commencement date leads to a reduction totalling €23,025 thousand in the liabilities recognized as at 1 January 2019 in the reconciliation.

The Bausparkasse Schwäbisch Hall Group has opted to reassess whether a contract is, or contains, a lease at the date of initial application. This did not result in any change in the lease liabilities to be recognised as at 1 January 2019.

In the case of former operating leases whose term ended within twelve months of the date of initial application, no right-of-use assets and lease liabilities were recognized as at the date of initial application, provided they were subsequently accounted for in accordance with IFRS 16.6. This reduced the lease liabilities to be recognised as at 1 January 2019 by a total of €851 thousand.

In the course of the transition to IFRS 16, no effects to be recognised directly in retained earnings were identified as at the date of initial application.

Prior-period comparative amounts were not adjusted due to the application of the modified retrospective method.

The amendments to IFRS 9 *Prepayment Features with Negative Compensation* provide clarity on the classification and measurement of financial instruments with termination rights. According to this, the contractual cash flow criterion under IFRS 9 is specifically not infringed even in the case of a corresponding negative early payment penalty. The changes must be applied effective 1 January 2019. The amendments do not impact the consolidated financial statements.

The amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* clarify that an entity applies IFRS 9 to long-term interests in associates and joint ventures that form part of its net investment in the associate or joint venture but to which the equity method is not applied. The amendments apply for the first time as at 1 January 2019. They do not impact the consolidated financial statements.

The amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* mean that if a defined benefit pension plan is amended, curtailed or settled, the current service cost and net interest will have to be remeasured for the rest of the financial year using the current actuarial assumptions that were used for the necessary remeasurement of the net liability (asset). Furthermore, supplementary information was included clarifying the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The changes must be applied effective 1 January 2019. Implementation of the amendments to IAS 19 did not have any impact on the consolidated financial statements.

Interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* contains requirements governing the recognition and measurement of tax risk positions and hence closes existing regulatory loopholes in this regard in IAS 12 *Income Taxes*. IFRIC 23 specifically addresses the decision whether an entity should assess uncertain tax treatments individually or collectively and the assumptions that an entity makes regarding the examination of tax treatments by the taxation authority. IFRIC 23 also addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, as well as the effect of changes in facts and circumstances. Tax risks should be measured at the most likely amount or the expected value. According to IFRIC 23, the measurement method that best models the existing risk should be used. The application of IFRIC 23 does not lead to any changes in the accounting because tax risk positions were already recognised at the most likely amount in the past, or the case of a lower probability did not apply. The Interpretation is effective 1 January 2019. It did not impact the consolidated financial statements.

If, after the amendments to IFRS 3 *Business Combinations* as part of the *Annual Improvements to IFRS Standards, 2015–2017 Cycle*, an entity obtains control of a former joint operation within the meaning of IFRS 10 by acquiring additional interests, the IFRS 3 requirements governing a business combination achieved in stages apply, so the previously held interests must be remeasured. The entire interest previously held in the joint operation must be remeasured, not just the previously held share of its assets and liabilities. The amendments must be applied prospectively to business combinations in annual periods beginning on or after 1 January 2019.

If, after the amendments to IFRS 11 *Joint Arrangements* as part of the *Annual Improvements to IFRS Standards, 2015–2017 Cycle*, an entity obtains control of a joint operation by acquiring additional interests, the entity does not remeasure previously held interests in the joint operation. The amendments must be applied prospectively to business combinations in annual periods beginning on or after 1 January 2019.

The amendments to IAS 12 *Income Taxes* as part of the *Annual Improvements to IFRS Standards, 2015–2017 Cycle*, clarify that the income tax consequences of dividends are more directly liked to past transactions or events that generated distributable profits than to distributions to owners. The entity therefore recognises the income tax consequences of dividends in the income statement, in comprehensive income or in equity, depending on where it originally recognised those past transactions or events. The amendments were not applied retrospectively. The amendments applied for annual periods beginning on or after 1 January 2019.

The amendments to IAS 23 *Borrowing Costs* as part of the *Annual Improvements to IFRS Standards, 2015–2017 Cycle*, clarifies that unrepaid funds originally borrowed to acquire a specific qualifying asset must be included in the calculation of the general capitalisation rate for other qualifying assets for which no specific funds were borrowed from the date when the specific qualifying asset is largely ready for its intended use or sale. The amendments must be applied prospectively to capitalisation rates arising in annual periods beginning on or after 1 January 2019.

The *Annual Improvements to IFRS Standards, 2015–2017 Cycle* described above did not impact Bausparkasse Schwäbisch Hall's consolidated financial statements.

Changes in IFRS endorsed by the EU but not yet adopted

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

- Amendments to References to the Conceptual Framework in IFRS Standards,
- Amendments to IAS 1 and IAS 8 – Definition of Material,
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform.

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

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

The amendments to IFRS 9, IAS 39 and IFRS 7 published in the Official Journal on 16 January 2019 provide temporary relief when accounting for hedging relationships in the run-up to the reform of key interest rate benchmarks such as EURIBOR, LIBOR, or EONIA. The scope of the relief covers hedging relationships that are directly affected by the reform of those interest rate benchmarks. A hedging relationship is only affected directly if the reform gives rise to uncertainties about the interest rate benchmark designated as a hedged risk or the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. If an entity assesses in accordance with IFRS 9 or IAS 39 whether the cash flows from a forecast transaction in a cash flow hedge are highly probable, it can assume for the purpose of applying the relief that the interest rate benchmark on which these cash flows are based is not affected by the reform. When assessing whether it is necessary to reclassify the amount accumulated in the cash flow hedge reserve to profit or loss, the entity must continue to assume that the hedged cash flows will occur after the hedging relationship has been discontinued.

If an entity hedges a component of interest rate risk, it is sufficient to ensure that the risk component is separately identifiable only at the time of initial designation as a hedged item.

When assessing the economic relationship between the hedged item and the hedging instrument under IFRS 9, it must also be assumed that the interest rate benchmark on which the designated cash flows and/or the hedged risk of the hedged item are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not affected by the interest rate benchmark reform.

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

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

The amendments to IFRS 9, IAS 39 and IFRS 7 described above will not be applied in the Bausparkasse Schwäbisch Hall Group before the effective date. There are instruments in the Bausparkasse Schwäbisch Hall Group that are linked to interest rates affected by the IBOR reform. Application of the amendments starting on 1 January 2020 is not expected to have any impact. If any uncertainties arising as a consequence of the IBOR reform mean that hedging relationships would have to be discontinued, none will be discontinued as a result of the new accounting requirements.

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

- IFRS 17 – Insurance Contracts,
- Amendments to IFRS 3 – Business Combinations.

IFRS 17 *Insurance Contracts* supersedes IFRS 4 *Insurance Contracts* and aims to ensure the consistent, principle-based accounting for all insurance contracts. It contains principles for the recognition, measurement and presentation of insurance contracts as well as disclosure requirements, and requires insurance contracts to be measured at the current fulfilment value. As a rule, insurance contracts are measured in a general model that uses a three-part approach. Insurance contracts with a term of less than one year can be accounted for using a simplified method (Premium Allocation Approach). IFRS 17 must be applied for annual periods beginning on or after 1 January 2021. Under a recent proposal from the IASB, the application of IFRS 17 would be postponed by one year to 1 January 2022. Earlier application of IFRS 17 is permitted.

The amendments to IFRS 3 aim to make a sharper distinction between the acquisition of a business and the acquisition of a group of assets. To be considered a business, an acquisition must, under the new definition of the term "business", consist of inputs and a substantive process that together contribute to the ability to create outputs. The amended definition is applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Early adoption is permitted subject to pending adoption into EU law.

Bausparkasse Schwäbisch Hall is currently examining the impacts of the IFRS amendments described above on the consolidated financial statements. No changes are currently expected to result for Bausparkasse Schwäbisch Hall's consolidated financial statements.

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

Change in presentation

To enhance transparency and improve the provision of reliable and more relevant information, gains or losses on derecognition of financial assets measured at amortised cost are reported as a separate line item in the income statement starting in the 2019 financial year. Previously, information on gains or losses on derecognition of financial assets measured at amortised cost was disclosed in the relevant note to the consolidated financial statements. The adjusted amounts in the comparative information are indicated by means of a footnote "amount adjusted".

in € thousand	2018 before adjustment	Adjustment	2018 after adjustment
Net interest income	766,321	– 5,973	760,348
(…)			
Gains or losses on investments	12,409	– 7,867	4,542
(…)			
Gains or losses on derecognition of financial assets measured at amortised cost	–	13,840	13,840
(…)			
Profit/loss before taxes	**294,808**	–	**294,808**
Income taxes	– 82,346	–	– 82,346
Net profit	**212,462**	–	**212,462**

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

Assumptions and estimates are applied to the fair value measurement of financial assets and liabilities (Notes 58 and 59).

When loss allowances are recognised, uncertainties arise with regard to the estimated and assumed amount and timing of future cash flows. Judgement is also required, for example with regard to the economic environment, the financial performance of the counterparty and the value of collateral held, as factors affecting the amount of loss allowances (Notes 7 and 22).

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

Furthermore, estimates have significant influence on the measurement of provisions for employee benefits and other provisions (Note 24), and therefore also under certain circumstances on the accounting for the related deferred tax assets and liabilities. Estimation uncertainties in connection with provisions for employee benefits primarily result from defined benefit pension obligations, the measurement of which is significantly influenced by actuarial assumptions. Actuarial assumptions include numerous long-term forward-looking factors such as salary and pension trends or future average life expectancies. Cash outflows that actually occur in the future due to circumstances for which other provisions were recognised may differ from the expected utilisation.

The deferred tax assets and liabilities disclosed in Note 20 are measured on the basis of estimates of future taxable income of the taxable entities and estimates of tax-relevant matters.

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 2019 include all subsidiaries that are directly or indirectly controlled by Bausparkasse Schwäbisch Hall AG, including structured entities. They include Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (referred to in the following as SHK) and the specialised fund UIN Union Investment Institutional Fund No. 817, Frankfurt am Main (referred to in the following as UIN Fund No. 817), as subsidiaries, and Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (referred to in the following as FLK), as a subgroup.

Prvá stavebná sporiteľňa, a. s., Bratislava (referred to in the following as PSS) and Zhong De Zuh Fang Chu Xu Yin Hang (Sino-German-Bausparkasse) Co. Ltd., Tianjin (referred to in the following as SGB) are joint ventures that are jointly controlled with at least one other non-Group company and are accounted for using the equity method.

The equity-accounted joint venture Českomoravská stavební spořitel'na, a. s., Prague (ČMSS), was sold on 31 May 2019. This resulted in a positive effect reported in "Gains or losses on investments" in the income statement (Note 29).

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 74.

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 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.

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 consolidate subsidiaries in the consolidated financial statements, the carrying amount of the interest in the subsidiary is eliminated against the parent company's share of the equity of the subsidiary in question. Interests in the equity of subsidiaries that are not attributable to the parent company are reported in equity as non-controlling interests.

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

05 CURRENCY TRANSLATION

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

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

06 *BAUSPAREN*

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

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

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

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

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

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

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

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

Bauspar loans, advance financing and bridge financing loans

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

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

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

Because of their allocation to the “hold” business model and the fulfilment of cash flow criteria, *Bauspar* loans as well as 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

The *Bauspar* customer exercises option rights by drawing on the *Bauspar* loan or, alternatively, through a loan waiver after allocation or continuing the *Bauspar* contract. If various requirements are met, the tariff conditions provide for bonuses in the form of a refund of parts of the contract fee or in the form of bonus interest on deposits. The bonuses constitute separate payment obligations and must be measured and recognized in accordance with IAS 37.

Bauspar-specific simulation models (technical simulation models for *Bauspar* business) that forecast the future behaviour of *Bauspar* customers are deployed to measure these obligations. Uncertainty in the measurement of provisions results from the applicable assumptions regarding future customer behaviour with consideration of scenarios and measures. The loan waiver rate and the termination behaviour of *Bauspar* customers are key input parameters for the technical simulation models.

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

Fees and commissions

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

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

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

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

Fair value

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

For collectively financed building loans and *Bauspar* deposits, there is neither an active market nor are there comparable fair values of essentially identical financial instruments. First, the number of providers of the specialised *Bauspar* contract product is very limited; permission to operate as a

Bausparkasse is subject to comprehensive statutory requirements. Second, there is considerable variety in the tariff versions of the *Bausparkassen*. Furthermore, *Bauspar* contracts contain a considerable number of potential options, which are exercised depending on a number of fiscal policy, economic and subjective parameters that cannot be reliably determined and quantified.

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

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

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

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

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

Significant restrictions

The business activity of *Bausparkassen* is subject to a special legal framework (BauSpkG, Hungarian Act CXIII/1996), which leads to the fact that, in addition to business activities, assets, liabilities and to a limited extent retained earnings accounted for in the context of *Bausparen* (see Note 56) are subject to restrictions in the form of earmarking. Restrictions also exist due to earmarking of non-collective refinancing funds and assignments of assets as collateral.

07 FINANCIAL INSTRUMENTS

Classes of financial instruments

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

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

Financial assets mandatorily measured at fair value through profit or loss

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

Financial assets measured at fair value through other comprehensive income (fair value OCI)

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

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

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

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

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

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

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

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

Hedging instruments
The designation of derivative and non-derivative financial assets and liabilities as hedging instruments is governed by IFRS 9. The recognition and measurement of these hedging instruments is presented in Note 14.

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

Initial recognition and derecognition of financial assets and liabilities
Derivatives are initially recognised and derecognised at the trade date. Regular way purchases and sales of non-derivative financial assets are generally recognised and derecognised using settlement date accounting. Consolidated investment funds and issues of certain securities are also recognised at the trade date. Changes in fair value between the trade date and settlement date are recognised in accordance with the category of the financial instrument.

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

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

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

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

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

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

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

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

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

Financial assets that are deemed to be impaired on the basis of objective evidence are assigned to Stage 3. For these assets, impairment is measured as the amount of lifetime expected credit losses. Financial assets subject to IFRS 9 impairment requirements must be reviewed at every reporting date to establish whether one or more events have occurred that have a sustained impact on the estimated future cash flows of that financial asset. Purchased or originated credit-impaired assets (POCI) are initially recognised at their carrying amount less the lifetime expected credit losses and amortised using a risk-adjusted effective interest rate. At the reporting date, only the cumulative changes to the lifetime expected credit losses since initial recognition are recognised as an impairment loss. No stage transfer is intended for these assets. More detailed explanations on the impairment of financial assets can be found in Note 62.

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 sub-categories "Financial assets mandatorily measured at fair value through other comprehensive income" and "Financial assets designated at fair value through other comprehensive income ("fair value OCI option").

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

Financial assets measured at amortised cost
The class of financial assets measured at amortised cost includes loans and advances to banks and customers measured at amortised cost, investments measured at amortised cost and trade receivables.

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

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

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

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

08 HEDGE ACCOUNTING

General remarks on hedge accounting
Interest rate risk in financial instruments is hedged as part of the risk management strategy.

Hedging relationships are designated in accordance with the IFRS 9 hedge accounting requirements to eliminate or reduce any accounting mismatches between the hedged items and the hedging instruments used that arise from hedging this risk. In accordance with the option in IFRS 9.6.1.3, portfolio hedges continue to be accounted for under IAS 39.

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

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

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

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

09 COLLATERAL

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

10 LEASES

The Schwäbisch Hall Group as lessor

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

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

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

The Schwäbisch Hall Group as lessee

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

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

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

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

11 INCOME

Interest and dividends

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

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

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

Revenue from contracts with customers

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

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

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

12 CASH AND CASH EQUIVALENTS

Cash on hand, balances with central banks and other government institutions, debt instruments issued by public institutions and bills eligible for refinancing with central banks 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 other government institutions are assigned to the category “Financial assets measured at amortised cost (AC)”. Interest income on these balances is recognised as interest income from lending and money market business.

13 LOANS AND ADVANCES TO BANKS AND CUSTOMERS

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

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

Loss allowances on loans and advances to banks and customers are calculated in accordance with the IFRS 9 requirements applicable to the category and deducted on the face of the balance sheet as a separate balance sheet item.

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 derecognition of financial assets measured at amortised cost”.

14 POSITIVE AND NEGATIVE FAIR VALUES OF HEDGING INSTRUMENTS

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

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

Changes in the fair value of hedging instruments attributable to the ineffective portion of hedging relationships are contained in 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 and expenses and the pull-to-par effective of hedges are recognised in net interest income.

15 POSITIVE AND NEGATIVE FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

16 INVESTMENTS

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

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

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

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

17 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in joint ventures are recognised at amortised cost in the consolidated balance sheet at the date of acquisition. In the subsequent years, the recognised equity method carrying amount is adjusted for changes in the investor's interest in the equity of the investee. 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" 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 recognised in the income statement in "Income from investments in joint ventures using the equity method". Starting in the reporting period, gains from the disposal of investments accounted for using the equity method, which arose for the first time in the reporting period, are reported in "Gains or losses on investments".

18 INTANGIBLE ASSETS

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

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

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

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

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

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

The underlying useful life is 25 to 50 years in the case of buildings and 3 to 13 years in the case of operating and office equipment.

Right-of-use assets from leases are recognised in accordance with the requirements governing accounting for leases and measured using the cost model.

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

20 INCOME TAX ASSETS AND LIABILITIES

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

Deferred tax assets and liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and their tax base, 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.

21 OTHER ASSETS AND LIABILITIES

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

22 LOSS ALLOWANCES

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

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

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

23 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.

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.

24 PROVISIONS

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

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

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

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

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

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

The discount rate is derived in line with the liability structure (duration) on the basis of a portfolio of investment-grade corporate bonds that must meet defined quality characteristics and quantitative criteria (outstanding principal amount). The quality characteristics are in particular an average AA rating by Moody’s Investors Service, New York, Standard & Poor’s, New York, Fitch Ratings, New York/London, and DBRS, Toronto. Bonds with existing call rights in the form of embedded derivatives are not taken into account here.

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

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

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

Other long-term employee benefits include provisions for service anniversaries.

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 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.

25 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

26 SEGMENT REPORTING

Financial year 2019 in € thousand	*Bausparen* Domestic	*Bauspar* and loan processing	*Bausparen* Non-domestic	Consolidation	Total
Net interest income	381,487	2,152	70,235	– 4,044	449,830
Net fee and commission income	– 32,284	–	4,716	–	– 27,568
Gains or losses on investments	296,751	–	–	– 133,760	162,991
Other gains or losses on valuation of financial instruments	17,569	–	–	–	17,569
Gains or losses on derecognition of financial assets measured at amortised cost	18,108	–	151	–	18,259
Loss allowances	– 2,284	–	– 1,368	–	– 3,652
Administrative expenses	– 416,214	– 120,522	– 42,097	92,397	– 486,436
Other net operating income	40,904	112,367	– 2,921	– 92,397	57,953
Profit/loss before taxes	**304,037**	**– 6,003**	**28,716**	**– 137,804**	**188,946**

Financial year 2018 in € thousand	*Bausparen* Domestic	*Bauspar* and loan processing	*Bausparen* Non-domestic	Consolidation	Total
Net interest income	717,688 [1]	4,865	70,222	– 32,427	760,348
Net fee and commission income	– 39,328	–	– 525	–	– 39,853
Gains or losses on investments	– 15,689	–	– [1]	20,231	4,542
Other gains or losses on valuation of financial instruments	8,286	–	–	–	8,286
Gains or losses on derecognition of financial assets measured at amortised cost	5,973 [1]	–	7,867 [1]	–	13,840
Loss allowances	– 9,876	–	– 1,512	–	– 11,388
Administrative expenses	– 460,468	– 119,963	– 43,750	144,141	– 480,040
Other net operating income	22,172	164,477	– 3,435	– 144,141	39,073
Profit/loss before taxes	**228,758**	**49,379**	**28,867**	**– 12,196**	**294,808**

[1] Amount adjusted, see Note 2.

General information on segment reporting

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

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

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

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

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

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

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

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

The key indicator used to assess segment performance is profit or loss before taxes. A detailed description of the segments can be found in the Combined Management Report starting on page 13.

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

Intragroup dividend payments are consolidated in net interest income.

The deconsolidation of ČMSS is included 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 and SHK.

Schwäbisch Hall Group-wide disclosures

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

Information about products and services

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

27 NET INTEREST INCOME

in € thousand	2019	2018
Interest income	**1,584,918**	**1,596,821**
calculated using the effective interest method	**1,584,918**	**1,596,821**
Bauspar loans	70,473	74,134
Advance and bridge financing loans	939,753	910,923
Other building loans	62,422	58,922
Lending and money market transactions	362,951	413,183[1]
Fixed-income investment securities	149,607	139,893
Finance leases	11	–
Financial assets with negative effective yield	– 299	– 233
Current income	**997**	**1,672**
Current income from FVOCI equity instruments held at the reporting date	997	1,672
Interest expense on	**– 1,137,002**	**– 840,830**
Deposits from banks and customers	– 1,148,137	– 854,552
of which: for *Bauspar* deposits	– 1,145,355	– 851,658
Financial liabilities with positive effective yield	8,950	7,308
Provisions	– 9	–
Leases	– 610	–
Fair value changes of hedged items in portfolio hedges of interest rate risk	720	–
Net interest income from derivative financial instruments	2,084	6,414
Profit or loss of equity-accounted joint ventures	**917**	**2,685**
Total	**449,830**	**760,348**

[1] Amount adjusted, see Note 2.

Profit or loss of equity-accounted joint ventures in the prior-year period contains an impairment loss of €18.1 million on SGB. In the reporting period, an impairment loss of €6.1 million was recognised on the investment in PSS.

28 NET FEE AND COMMISSION INCOME

in € thousand	2019	2018
Fee and commission income	**93,768**	**85,790**
Bauspar business	34,358	30,548
Other fees	34,358	30,548
Fee and commission income from cross-selling (previous year: “Other”)	59,410	55,242
Fee and commission expenses	**– 121,336**	**– 125,643**
Bauspar business	– 84,109	– 89,491
Commissions for contract conclusion and brokerage	– 84,109	– 89,491
Other	– 37,227	– 36,152
Total	**– 27,568**	**– 39,853**

Fee and commission income during the reporting period contains revenue of €93,768 thousand (previous year: €85,790 thousand) from contracts with customers under IFRS 15.

Revenue from contracts with customers includes fee and commission income from brokering building loans to primary banks, from fund investments at Union Investment and from insurance brokerage at R+V Versicherung.

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

When brokering fund investments and insurance contracts, fee and commission income arises over the entire insurance term or the entire investment period once the contract has been concluded. In principle, the total amount of fee and commission income would have to be recognised when the contract is concluded. However, this concerns variable consideration depending on the insured amount or the fund assets. The uncertainty about the variable consideration is only removed at a later stage. Accordingly, this revenue can only be calculated and recognised subsequently, on a monthly basis. Fee and commission receivables include normal maturities without financing components.

Disclosures on revenue from contracts with customers by operating segment

in € thousand	*Bausparen* domestic	*Bausparen* non-domestic	Total	*Bausparen* domestic	*Bausparen* non-domestic	Total
	2019	**2019**	**2019**	**2018**	**2018**	**2018**
Revenue types	**83,755**	**10,013**	**93,768**	**75,813**	**9,977**	**85,790**
Fee and commission income from the *Bauspar* business	27,384	6,974	34,358	22,807	7,741	30,548
Fee and commission income from cross-selling (previous year: "Other")	56,371	3,039	59,410	53,006	2,236	55,242
Primary geographical markets	**83,755**	**10,013**	**93,768**	**75,813**	**9,977**	**85,790**
Germany	83,755	–	83,755	75,813	–	75,813
Rest of Europe	–	10,013	10,013	–	9,977	9,977
Type of revenue recognition	**83,755**	**10,013**	**93,768**	**75,813**	**9,977**	**85,790**
At a point in time	83,755	10,013	93,768	75,813	9,977	85,790

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

29 GAINS OR LOSSES ON INVESTMENTS

in € thousand	2019	2018
Net income from the sale of bonds at fair value through other comprehensive income	64,053	4,542[1]
Net income from the sale of interests in joint ventures	98,938	–
Total	**162,991**	**4,542**

[1] Amount adjusted, see Note 2.

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

30 OTHER GAINS OR LOSSES ON VALUATION OF FINANCIAL INSTRUMENTS

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

in € thousand	2019	2018
Gains or losses from hedge accounting	**– 90**	**–**
Gains or losses on hedging instruments (portfolio fair value hedges)	– 3,445	–
Gains or losses on hedged items (portfolio fair value hedges)	3,355	–
Gains or losses on derivative financial instruments used for purposes other than trading	**17,659**	**8,286**
Measurement gains or losses	1,265	8,286
Disposal gains or losses	16,394	–
Total	**17,569**	**8,286**

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

31 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	2019	2018
Gains on derecognition of financial assets measured at amortised cost	**18,458**	**18,650**
Loans and advances to banks and customers	17,038	10,783
Bonds and fixed-income securities	1,420	7,867
Losses on derecognition of financial assets measured at amortised cost	**– 199**	**– 4,810**
Loans and advances to banks and customers	– 199	– 4,810
Total	**18,259**	**13,840**[1]

[1] Amount adjusted, see Note 2.

Disposals of financial assets measured at amortised cost in the reporting period were below the materiality threshold.

32 LOSS ALLOWANCES

in € thousand	2019	2018
Loss allowances for cash and cash equivalents	**–**	**12**
Additions	–	– 26
Reversals	–	38
Loss allowances for loans and advances to banks	**249**	**– 27**
Additions	– 87	– 345
Reversals	336	318
Loss allowances for loans and advances to customers	**– 2,159**	**– 12,130**
Additions	– 126,025	– 143,798
Reversals	124,818	133,605
Directly recognised impairment losses	– 6,531	– 8,056
Recoveries on loans and advances to customers previously impaired	5,579	6,119
Loss allowances for investments	**– 253**	**– 764**
Additions	– 1,057	– 2,249
Reversals	804	1,486
Loss allowances for other assets	**– 35**	**– 19**
Additions	– 73	– 135
Reversals	65	131
Directly recognised impairment losses	– 31	– 18
Recoveries on other assets previously impaired	4	3
Other loss allowances	**– 1,454**	**1,540**
Change in provisions for loan commitments	– 1,454	1,540
Total	**– 3,652**	**– 11,388**

33 ADMINISTRATIVE EXPENSES

in € thousand	2019	2018
Personnel expenses	**–224,561**	**–220,773**
Wages and salaries	–177,927	–173,764
Social security contributions	–27,719	–26,625
Post-employment benefit expenses	–18,915	–20,384
General administrative expenses	**–210,209**	**–214,564**
Contributions and fees	–18,903	–17,667
Consulting	–15,992	–12,742
Office expenses	–66,696	–68,116
IT expenses	–69,034	–72,797
Property and occupancy costs	–10,476	–12,597
Public relations/marketing	–23,580	–25,082
Other general administrative expenses	–5,528	–5,563
Depreciation and amortisation	**–51,666**	**–44,703**
Property, plant and equipment	–22,984	–19,862
of which: right-of-use assets	–2,876	–
Intangible assets	–28,682	–24,841
Total	**–486,436**	**–480,040**

The net pension expense comprises the following items:

in € thousand	2019	2018
Net pension expense	**–13,809**	**–15,822**
Current service cost	–9,622	–10,088
Past service cost and settlement gains or losses	27	163
Net interest	–4,214	–5,897
of which: interest expense	–13,131	–13,164
of which: return on plan assets	8,917	7,267
Other post-employment benefit expenses	**–5,106**	**–4,562**
Total	**–18,915**	**–20,384**

Other post-employment benefit expenses include expenses for defined contribution plans amounting to €64 thousand (previous year: €69 thousand).

34 OTHER NET OPERATING INCOME

in € thousand	2019	2018
Income from loan processing and administration	9,282	10,948
Income from IT application service and IT application development	919	881
Other changes in provisions and accruals	29,740	4,904
Expenses for other taxes	– 3,779	– 4,264
Remaining other net operating income	21,791	26,604
Total	**57,953**	**39,073**

35 INCOME TAXES

in € thousand	2019	2018
Current income tax expense	– 26,806	– 64,480
Deferred income tax income/expense	3,530	– 17,866
Total	**– 23,276**	**– 82,346**

Deferred taxes include income of €3,529 thousand (previous year: expense of €17,892 thousand) relating to the origination and reversal of temporary differences. Income of €1 thousand that is attributable to changes in tax rates is included in deferred taxes (previous year: €26 thousand). Of the current taxes, income of €3,051 thousand (previous year: €3,372 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% (previous year: 15.365%). The slight increase in the trade tax rate results from a change in the average multiplier.

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	2019	2018
Profit/loss before taxes	**188,946**	**294,808**
Group income tax rate	31.260 %	31.190 %
Expected income taxes	**– 59,064**	**– 91,951**
Income tax effects	**35,788**	**9,605**
Impact of tax-exempt income and non-deductible expenses	25,019	– 1,391
Adjustments resulting from other types of income tax or trade tax multipliers and changes in tax rates	7,096	9,208
Tax rate differences relating to components of income subject to taxation in other countries	– 1	– 1
Current and deferred income taxes relating to prior years	4,358	1,027
Other effects	– 684	762
Reported income taxes	**– 23,276**	**– 82,346**

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

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

in € thousand	Amount before taxes 2019	Income taxes 2019	Amount after taxes 2019	Amount before taxes 2018	Income taxes 2018	Amount after taxes 2018
Items that may be reclassified to the income statement	**615,100**	**– 197,337**	**417,763**	**– 105,424**	**30,397**	**– 75,027**
Gains and losses on debt instruments at fair value through other comprehensive income	631,270	– 197,337	433,933	– 97,570	30,397	– 67,173
Exchange differences on currency translation of foreign operations	– 4,059	–	– 4,059	– 4,619	–	– 4,619
Share of other comprehensive income/loss of equity-accounted joint ventures	– 12,111	–	– 12,111	– 3,235	–	– 3,235
Items that will not be reclassified to the income statement	**– 32,436**	**11,237**	**– 21,199**	**– 14,594**	**4,659**	**– 9,935**
Gains and losses on equity instruments for which the fair value OCI option was exercised	1,010	–	1,010	–	–	–
Gains and losses arising from remeasurements of defined benefit plans	– 33,441	11,237	– 22,204	– 14,687	4,659	– 10,028
Share of other comprehensive income/loss of equity-accounted joint ventures	– 5	–	– 5	93	–	93
Other comprehensive income/loss	**582,664**	**– 186,100**	**396,564**	**– 120,018**	**35,056**	**– 84,962**

37 RECLASSIFICATIONS TO THE INCOME STATEMENT

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

Balance sheet disclosures

38 CASH AND CASH EQUIVALENTS

in € thousand	31 Dec 2019	31 Dec 2018
Cash on hand	21	26
Balances with central banks and other government institutions	137,697	36,737
Total	**137,718**	**36,763**

The average target minimum reserve for the financial year was €2,849 thousand (previous year: €2,633 thousand).

39 LOANS AND ADVANCES TO BANKS

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

in € thousand	31 Dec 2019	31 Dec 2018
Other building loans	85	88
Registered bonds	11,042,647	12,276,345
Money market transactions	69,838	38,207
Other loans secured by mortgages	40,262	41,594
Other loans and advances	56,541	84,966
Total	**11,209,373**	**12,441,200**

Registered bonds include *öffentliche Namenspfandbriefe* (registered German public sector covered bonds) amounting to €589 million (previous year: €1,092 million) and *Hypotheken-Namenspfandbriefe* (registered German mortgage covered bonds) amounting to €1,218 million (previous year: €1,092 million).

	Repayable on demand		Other loans and advances		Total	
in € thousand	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Domestic banks	49,427	73,762	11,082,994	12,318,027	11,132,421	12,391,789
Non-domestic banks	7,114	11,204	69,838	38,207	76,952	49,411
Total	**56,541**	**84,966**	**11,152,832**	**12,356,234**	**11,209,373**	**12,441,200**

40 LOANS AND ADVANCES TO CUSTOMERS

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

in € thousand	31 Dec 2019	31 Dec 2018
Building loans by the *Bausparkasse*	50,372,427	45,453,702
from allocations (*Bauspar* loans)	2,562,952	2,548,939
for advance and bridge financing	44,382,235	40,521,729
other	3,427,240	2,383,034
Other loans and advances	3,659,303	2,541,200
Total	**54,031,730**	**47,994,902**

in € thousand	31 Dec 2019	31 Dec 2018
Loans and advances to domestic customers	52,617,738	46,690,362
Loans and advances to non-domestic customers	1,413,992	1,304,540
Total	**54,031,730**	**47,994,902**

41 POSITIVE FAIR VALUES OF HEDGING INSTRUMENTS

As at 31 December 2019, Bausparkasse Schwäbisch Hall had six interest rate swaps (nominal amount: €160 million) with a fair value of €2,603 thousand in its portfolio.

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

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

42 POSITIVE FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018, Bausparkasse Schwäbisch Hall had six interest rate swaps (nominal amount: €450 million) with a fair value of €12,197 thousand in its portfolio. All interest rate swaps were entered into in euros with DZ BANK to specifically manage interest rate risks in the interest book. The interest rate swaps were closed out in the reporting period.

43 INVESTMENTS AND INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

in € thousand	31 Dec 2019	31 Dec 2018
Bonds and other fixed-income securities	**11,793,102**	**10,715,412**
Mandatorily measured at fair value through other comprehensive income	9,260,147	8,055,642
Measured at amortised cost	2,532,955	2,659,770
Shares and other variable-yield securities	**2,685**	**2,606**
Fair value OCI option	2,685	2,606
Shares in subsidiaries	**7,238**	**7,238**
Fair value OCI option	7,238	7,238
Interests in equity-accounted joint ventures	**103,000**	**254,811**
Total	**11,906,025**	**10,980,067**

Bonds and other fixed-income securities include *öffentliche Inhaberpfandbriefe* (German public sector bearer covered bonds) amounting to €607 million (previous year: €568 million), *Hypotheken-Inhaberpfandbriefe* (German mortgage bearer covered bonds) amounting to €875 million (previous year: €876 million) and bonds from public-sector issuers amounting to €4,444 million (previous year: €4,475 million).

Investments include shares and other variable-yield securities as well as interests in subsidiaries with a carrying amount of €9,923 thousand (previous year: €9,844 thousand) for which the fair value OCI option has been exercised.

Bausparkasse Schwäbisch Hall acquired a further 5% interest in GENOPACE GmbH in the financial year for a purchase price of €75 thousand. In addition, Bausparkasse Schwäbisch Hall participated in a capital increase at DOMUS Beteiligungsgesellschaft der Privaten Bausparkassen mbH, investing €4 thousand.

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

Also for strategic reasons, shares and the interests in Raiffeisen Banca Pentru Locuinţe S. A. classified as at fair value through other comprehensive income were sold. The fair value of the investments was €1,010 thousand at the date of sale, and the remaining accumulated disposal loss of €7,836 thousand was reclassified to retained earnings.

No sales of equity instruments took place in financial year 2018.

As in the previous year, Bausparkasse Schwäbisch Hall has an additional funding commitment of €3,300 thousand to DOMUS Beteiligungsgesellschaft der Privaten Bausparkassen mbH in the event of a shareholder resolution.

Financial data for interests in equity-accounted joint ventures

Interests in joint ventures relate to the credit institutions PSS, SGB (see Note 74) and, in the previous year, ČMSS, which operate *Bauspar* business in accordance with German principles in Slovakia, China and the Czech Republic (see *Bausparen* Non-domestic segment in the Combined Management Report). Schwäbisch Hall is pursuing the goal of transferring the benefits of the *Bauspar* system to non-domestic markets and thereby leveraging additional growth opportunities.

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

	PSS	SGB	ČMSS	PSS	SGB
in € million	**2019**	**2019**	**2018**	**2018**	**2018**
Current assets	**625**	**578**	**1,085**	**636**	**618**
of which: cash and cash equivalents	13	502	60	69	467
Non-current assets	**2,405**	**2,331**	**4,670**	**2,443**	**2,662**
Current liabilities	**690**	**1,931**	**1,246**	**762**	**2,497**
of which: current financial liabilities	670	1,743	1,165	744	2,459
Non-current liabilities	**2,082**	**602**	**4,185**	**2,074**	**415**
of which: non-current financial liabilities	2,068	598	4,182	2,062	414
Underlying net assets [1]	**225**	**120**	**324**	**243**	**120**
Shareholding	32.5%	24.9%	45.0%	32.5%	24.9%
Equity-accounted carrying amount	**73**	**30**	**146**	**79**	**30**

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

	PSS	SGB	ČMSS	PSS	SGB
in € million	**2019**	**2019**	**2018**	**2018**	**2018**
Net interest income	**63**	**37**	**80**	**56**	**43**
Interest income	101	84	165	103 [2]	129
Interest expenses	– 38	– 47	– 86	– 47	– 86
Net fee and commission income	**15**	**– 4**	**22**	**16**	**– 2**
Fee and commission income	16	9	41	17	9
Fee and commission expenses	– 1	– 13	– 19	– 1	– 11
Administrative expenses	**– 34**	**– 36**	**– 51**	**– 35**	**– 36**
of which: depreciation/amortisation	– 5	– 3	– 11	– 4	– 4
Income taxes	**– 5**	**– 2**	**– 8**	**– 5**	**–**
Profit or loss after tax from continuing operations	**15**	**6**	**34**	**17**	**– 2**
Other comprehensive income or loss	**–**	**3**	**– 5**	**–**	**– 4**
Total comprehensive income or loss	**15**	**9**	**29**	**17**	**– 6**
Dividends received	–	–	19	–	–

[2] Amount adjusted.

44 INTANGIBLE ASSETS

in € thousand	31 Dec 2019	31 Dec 2018
Internally generated intangible assets	15,876	21,086
Other intangible assets	167,315	127,471
Total	**183,191**	**148,557**

€124.1 million (previous year: €95.2 million) of other intangible assets is attributable to Project NEXT.

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

in € thousand	31 Dec 2019	31 Dec 2018
Land and buildings	57,530	63,069
Office furniture and equipment	54,555	54,852
Right-of-use assets	19,008	n/a
Right-of-use assets for land and buildings	18,192	n/a
Right-of-use assets for office furniture and equipment	816	n/a
Total	**131,093**	**117,921**

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 1 Jan 2018	**23,687**	**110,632**	**68,401**	**48,244**
Costs as at 1 Jan 2018	89,769	232,673	261,165	152,845
Additions	7,302	35,799	752	24,127
Transfers	– 21	21	–	–
Disposals	–	– 3,335	– 2,145	– 10,989
Changes attributable to currency translation	–	– 970	–	– 491
Costs as at 31 Dec 2018	**97,050**	**264,188**	**259,772**	**165,492**
Depreciation, amortisation and impairment losses as at 1 Jan 2018	– 66,082	– 122,041	– 192,764	– 104,601
Additions	– 9,882	– 14,959	-5,785	– 14,132
Disposals	–	63	1,846	7,829
Changes attributable to currency translation	–	220	–	264
Depreciation, amortisation and impairment as at 31 Dec 2018	**– 75,964**	**– 136,717**	**– 196,703**	**– 110,640**
Carrying amount as at 31 Dec 2018	**21,086**	**127,471**	**63,069**	**54,852**
Costs as at 1 Jan 2019	97,050	264,188	259,772	165,492
Additions	4,753	63,470	280	26,052
Transfers	– 3,012	3,018	– 49	– 99
Disposals	–	– 7,307	–	– 25,638
Changes attributable to currency translation	–	– 914	–	– 522
Costs as at 31 Dec 2019	**98,791**	**322,455**	**260,003**	**165,285**
Depreciation, amortisation and impairment as at 1 Jan 2019	– 75,964	– 136,717	– 196,703	– 110,640
Additions	– 6,951	– 21,731	– 5,770	– 14,338
Disposals	–	3,037	–	13,999
Changes attributable to currency translation	–	271	–	249
Depreciation, amortisation and impairment as at 31 Dec 2019	**– 82,915**	**– 155,140**	**– 202,473**	**– 110,730**
Carrying amount as at 31 Dec 2019	**15,876**	**167,315**	**57,530**	**54,555**

The carrying amount of buildings includes prepayments of €143 thousand (previous year: €53 thousand). The carrying amount of office furniture and equipment includes prepayments of €1,495 thousand (previous year: €39 thousand), and the carrying amount of other intangible assets includes prepayments of €38,117 thousand (previous year: €86,230 thousand).

47 LEASE DISCLOSURES

Schwäbisch Hall Group as lessee

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

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

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

Other liabilities include lease liabilities of €20,584 thousand. Interest expense on lease liabilities is disclosed in net interest income (Note 27).

The contractual maturities of lease liabilities are structured as follows:

in € thousand	**31 Dec 2019**
Up to 1 year	2,549
More than 1 year and up to 3 years	5,808
More than 3 years and up to 5 years	5,199
More than 5 years	10,609

Comparative information under IAS 17

in € thousand	**31 Dec 2018**
Total amount of future minimum lease payments under non-cancellable leases	**28,006**
Up to 1 year	3,586
More than 1 year and up to 5 years	14,079
More than 5 years	10,341

Total cash outflows from lease liabilities amounted to €2,507 thousand in the reporting period (previous year: €3,479 thousand).

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

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

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

The Schwäbisch Hall Group as lessor
Since financial year 2019, the Schwäbisch Hall Group has acted as lessor in finance lease arrangements for subleases of office and business premises, and office furniture and equipment. The total term of these leases is up to ten years for office and business premises, in line with the term of the head lease, and one to three years for office furniture and equipment.

The contractual maturities of lease receivables are structured as follows:

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

Finance income from the net investment in leases amounts to €11 thousand (previous year: €0 thousand).

48 INCOME TAX ASSETS AND LIABILITIES

in € thousand	31 Dec 2019	31 Dec 2018
Current income tax assets	1,854	2,029
Deferred tax assets	2,527	75,650
Income tax assets	**4,381**	**77,679**
Current income tax assets	24,492	59,361
Deferred tax liabilities	109,498	–
Income tax liabilities	**133,990**	**59,361**

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

	Deferred tax assets		Deferred tax liabilities	
in € thousand	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Loans and advances to banks and customers	–	–	100,958	79,561
Loss allowances	34,470	35,227	–	–
Positive and negative fair values of derivative financial instruments/hedging instruments	–	–	375	3,025
Investments	–	704	194,004	15
Property, plant and equipment	1,018	305	4	4
Intangible assets	–	–	2,144	2,823
Deposits from banks and customers	4,182	3,390	146,238	148,429
Provisions for employee benefits	136,612	127,980	–	–
Other provisions	157,353	136,493	1,791	1,687
Other balance sheet items	4,908	7,095	–	–
Total (gross)	**338,543**	**311,194**	**445,514**	**235,544**
Netting of deferred tax assets and liabilities	– 336,016	– 235,544	– 336,016	– 235,544
Total (net)	**2,527**	**75,650**	**109,498**	**–**

There are deferred tax assets recognised in other comprehensive income of €85,650 thousand (previous year: €74,413 thousand) relating to provisions for employee benefits, and deferred tax liabilities recognised in other comprehensive income of €198,383 thousand (previous year: deferred tax assets recognised in other comprehensive income of €1,045 thousand) relating to investments.

Furthermore, there are deferred tax liabilities recognised in other comprehensive income of €2.081 thousand (previous year: €2,144 thousand) relating to the FLK settlement provision.

Deferred tax assets that are only expected to be realised after twelve months or more amount to €2.527 thousand (previous year: €75,650 thousand). Deferred tax liabilities that are only expected to be realised after twelve months or more amount to €109,498 thousand (previous year: €0 thousand).

No deferred tax liabilities were recognised for temporary differences relating to investments in subsidiaries and joint ventures amounting to €10,827 thousand (previous year: €20,771 thousand), as it is unlikely that these differences will reverse through realisation in the foreseeable future.

49 OTHER ASSETS

in € thousand	31 Dec 2019	31 Dec 2018
Other financial receivables	5,784	8,015
Payments in advance and accruals	18,301	17,648
Remaining other assets	3,654	3,347
Total	**27,739**	**29,010**

Other financial receivables primarily include trade receivables.

50 LOSS ALLOWANCES

Changes in asset-side loss allowances were as follows:

	Loss allowances for							
	Cash and cash equivalents	Loans and advances to banks	Loans and advances to customers			Investments	Other assets	Total
in € thousand	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	
Balance as at 1 Jan 2018	**13**	**807**	**19,065**	**54,130**	**91,671**	**732**	**51**	**166,469**
Additions	26	345	15,696	82,636	45,466	452	135	144,756
Utilisations	–	–	–	–	– 5,903	–	–	– 5,903
Reversals	– 38	– 318	– 70,569	– 33,632	– 29,404	– 403	– 131	– 134,495
Change due to stage transfer	–	–	61,157	– 52,032	– 9,125	–	–	–
Transfer from stage 1	–	–	– 649	593	56	–	–	–
Transfer from stage 2	–	–	59,296	– 59,465	169	–	–	–
Transfer from stage 3	–	–	2,510	6,840	– 9,350	–	–	–
Other changes	– 1	0	– 48	– 17	156	– 24	2	68
Balance as at 31 Dec 2018	**–**	**834**	**25,301**	**51,085**	**92,861**	**757**	**57**	**170,895**
Additions	–	87	8,347	72,868	44,810	143	73	126,328
Utilisations	–	–	–	–	– 6,690	–	–	– 6,690
Reversals	–	– 336	– 70,356	– 32,058	– 22,404	– 573	– 65	– 125,792
Change due to stage transfer	–	–	60,368	– 43,283	– 17,085	–	–	–
Transfer from stage 1	–	–	– 1,726	1,598	128	–	–	–
Transfer from stage 2	–	–	58,674	– 67,663	8,989	–	–	–
Transfer from stage 3	–	–	3,420	22,782	– 26,202	–	–	–
Other changes	–	–	– 59	– 15	230	– 22	– 1	133
Balance as at 31 Dec 2019	**–**	**585**	**23,601**	**48,597**	**91,722**	**305**	**64**	**164,874**

51 DEPOSITS FROM BANKS

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

in € thousand	31 Dec 2019	31 Dec 2018
Bauspar deposits	1,652,421	1,652,017
Current business accounts	403,523	1,706,786
Promissory note loans	778,209	576,441
Money market transactions	3,167,176	399,935
KfW subsidised loans	135,472	140,797
Other liabilities	4,998	–
Total	**6,141,799**	**4,475,976**

Deposits from banks have the following maturities:

in € thousand	31 Dec 2019	31 Dec 2018
Deposits from domestic banks	6,141,799	4,475,976
of which: repayable on demand	403,523	1,706,786
with agreed maturity or notice period	4,085,855	1,117,173
with indefinite maturity	1,652,421	1,652,017
Total	**6,141,799**	**4,475,976**

52 DEPOSITS FROM CUSTOMERS

in € thousand	31 Dec 2019	31 Dec 2018
Deposits from domestic customers	**61,147,313**	**58,109,373**
Bauspar deposits	60,768,581	57,773,782
Other deposits	378,732	335,591
of which: repayable on demand	330,590	295,802
with agreed maturity or notice period	48,142	39,789
Deposits from non-domestic customers	**2,459,980**	**2,225,973**
Bauspar deposits	2,457,596	2,222,704
Other deposits	2,384	3,269
of which: repayable on demand	2,384	3,269
Total	**63,607,293**	**60,335,346**

53 NEGATIVE FAIR VALUES OF HEDGING INSTRUMENTS

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

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

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

54 PROVISIONS

in € thousand	31 Dec 2019	31 Dec 2018
Provisions for employee benefits	**209,243**	**290,895**
Defined benefit obligations	174,793	255,361
Long-term employee benefits	8,070	7,615
Termination benefits	26,380	27,919
of which: Loyalty bonus	16,655	16,591
Early retirement arrangements	3,331	3,350
Other provisions	6,394	7,978
Other provisions	**1,485,440**	**1,162,610**
Bauspar-specific provisions	1,405,911	1,071,978
Other provisions	73,473	86,023
Provisions for loan commitments	6,056	4,609
Total	**1,694,683**	**1,453,505**

Other provisions include provisions in connection with the lending and *Bauspar* business amounting to €51,193 thousand (previous year: €59,295 thousand).

Provisions for defined benefit plans

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

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

in € thousand	31 Dec 2019	31 Dec 2018
Defined benefit obligations	**837,524**	**764,864**
of which: active participants	309,987	268,193
departed participants	90,670	91,664
retirees	436,867	405,007

in € thousand	31 Dec 2019	31 Dec 2018
Defined-benefit obligation	**837,524**	**764,864**
of which: final-salary pension commitments	806,053	733,640
capital commitments	31,471	31,224

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

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

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

All defined benefit obligations are attributable to Germany.

The present value of defined benefit obligations changed as follows:

in € thousand	2019	2018
Present value of defined benefit obligations as at 1 Jan	**764,864**	**766,416**
Current service cost	9,622	10,088
Past service cost	– 27	– 163
Interest expenses	13,131	13,164
Pension benefits paid	– 27,715	– 26,779
Actuarial gains (losses)	77,633	2,449
of which: from changes in financial assumptions	80,018	–
from changes in demographic assumptions	– 488	3,887
Experience adjustments	– 1,897	– 1,438
Plan settlements (previous year: transfer payments)	16	– 311
Present value of defined benefit obligations as at 31 Dec	**837,524**	**764,864**

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

in %	31 Dec 2019	31 Dec 2018
Discount rate	1.00	1.75
Salary increase	1.80	1.80
Pensions increase	1.60	1.75

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

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

Change in the present value of defined benefit obligations as at the reporting date if	Impact on defined benefit obligations 31 Dec 2019		Impact on defined benefit obligations 31 Dec 2018	
	in € thousand	in %	in € thousand	in %
the discount rate were 100 basis points higher	– 120,399	– 14.38	– 105,027	– 14.04
the discount rate were 100 basis points lower	155,497	18.57	135,572	18.09
future salary increases were 50 basis points higher	10,259	1.22	9,326	1.27
future salary increases were 50 basis points lower	– 9,762	– 1.17	– 8,874	– 1.21
future pension increases were 25 basis points higher	26,448	3.16	23,045	3.04
future pension increases were 25 basis points lower	– 25,203	– 3.01	– 21,988	– 2.91
future life expectancy were 1 year higher	37,602	4.49	31,910	4.21
future life expectancy were 1 year lower	– 37,256	– 4.45	– 31,820	– 4.21
the future financing maturity age were 1 year higher	– 8,765	– 1.05	– 8,979	– 1.08
the future financing maturity age were 1 year lower	7,815	0.93	8,333	1.07

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

The discount rate is determined on the basis of investment grade fixed-income corporate bonds and should match the expected maturity of the benefits to be paid. It is derived averaged over the total portfolio.

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

In the case of demographic actuarial assumptions, the “life expectancy” of a 65-year-old man born in 1954 on the one hand, and the earliest possible “financing maturity age”, usually 63 years of age, on the other were each modified by one year to reflect the change in the payout phase. In the example cited, the mortality rates were changed by approximately 12%.

Macaulay Duration

The weighted average maturity of defined benefit obligations as at 31 December 2019 was 16.44 years (previous year: 15.88 years).

Plan assets

The defined benefit obligations are offset by the plan assets of Bausparkasse Schwäbisch Hall AG and Schwäbisch Hall Kreditservice GmbH. €657,41 thousand of these assets (previous year: €504,172 thousand) is attributable to DZ BANK’s and Bausparkasse Schwäbisch Hall’s Contractual Trust Arrangements (CTAs), which are managed as trust assets by DZ BANK Pension Trust e. V., Frankfurt am Main. The investment company’s investment policy and strategy are defined by the relevant CTA investment committees. Trustees or administrators are responsible for administering and managing the plan assets and compliance with regulatory requirements.

Plan assets also include a building valued at €5,318 thousand (previous year: €5,330 thousand) that is managed by Bausparkasse Schwäbisch Hall’s *Unterstützungskasse* (pension fund).

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

in € thousand	**31 Dec 2019**	**31 Dec 2018**
Present value of defined benefit obligations funded by plan assets	837,524	764,864
Present value of defined benefit obligations	**837,524**	**764,864**
less fair value of plan assets	– 662,731	– 509,503
Provisions for defined benefit pension obligations	**174,793**	**255,361**

Plan assets changed as follows:

in € thousand	**2019**	**2018**
Fair value of plan assets as at 1 Jan	**509,503**	**315,276**
Employer contributions to plan assets	100,870	200,000
Interest income	8,917	7,267
Return on plan assets (excluding interest income)	44,193	– 12,237
Pension benefits paid	– 752	– 803
Fair value of plan assets as at 31 Dec	**662,731**	**509,503**

Contributions of €937 thousand (financial year 2019: €867 thousand) to plan assets are planned for financial year 2020. All additions to plan assets are made by the employer.

Plan assets (CTA) are primarily invested in fixed-income assets (approximately 85%; previous year approximately 84%). 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 62%) is primarily invested in fixed-income investments in the form of *Pfandbriefe*, covered bonds, and government and corporate bonds. The investments have a minimum investment grade rating (AAA to BBB).

The second segment (approximately 38%) represents the "income portfolio" and primarily consists of investments in subordinated and high-yield bonds, as well as globally diversified non-fixed-income securities (shares, commodities, balanced funds, etc.). The ratings of the fixed-income exposures are mainly in the range AAA to BBB, with the addition of investments with BB and B ratings.

Derivative financial instruments are also used for portfolio management. Defined benefit obligations and plan assets are denominated in euros.

The fair value of plan assets can be disaggregated by asset class as follows:

in € thousand	31 Dec 2019			31 Dec 2018		
	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	–	18,516	18,516	–	12,592	12,592
Bonds and other fixed-income securities	531,922	–	531,922	424,674	–	424,674
Shares	77,689	–	77,689	46,098	–	46,098
Derivative financial instruments	– 69	–	– 69	– 19	–	– 19
Land and buildings	–	5,020	5,020	–	5,020	5,020
Other assets	29,355	298	29,653	20,828	310	21,138
Total	**638,897**	**23,834**	**662,731**	**491,581**	**17,922**	**509,503**

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

Other provisions

Other provisions changed as follows:

in € thousand	*Bauspar*-specific provisions	Other provisions	Provisions for loan commitments	Total
Balance as at 1 Jan 2018	**982,840**	**84,228**	**5,926**	**1,072,994**
Additions	196,455	12,248	2,745	211,448
Utilisation	– 107,082	– 9,033	–	– 116,115
Reversals	– 235	– 1,300	– 4,285	– 5,820
Other changes	–	– 120	223	103
Balance as at 31 Dec 2018	**1,071,978**	**86,023**	**4,609**	**1,162,610**
Additions	479,923	17,904	4,138	501,965
Utilisation	– 145,911	– 13,861	–	– 159,772
Reversals	– 79	– 16,456	– 2,684	– 19,219
Interest expense	–	9	–	9
Other changes	–	– 146	– 7	– 153
Balance as at 31 Dec 2019	**1,405,911**	**73,473**	**6,056**	**1,485,440**

The relevant expected future payment obligations are recognised at their present value on the basis of past experience and forecasts.

Depending on the tariff, the Schwäbisch Hall Group grants *Bauspar* customers interest incentives that are tied to the fulfilment of various conditions. In the reporting period, Bausparkasse Schwäbisch Hall recognised a special allocation of €280 million to the interest bonus provision, which was attributable largely to interest rate movements. €57 million of the €280 million is attributable to new portfolio measures.

The expected maturities of other provisions are classified as follows:

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

Status as at 31 Dec 2018 in € thousand	≤ 3 months	> 3 months – 1 year	> 1 year – 5 years	> 5 years
Bauspar-specific provisions	5,378	494,630	449,883	122,087
Other provisions	4,427	66,248	14,985	363
Provisions for loan commitments	234	–	4,375	–
Total	**10,039**	**560,878**	**469,243**	**122,450**

The loss allowances reported in provisions for loan commitments changed as follows:

	Loss allowances		
in € thousand	**Stage 1**	**Stage 2**	**Stage 3**
Balance as at 1 Jan 2018	**6,157**	**–**	**–**
Additions	2,730	3	12
Reversals	– 3,889	– 380	– 16
Other changes	– 395	379	8
Balance as at 31 Dec 2018	**4,603**	**2**	**4**
Additions	4,129	1	8
Reversals	– 2,465	– 211	– 8
Other changes	– 213	208	– 2
Balance as at 31 Dec 2019	**6,054**	**–**	**2**

55 OTHER LIABILITIES

in € thousand	31 Dec 2019	31 Dec 2018
Accruals	103,720	113,110
Liabilities to DZ BANK AG from profit and loss transfer agreement	16,000	16,000
Other tax liabilities to taxation authorities	41,197	42,800
Lease liabilities	20,584	–
Other financial liabilities	4,105	9,285
Remaining other liabilities	4,996	4,701
Total	**190,602**	**185,896**

56 EQUITY

in € thousand	31 Dec 2019	31 Dec 2018
Subscribed capital	310,000	310,000
Capital reserves	1,486,964	1,486,964
Retained earnings	3,258,762	3,103,150
Reserve from fair value OCI equity instruments	– 3,122	– 11,961
Reserve from fair value OCI debt instruments	436,239	1,921
Currency translation reserve	– 6,686	7,891
Non-controlling interests	78,964	73,702
Net profit	138,584	185,650
Total	**5,699,705**	**5,157,317**

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

in € thousand	2019	2018
Balance as at 1 Jan	**854**	**968**
Additions	914	1,797
Utilisation	– 517	– 879
Reversals	– 231	– 1,083
Other changes	– 53	51
Balance as at 31 Dec	**967**	**854**

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.

Disclosures on shareholders
The interest in the share capital held by DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main, was 96.941% at the end of the financial year. The remaining 3.059% 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 €– 187.3 million (previous year: €– 165.1 million).

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

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

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

Currency translation reserve

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

Non-controlling interests

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

Capital management

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

	Bausparkasse Schwäbisch Hall Group	
in %	31 Dec 2019	31 Dec 2018
RORAC	7.1	11.0
Overall capital ratio under the German Solvency Regulation (SolvV)	31.4	30.4
Tier 1 capital ratio	31.4	30.4

Financial instruments disclosures

57 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	2019	2018
Derivative financial instruments mandatorily measured at fair value through profit or loss	**19,743**	**14,700**
Financial assets measured at fair value through other comprehensive income	**806,200**	**7,780** [1]
Financial assets mandatorily measured at fair value through other comprehensive income	804,193	6,108 [1]
Net gains and losses recognised in profit or loss	172,923	103,678
Net gains and losses recognised in other comprehensive income	631,270	– 97,570 [1]
Financial assets designated at fair value through other comprehensive income	2,007	1,672
Net gains and losses recognised in profit or loss	997	1,672
Net gains and losses recognised in other comprehensive income	1,010	–
Financial assets measured at amortised cost	**1,492,125**	**1,498,597**
Financial liabilities measured at amortised cost	**– 1,138,919**	**– 847,244**

[1] Amount adjusted, the row “Net gains and losses recognised in other comprehensive income” added to enhance transparency.

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	2019	2018
Interest income	**1,584,918**	**1,596,821**
from financial assets measured at cost, including finance leases	1,475,365	1,496,971 [1]
from financial assets measured at fair value through other comprehensive income	109,553	99,850
Interest expense on financial liabilities measured at amortised cost, including finance leases	**– 1,139,528**	**– 847,244**

[1] Amount adjusted, see Note 2.

Income and expense items from commissions

Net fee and commission income includes fee and commission expenses of €121,336 thousand (previous year: €125,643 thousand) from financial assets and financial liabilities that are not measured at fair value through profit or loss.

58 DISCLOSURES ON FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Carrying amount	
in € thousand	**31 Dec 2019**	**31 Dec 2018**
Financial assets measured at fair value	**9,272,673**	**8,077,683**
Financial assets mandatorily measured at fair value through profit or loss	–	12,197
Positive fair values from derivative financial instruments	–	12,197
Financial assets measured at fair value through other comprehensive income	9,270,070	8,065,486
Debt instruments	9,260,147	8,055,642
Equity instruments	9,923	9,844
Positive fair value of hedging instruments	2,603	–
Financial assets measured at amortised cost	**67,751,994**	**62,969,729**
Cash and cash equivalents	137,697	36,737
Loans and advances to banks	11,208,788	12,440,366
Loans and advances to customers	53,867,139	47,825,655
Investments	2,532,650	2,659,013
Other assets	5,720	7,958
Finance leases	**671**	**–**

	Carrying amount	
in € thousand	**31 Dec 2019**	**31 Dec 2018**
Financial liabilities measured at fair value	**4,529**	**–**
Negative fair values of hedging instruments	4,529	–
Financial liabilities measured at amortised cost	**69,769,197**	**64,836,607**
Deposits from banks	6,141,799	4,475,976
Deposits from customers	63,607,293	60,335,346
Other liabilities	20,105	25,285
Financial guarantee contracts and loan commitments (provisions)	**6,056**	**4,609**
Finance leases	**20,584**	**–**

IFRS 7.25 requires disclosure of the fair value of each class of financial assets and liabilities, and hence also of *Bauspar* deposits and *Bauspar* loans. In principle, the contracts would have to be measured separately in this case.

Due to the complex structure of a *Bauspar* contract and the great variety of tariff structures, no suitable method for calculating fair value on a single contract basis in line with the reporting date principle is available at this time. Consequently, fair values under IFRS 7.25 cannot be determined using either comparative market prices or suitable option pricing models. The models developed in practice to manage *Bausparkassen* only serve comprehensive bank management and likewise do not offer any sufficient basis for measurement based on fair values as defined in IFRS (see Note 6). Accordingly, Bausparkasse Schwäbisch Hall does not disclose fair value and does not classify the relevant financial instruments into the levels of the fair value hierarchy.

The portfolio fair value hedge accounting used to hedge interest rate risk for *Bauspar* deposits leads to a €–3,623 thousand change in the carrying amount of the portfolio of hedged items. The hedged portfolio of hedged items amounts to €425,275 thousand.

Although any potential hidden liabilities are not disclosed, they are taken into account as a deduction in the course of calculating the risk coverage potential (RCP). Hidden reserves are not included to increase the RCP for reasons of prudence. There are no hidden liabilities to be taken into account in the determination of the RCP at the reporting date.

On the basis of the *Bausparkasse's* comprehensive bank management models, which comprise both the collective and non-collective business including financial investments, the *Bauspar* business produced an overall positive amount during the financial year.

59 FAIR VALUE HIERARCHY

Financial instruments accounted for at fair value are categorised within the hierarchy in line with the fair value measurement method and the underlying assumptions.

Financial instruments are transferred between Level 1 and 2 due to the disappearance or emergence of active markets. They are transferred when there is a change in the inputs relevant for categorisation in the fair value hierarchy. Financial instruments are transferred between Level 1 and Levels 2 and 3 of the fair value hierarchy on the basis of a change in the estimated market observability of the inputs used in the valuation techniques. There were no transfers in the reporting period.

Fair values in Level 1 of the hierarchy are calculated by reference to prices in active markets for the financial instrument in question (quoted market prices). In the reporting period, investments in the category "Financial assets mandatorily measured at fair value through other comprehensive income" amounting to €9,260,147 thousand (previous year: €8,055,641 thousand) were accounted for at the quoted market price in Level 1 of the hierarchy.

The fair value of financial instruments categorised within Level 2 of the measurement hierarchy is measured by reference to prices in active markets for similar, but not identical, financial instruments, or by using valuation techniques that are predominantly based on observable measurement inputs. The fair value of derivative financial instruments is calculated using standard industry models customary that use observable inputs. Cash flows relating to derivative financial instruments are discounted using a yield curve that takes collateralisation into account. In the reporting period, interest rate swaps used for hedging with a positive fair value of €2,603 thousand and a negative fair value of €4,529 thousand (previous year: positive fair values of derivative financial instruments of €12,197 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 in the fair value OCI category that are categorised within Level 3 of the fair value is measured using an income capitalisation approach in which future income and dividends based on projected figures and estimates are discounted using risk parameters.

Equity instruments in the fair value OCI category categorised within Level 3 increased by €79 thousand in the financial year, from €9,844 thousand to €9,923 thousand, due to acquisitions.

60 COLLATERAL

On the reporting date, loans and advances to customers amounting to €135,734 thousand (previous year: €140,404 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.

61 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 hedge accounting is used in hedges of interest rate risk. Risk of interest rate changes in this context means the risk that the fair value or a fixed-income financial instruments will be adversely affected by a change in market interest rates. The hedged financial liabilities are deposits from customers measured at amortised cost. Liability-side interest rate risk portfolios of selected tariff versions of the *Bausparkasse* are identified and designated as hedged items in portfolio hedge accounting (portfolio fair value hedges). During the term of the hedging relationship, these portfolios are exposed to changes in the volume and number of included contracts, which are taken into account as part of the regular hedging cycle.

The hedging relationships are normally designated for one month. They are then closed and redesignated on the basis of the changed overall portfolio.

Hedging instruments

Interest rate swaps are designated as hedging instruments to account for hedges of the fair value of financial liabilities.

The hedging instruments are reported in positive and negative fair values of hedging instruments.

Effectiveness test

Hedge accounting requires the hedge to be effective both prospectively and retrospectively. The entity seeks to establish an effective hedging relationship for each maturity band to which at least one hedging instrument has been allocated. For this purpose, changes in the fair values of the hedging items, including the attributable future contractual cash flows, must almost fully offset changes in the fair values of the hedging instruments.

In the case of portfolio hedges, there is no direct economic relationship between the hedged item and the hedging instruments. The approximate offsetting of the changes in fair value is ensured by determining an individual hedge ratio based on the sensitivities of the hedged item and the hedging instruments.

Hedge effectiveness is tested and demonstrated at each month-end.

Portfolio hedges that continue to be accounted for in accordance with IAS 39 are deemed to be effective if changes in the fair values of the hedged items and the hedging instruments offset each other within the range of 80% to 125% defined by IAS 39. If this test establishes that the hedge is not sufficiently effectively, it must be terminated retrospectively as at the date of the most recent effective test.

In fair value hedges, prospective and retrospective effectiveness is tested using a regression model.

To do this, the accumulated changes in the fair value of the hedged items attributable to the hedged risk are compared with the changes in the fair value of the hedging instruments.

Gains and losses and ineffectiveness of hedge accounting

Hedge ineffectiveness results from opposing changes in the fair value of hedging instruments and hedged items that do not fully offset each other.

Hedge ineffectiveness is recognised in “Other gains or losses on valuation of financial instruments” in the income statement. Hedge ineffectiveness may arise in fair value hedges of interest rate risk. This is because the changes in the fair values of hedged items and hedging instruments may not fully offset each other because of differences relating to maturities, cash flows and discount rates.

Scope of risks managed using hedges and impact on cash flows

Information on the volume of hedged items and hedging instruments that were designated in hedging relationships to hedge risk in interest rate changes is presented in the following:

in € thousand	Carrying amount	Nominal amount of hedging instruments	Adjustments from fair value hedges contained in carrying amount of hedged items		Changes in fair value as basis for measuring ineffectiveness for the period
			Existing hedging relationships	Terminated hedging relationships	
Assets	**2,603**	**160,000**	**–**	**–**	**1,800**
Positive fair values of hedging instruments	2,603	160,000			1,800
Liabilities	**429,804**	**265,000**	**– 3,623**	**–**	**– 1,891**
Deposits from customers	425,275		– 3,623	–	3,354
Negative fair values of hedging instruments	4,529	265,000			– 5,245

The nominal amounts of hedging instruments amounting to €425,000 thousand are attributable to the > 5 years maturity band.

62 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

With the exception of qualitative and quantitative data under IFRS 7.35–36 and the maturity analysis pursuant to IFRS 7.39(a) and (b), information about the nature and extent of risks arising from financial instruments (IFRS 7.31–42) is included in the Opportunity and risk report in the Combined management report. The selected data under IFRS 7.35–36 and the maturity analysis (Note 63) are disclosed in the notes to the consolidated financial statements.

Credit risk management practices

The rules for recognising impairment losses are based on the calculation of expected losses in the lending business, from investments and from other assets. The application of the impairment loss rules is limited to financial assets as well as loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss. These include:

- financial assets measured at amortised cost,
- debt instruments held as financial assets measured at fair value through other comprehensive income.

The impairment rules also apply to:

- loan commitments and financial guarantee contracts under IFRS 9 and not measured at fair value through profit or loss,
- lease receivables,
- trade receivables.

Under IFRS 9, the three-stage approach is used to calculate expected losses, with additional consideration of POCIs:

- Stage 1: a 12-month expected credit loss is applied to financial assets without a significantly increased credit risk compared with the acquisition date and not impaired at acquisition.
- Stage 2: loss allowances are calculated in the amount of lifetime expected credit losses for financial assets whose credit risk has increased significantly since initial recognition.
- Stage 3: financial assets are credit-impaired if one or more events have occurred that have a detrimental effect on the estimated future cash flows of that financial asset or if they are considered to be in default in accordance with Article 178 of the Capital Requirements Regulation (CRR). The latter also matches the definition of default within the Bausparkasse Schwäbisch Hall Group. Loss allowances are likewise recognised in the amount of the lifetime expected credit losses. In addition, interest income is calculated on the amortised cost after loss allowances using the effective interest method.
- POCI: financial assets that are credit-impaired on initial recognition are not assigned to the three-stage model and are measured separately. POCI financial assets are not measured at their gross carrying amount, but rather at their fair value. Accordingly, interest income for POCI financial assets is recognised using a risk-adjusted effective interest rate.

No financial assets that are credit-impaired on initial recognition (purchased or originated credit-impaired assets, POCI) were identified during the reporting period.

The review of whether there has been a significant increase in the credit risk of financial assets or financial guarantee contracts and loan commitments compared with the credit risk at acquisition date is performed monthly, with a special focus at every reporting date. The assessment is made at the level of the financial asset with the aid of quantitative and qualitative analyses.

The quantitative analyses are usually performed by reference to the expected credit risk over the entire residual life of the financial instruments under review. Macroeconomic information is also taken into account. The credit risk at the reporting date for the residual maturity is generally compared with the credit risk of the asset estimated at the acquisition date for the relevant maturity. The threshold values that indicate a significant increase in credit risk are generally calculated separately for each portfolio in relation to its historical probability of default migration. Internal risk measurement systems and risk forecasts are also used to assess the credit risk of financial assets. This review is supplemented with qualitative criteria that increase credit risk, insofar as these are not already reflected in the probability of default. In principle, a transfer into Stage 2 is assumed at the latest in the case of a default of 30 days. Depending on the business segment, the criterion is defined as a supplementary backstop criterion or payments past due are already part of the rating and scoring system and are reflected in this way.

No review of any significant increase in credit risk is performed for securities with a low credit risk. Securities with an investment grade rating are therefore assigned to Stage 1. This exception does not apply to loans and advances.

If it is established on the reporting date that there is no longer a significant increase in credit risk compared with earlier reporting dates, the financial assets concerned are transferred back to Stage 1 and the loss allowances are returned to the level of the expected 12-month expected credit loss. For retransfer from Stage 3, the default status is not lifted until after a corresponding good behaviour period in line with the regulatory definition. Expected losses are calculated as the probability-weighted present value of expected defaults over the entire expected maturity from default events within the next twelve months for assets assigned to Stage 1 of the impairment model and from default events over the entire residual life for assets assigned to Stages 2 or 3. The expected losses are discounted at their original effective interest rate. As a rule, this calculation uses the regulatory model harmonised with the requirements of IFRS 9, consisting of probability of default, loss rate (including probability of recovery) and expected loan amount at the date of default. The estimated probability of default in this regard contains not only historical, but also forward-looking default information.

The calculation of expected losses is based on loss histories, which are adjusted in order to forecast future defaults. In addition, a macroeconomic scenario is included on the basis of experience estimates. This scenario includes, for example, future labour market trends. The methods and assumptions, including the forecasts, are regularly validated.

Directly recognised impairment losses reduce the carrying amounts of assets directly. In contrast to loss allowances, directly recognised impairment losses are not estimated, but are recognised at a known exact amount (for example by disclosing an insolvency ratio). Directly recognised impairment losses are usually recognised after the completion of all recovery and enforcement measures. Directly recognised impairment losses are also recognised for immaterial minor amounts.

Loss allowances and gross carrying amounts

In the Bausparkasse Schwäbisch Hall Group, loss allowances are recognised for the amount of expected credit losses for the classes “Financial assets measured at fair value”, “Financial assets measured at amortised cost” and “Financial guarantee contracts and loan commitments”. Trade receivables form part of the class “Financial assets measured at amortised cost”.

Financial assets measured at fair value

	Stage 1	
in € thousand	**Loss allowances**	**Fair value**
Balance as at 1 Jan 2018	**968**	**7,664,656**
Additions/increase in credit utilisation	1,797	2,982,068
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	– 879	–
Reversals and repayments	– 1,083	– 2,486,534
Amortisation, changes in fair value	–	– 104,548
Other changes	51	–
Balance as at 31 Dec 2018	**854**	**8,055,642**
Additions/increase in credit utilisation	914	2,788,097
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	– 517	–
Reversals and repayments	– 231	– 2,212,115
Amortisation, changes in fair value	–	628,523
Other changes	– 53	–
Balance as at 31 Dec 2019	**967**	**9,260,147**

Financial assets measured at amortised cost

in € thousand	Stage 1 Loss allowances	Stage 1 Gross carrying amount	Stage 2 Loss allowances	Stage 2 Gross carrying amount	Stage 3 Loss allowances	Stage 3 Gross carrying amount
Balance as at 1 Jan 2018	**20,617**	**55,395,341**	**54,181**	**4,189,270**	**91,671**	**588,923**
Additions/increase in credit utilisation	7,240	27,460,489	1,068	405,475	5,945	342,610
Change to financial assets due to stage transfer	61,157	386,745	– 52,032	– 246,431	– 9,125	– 140,314
Transfer from stage 1	– 649	– 271,369	593	266,900	57	4,469
Transfer from stage 2	59,296	542,280	– 59,465	– 555,238	168	12,958
Transfer from stage 3	2,510	115,834	6,840	41,907	-9,350	– 157,741
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	– 10	–	– 19	– 5,903	– 8,047
Reversals and repayments	– 2,679	– 24,554,704	– 8,062	– 391,305	– 16,008	– 172,057
Changes in risk parameters	– 59,370	–	56,002	–	26,125	–
Additions	9,279	–	81,703	–	39,521	–
Reversals	– 68,649	–	– 25,701	–	– 13,396	–
Amortisation	–	– 122,838	–	58,448	–	– 518
Currency translation differences and other changes	– 73	– 49,406	– 15	– 2,212	156	1,184
Balance as at 31 Dec 2018	**26,892**	**58,515,617**	**51,142**	**4,013,226**	**92,861**	**611,781**
Additions/increase in credit utilisation	5,934	20,256,661	1,336	99,351	–	–
Change to financial assets due to stage transfer	60,368	– 331,380	– 43,283	184,994	– 17,085	146,386
Transfer from stage 1	– 1,726	– 1,424,869	1,598	1,283,647	128	141,222
Transfer from stage 2	58,674	1,074,197	– 67,663	– 1,338,739	8,989	264,542
Transfer from stage 3	3,420	19,292	22,782	240,086	– 26,202	– 259,378
Loss allowances utilised/directly recognised impairment losses on gross carrying amounts	–	– 2	–	– 31	– 6,690	– 6,528
Reversals and repayments	– 3,814	– 14,870,996	– 5,889	– 473,830	– 10,854	– 119,697
Changes in risk parameters	– 64,834	–	45,372	–	33,260	–
Additions	2,616	–	71,605	–	44,810	–
Reversals	– 67,450	–	– 26,233	–	– 11,550	–
Amortisation	–	– 106,622	–	47,700	–	– 258
Currency translation differences and other changes	– 83	– 46,427	– 17	– 2,312	230	– 793
Balance as at 31 Dec 2019	**24,463**	**63,416,851**	**48,661**	**3,869,098**	**91,722**	**630,891**

Financial guarantee contracts and loan commitments

in € thousand	Stage 1		Stage 2		Stage 3	
	Loss allowances	Nominal amount	Loss allowances	Nominal amount	Loss allowances	Nominal amount
Balance as at 1 Jan 2018	**6,157**	**4,413,193**	**–**	**–**	**–**	**–**
Additions/increase in credit utilisation	2,729	508,670	–	60	–	315
Change to financial assets due to stage transfer	– 387	– 14,187	379	13,725	8	462
Transfer from stage 1	– 388	– 14,716	380	14,254	8	462
Transfer from stage 2	1	529	– 1	– 529	–	–
Reversals and repayments	– 3,867	– 101,496	– 380	– 13,759	– 15	– 479
Changes in risk parameters	– 20	–	3	–	11	–
Currency translation differences and other changes	– 9	385	–	–	–	–
Balance as at 31 Dec 2018	**4,603**	**4,806,565**	**2**	**26**	**4**	**298**
Additions/increase in credit utilisation	4,129	1,474,215	–	–	–	–
Change to financial assets due to stage transfer	– 206	– 868	208	856	– 2	12
Transfer from stage 1	– 210	– 922	210	890	–	32
Transfer from stage 2	3	42	– 3	– 42	–	–
Transfer from stage 3	1	12	1	8	– 2	– 20
Reversals and repayments	– 2,456	– 472,037	– 211	– 882	– 8	– 70
Changes in risk parameters	– 9	–	1	–	8	–
Currency translation differences and other changes	– 7	– 582	–	–	–	– 9
Balance as at 31 Dec 2019	**6,054**	**5,807,293**	**–**	**–**	**2**	**231**

Maximum exposure to credit risk

The Bausparkasse Schwäbisch Hall Group is exposed to credit risk arising from financial instruments. The maximum exposure to credit risk constitutes the fair values, amortised cost or nominal amounts of financial instruments. Collateral is not taken into account. The following collateral is held to hedge the maximum exposure to credit risk:

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

as at 31 Dec 2018 in € thousand	Maximum credit risk	of which secured by Warranties, guarantees	Land charges, mortgages	Financial collateral	Other collateral
Financial assets measured at fair value	**8,067,839**	**–**	**272,396**	**11,840**	**121,640**
Financial assets measured at fair value through profit or loss	12,198	–	–	11,840	–
Financial assets measured at fair value through other comprehensive income	8,055,641	–	272,396	–	121,640
Financial assets measured at amortised cost	**62,969,729**	**18,637**	**37,836,816**	**6,293,920**	**9,847,717**
of which: credit-impaired	–	–	83,765	–	14,966
Financial guarantee contracts and loan commitments	**4,806,889**	**–**	**4,762,905**	**–**	**3,854**
of which: credit-impaired		–	246	–	10

For further analyses of the credit portfolio, please refer to the Opportunity and risk report in the Combined management report.

Credit concentration risk

The Bausparkasse Schwäbisch Hall Group's credit risk exposure attributable to financial instruments is broken down by sector using the Bundesbank industrial sector codes and geographically using the annually updated International Monetary Fund (IMF) country group classification. The volume, measured using fair values and gross carrying amounts of financial assets or the credit risk arising from financial guarantee contracts and loan commitments, is classified based on the following rating classes:

- investment grade: equivalent to internal rating grades 1A–2A
- non-investment grade: equivalent to internal rating grades 2B–3E
- default: equivalent to internal rating grades 4A–4B
- not rated: no rating necessary or not rated.

A detailed overview of internal rating grades can be found in the Opportunity and risk report in the Combined management report. The “not rated” category comprises counterparties for which no rating classification is required.

Credit risk concentrations by sector

in € thousand		2019 Financial sector	2019 Public sector (adminis-tration/ government)	2019 Corporates	2019 Retail	2018 Financial sector	2018 Public sector (adminis-tration/ government)	2018 Corporates	2018 Retail
Investment grade		**16,438,901**	**8,613,101**	**1,630,340**	**19,236,104**	**16,870,390**	**7,564,463**	**1,255,357**	**16,913,998**
Fair value	Stage 1	3,540,239	4,113,185	1,606,723	–	2,797,569	4,096,180	1,161,893	–
Gross carrying amount	Stage 1	12,897,641	4,499,276	8,512	13,072,666	14,066,521	3,467,643	2,337	11,832,346
	Stage 2	–	640	70	392,450	2,426	640	71	374,295
Nominal amount	Stage 1	1,021	–	15,035	5,770,988	3,873	–	91,057	4,707,359
Non-investment grade		**27,049**	**2,501**	**577,288**	**35,841,977**	**15,017**	**–**	**455,222**	**32,327,905**
Gross carrying amount	Stage 1	26,251	2,501	536,852	32,372,777	14,954	–	417,058	28,714,030
	Stage 2	798	–	39,464	3,434,337	63	–	37,170	3,597,332
	Stage 3	–	–	220	15,135	–	–	384	12,551
Nominal amount	Stage 1	–	–	752	19,497	–	–	599	3,677
	Stage 2	–	–	–	–	–	–	–	26
	Stage 3	–	–	–	231	–	–	10	288
Default		**–**	**–**	**8,089**	**607,448**	**–**	**–**	**6,607**	**592,239**
Gross carrying amount	Stage 3	–	–	8,089	607,448	–	–	6,607	592,239
Not rated		**194**	**–**	**1,808**	**410**	**151**	**–**	**1,071**	**735**
Gross carrying amount	Stage 1	–	–	703	370	–	–	14	714
	Stage 2	194	–	1,105	40	151	–	1,057	21

Credit risk concentrations by country

in € thousand		2019 Germany	2019 Other industrial countries	2019 Advanced economies	2019 Emerging Markets	2018 Germany	2018 Other industrial countries	2018 Advanced economies	2018 Emerging Markets
Investment grade		**39,534,138**	**6,381,991**	**909**	**1,408**	**37,281,868**	**5,320,212**	**562**	**1,568**
Fair value	Stage 1	4,144,694	5,115,453	–	–	4,161,992	3,893,650	–	–
Gross carrying amount	Stage 1	29,333,287	1,144,682	54	72	27,987,639	1,381,094	67	48
	Stage 2	387,541	5,619	–	–	374,228	3,204	–	–
Nominal amount	Stage 1	5,668,616	116,237	855	1,336	4,758,009	42,264	495	1,520
Non-investment grade		**35,444,605**	**987,922**	**4,207**	**12,081**	**32,245,560**	**536,979**	**3,700**	**11,904**
Gross carrying amount	Stage 1	32,058,769	865,213	3,584	10,815	28,708,602	423,447	3,438	10,554
	Stage 2	3,385,836	86,874	623	1,266	3,536,958	95,994	262	1,350
	Stage 3	–	15,355	–	–	–	12,936	–	–
Nominal amount	Stage 1	–	20,249	–	–	–	4,276	–	–
	Stage 2	–	–	–	–	–	26	–	–
	Stage 3	–	231	–	–	–	298	–	–
Default		**595,622**	**19,597**	**6**	**312**	**577,525**	**20,971**	**–**	**349**
Gross carrying amount	Stage 3	595,622	19,597	6	312	577,525	20,971	–	349
Not rated		**–**	**2,412**	**–**	**–**	**–**	**1,957**	**–**	**–**
Gross carrying amount	Stage 1	–	1,073	–	–	–	728	–	–
	Stage 2	–	1,339	–	–	–	1,230	–	–

63 MATURITY ANALYSIS

Balance as at 31 Dec 2019 in € thousand	≤ 1 month	> 1 month bis 3 months	> 3 months – 1 Jahr	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Financial assets	**905,789**	**1,569,226**	**4,765,038**	**25,379,450**	**55,122,526**	**9,923**	**87,751,952**
Cash and cash equivalents	137,697	–	–	–	–	–	137,697
Loans and advances to banks	132,270	685,897	1,514,736	4,767,766	5,128,756	–	12,229,425
Loans and advances to customers	451,017	855,091	2,762,059	17,633,952	40,553,117	–	62,255,236
Positive fair values of hedging instruments[1]	–	–	980	2,482	– 62	–	3,400
Investments	179,816	28,230	487,256	2,975,223	9,439,911	9,923	13,120,359
Other assets	4,989	8	7	27	804	–	5,835
Financial liabilities	**– 1,636,172**	**– 858,778**	**– 1,881,218**	**– 375,196**	**– 164,831**	**– 65,441,194**	**– 70,357,389**
Deposits from banks	– 1,303,774	– 840,512	– 1,881,889	– 363,254	– 123,350	– 1,652,421	– 6,165,200
Deposits from customers	– 330,590	– 19	– 539	– 14,668	– 34,640	– 63,788,773	– 64,169,229
Negative fair values of hedging instruments[1]	–	48	1,210	2,726	– 6,841	–	– 2,857
Other liabilities	– 1,808	– 18,295	–	–	–	–	– 20,103
Financial guarantee contracts and loan commitments	**– 5,806,616**	**–**	**–**	**– 12**	**– 896**	**–**	**– 5,807,524**

[1] Net values

Balance as at 31 Dec 2018 in € thousand	≤ 1 month	> 1 month bis 3 months	> 3 months – 1 Jahr	> 1 year – 5 years	> 5 years	Indefinite maturity	Total
Financial assets	**720,822**	**1,017,393**	**4,857,047**	**25,439,617**	**49,648,171**	**9,844**	**81,692,894**
Cash and cash equivalents	36,737	–	–	–	–	–	36,737
Loans and advances to banks	177,500	168,825	1,592,089	6,627,489	5,087,665	–	13,653,568
Loans and advances to customers	453,761	816,136	2,403,152	15,953,568	36,188,838	–	55,815,455
Positive fair values of hedging instruments[1]	140	1,205	5,332	18,365	– 10,981	–	14,061
Investments	45,521	31,219	856,473	2,840,158	8,381,843	9,844	12,165,058
Other assets	7,163	8	1	37	806	–	8,015
Financial liabilities	**– 2,215,578**	**– 19,183**	**– 207,850**	**– 568,832**	**– 211,784**	**– 62,169,301**	**– 65,392,528**
Deposits from banks	– 1,907,222	– 1,649	– 207,629	– 561,576	– 181,005	– 1,652,017	– 4,511,098
Deposits from customers	– 299,071	– 1,534	– 221	– 7,256	– 30,779	– 60,517,284	– 60,856,145
Other liabilities	– 9,285	– 16,000	–	–	–	–	– 25,285
Financial guarantee contracts and loan commitments	**– 4,805,135**	**–**	**–**	**– 11**	**– 1,743**	**–**	**– 4,806,889**

[1] Net values

The maturity analysis compares contractual cash inflows with a positive sign with contractual cash outflows with a negative sign. For financial guarantee contracts and loan commitments, the cash outflows are disclosed as at the earliest possible stage.

The contractual maturities do not correspond to the actually expected cash inflows and outflows, particularly in the case of financial guarantee contracts and loan commitments. Liquidity risk management is presented in the Opportunity and risk report within the Combined management report.

Other disclosures

64 FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

in € thousand	31 Dec 2019	31 Dec 2018
Loan commitments to customers	**5,805,621**	**4,804,782**
Financial guarantee contracts	**1,903**	**2,107**
Loan guarantees	601	934
Other guarantees and warranties	1,302	1,173
Total	**5,807,524**	**4,806,889**

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

65 REVENUE FROM CONTRACTS WITH CUSTOMERS

The income statement does not contain any revenue from contracts with customers other than the revenue from contracts with customers in net fee and commission income presented in Note 28.

66 EMPLOYEES

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

	31 Dec 2019	31 Dec 2018
Female employees	**1,972**	**1,991**
Full-time employees	1,082	1,108
Part-time employees	890	883
Male employees	**1,287**	**1,284**
Full-time employees	1,159	1,158
Part-time employees	128	126
Total employees	**3,259**	**3,275**

	31 Dec 2019	31 Dec 2018
Female junior employees	80	86
Male junior employees	111	106
Total junior employees	**191**	**192**

67 GROUP AUDITORS AND CONSULTING FEES

The total fees charged by Group auditor Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, classified by type of service, are as follows:

in € thousand	31 Dec 2019	3 Dec 2018
Audit services	518	546
Other assurance services	13	4
Other services	40	166
Total	**571**	**716**

The audit fees comprise expenses for the audit of the consolidated financial statements and the Group management report of Bausparkasse Schwäbisch Hall as well as for the statutory audits of the annual financial statements and management report of Bausparkasse Schwäbisch Hall and the subsidiaries included in the consolidated financial statements and audited by the Group auditor.

68 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 €4,659 thousand in the reporting period (previous year: €4,591 thousand). This is classified into current employee benefits of €3,375 thousand (previous year: €3,375 thousand) and post-employment benefits of €1,284 thousand (previous year: €1,216 thousand). The remuneration of the Supervisory Board amounts to €321 thousand (previous year: €317 thousand) and consists of current benefits.

There are defined benefit obligations of €11,448 thousand (previous year: €8,794 thousand) for members of the Management Board. Provisions of €56,441 thousand (previous year: €56,850 thousand) were recognised 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 €3,375 thousand in the reporting period (previous year: €3,375 thousand), and €321 thousand (previous year: €317 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 €3,257 thousand (previous year: €3,099 thousand). Provisions of €46,709 thousand (previous year: €48,467 thousand) were recognised for current pensions and pension entitlements of 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 €52 thousand on an arm's length basis (previous year: €67 thousand). There was no non-share-based remuneration that depends on the occurrence or non-occurrence of future conditions.

69 EVENTS AFTER THE REPORTING PERIOD

In January 2020, Bausparkasse Schwäbisch Hall AG applied, as the issuer, for admission of mortgage *Pfandbriefe* to trading on the Regulated Market and for quotation on the Official Market of the Luxembourg Stock Exchange, Luxembourg, and the Frankfurt Stock Exchange (FWB), Frankfurt/Main, and has been classified since then as a publicly traded entity in accordance with section 264d of the HGB.

70 RELATED PARTY DISCLOSURES

Transactions are entered into with related parties in the course of usual business activity. Related party transactions involve typical *Bauspar* products and financial services that were concluded on an arm's length basis.

Related persons are key management personnel who are directly or indirectly responsible and accountable for the planning, management and supervision of the activities of Bausparkasse Schwäbisch Hall, as well as their close family members. In the Schwäbisch Hall Group, the members of the Management Board and Supervisory Board are deemed to be key management personnel for the purposes of IAS 24.

The following table shows the relationships with majority shareholders, unconsolidated subsidiaries, affiliates and joint ventures:

in € thousand	31 Dec 2019	31 Dec 2018
Interest income and current income	**159,731**	**206,077**[1]
Majority shareholder	106,319	147,201
Affiliates	53,412	58,876
Interest expense	**9,401**	**12,012**
Majority shareholder	9,644	12,224
Subsidiaries	– 243	– 212
Fee and commission income	**20,025**	**18,026**
Affiliates	20,025	18,026
Fee and commission expenses	**– 1,203**	**– 1,070**
Majority shareholder	– 60	– 59
Affiliates	– 1,143	– 1,011
Gains or losses on derecognition of financial assets measured at amortised cost	**11,072**	**786**[1]
Majority shareholder	11,072	– 2,887
Affiliates	–	3,673
Loans and advances to banks	**5,692,558**	**6,736,742**
Majority shareholder	4,330,907	5,199,603
Affiliates	1,361,651	1,537,139
Positive fair values of hedging instruments	**2,603**	**–**
Majority shareholder	2,603	–
Positive fair values of derivative financial instruments	**–**	**12,197**
Majority shareholder	–	12,197
Investments	**2,201,764**	**2,281,278**
Majority shareholder	1,181,058	1,231,422
Affiliates	1,020,706	1,049,856
Other assets	**1,984**	**5,038**
Majority shareholder	188	163
Subsidiaries	65	539
Affiliates	1,731	4,336
Deposits from banks	**3,871,797**	**2,673,459**
Majority shareholder	3,871,797	2,673,459
Deposits from customers	**48,150**	**39,797**
Subsidiaries	48,150	39,797
Negative fair values of hedging instruments	**4,529**	**–**
Majority shareholder	4,529	–
Other liabilities	**66**	**762**
Subsidiaries	66	762
Financial guarantee contracts	**882**	**734**
Subsidiaries	882	734

[1] Amount adjusted, see Note 2.

71 MANAGEMENT BOARD

Reinhard Klein
Chief Executive Officer

Jürgen Gießler

Mike Kammann
(since 1 Jan 2020)

Alexander Lichtenberg
(until 31 Dec 2019)

Peter Magel

General Executive Managers

Mike Kammann
(until 31 Dec 2019)

Claudia Klug

72 SUPERVISORY BODIES

Supervisory Board

Dr Cornelius Riese
– Chairman of the Supervisory Board –
(since 1 Jan 2019)
Co-Chief Executive Officer
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank

Ninon Kiesler
– Deputy Chair
of the Supervisory Board –
Employee
Bausparkasse Schwäbisch Hall AG

Ralf W. Barkey
Former Chief Executive Officer
Genossenschaftsverband
– Verband der Regionen e. V.
(Member of the Supervisory Board until
31 Dec 2019)

Ulrike Brouzi
Member of the Management Board
DZ BANK AG Deutsche
Zentral-Genossenschaftsbank
(Member of the Supervisory Board since
1 Jan 2019)

Bernhard Hallermann
Member of the Management Board
Volksbank Süd-Emsland eG

Andrea Hartmann
Employee
Bausparkasse Schwäbisch Hall AG

Frank Hawel
Regional Head of Financial Services
ver.di – Regional district of Baden-Württemberg

Roland Herhoffer
Employee
Schwäbisch Hall Kreditservice GmbH

Klaus Holderbach
Former Chief Executive Officer
Volksbank Franken eG
(Member of the Supervisory Board until
8 May 2019)

Katharina Kaupp
General Manager, Trade Union Secretary
ver.di – Vereinte Dienstleistungsgewerkschaft,
District of Heilbronn-Neckar-Franken
(Member of the Supervisory Board since
1 June 2019)

Manfred Klenk
Employee
Schwäbisch Hall Facility Management GmbH

Olaf Klose
Member of the Management Board
Deutsche Apotheker- und Ärztebank eG

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

Dr Volker Kreuziger
Member of the Management Board
Prvá stavebná sporiteľňa, a. s.

Marianne Kugler-Wendt
Former General Manager
ver.di – District of Heilbronn-Neckar-Franken
(Member of the Supervisory Board until
31 May 2019)

Sascha Monschauer
Chief Executive Officer
Volksbank RheinAhrEifel eG

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

Silvia Ofori
Employee
Schwäbisch Hall Kreditservice GmbH

Heiko Schmidt
Employee
Bausparkasse Schwäbisch Hall AG

Jörg Stahl
Spokesman of the Management Board
Volksbank Herrenberg-Nagold-Rottenburg eG
(Member of the Supervisory Board since
8 May 2019)

Werner Thomann
Chief Executive Officer
Volksbank Rhein-Wehra eG

Susanne Wenz
Deputy Regional District Manager
ver.di – Vereinte Dienstleistungsgewerkschaft

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

Carsten Schneider
Member of the *Bundestag*, Berlin

73 SUPERVISORY BODY OFFICES HELD BY MEMBERS OF THE MANAGEMENT BOARD AND EMPLOYEES

Within Bausparkasse Schwäbisch Hall AG

As at the reporting date, members of the Management Board and employees also held offices on the statutory supervisory bodies of large corporations. These and other significant offices are listed in the following. Offices at companies included in the consolidated financial statements are indicated with an asterisk (*).

Members of the Management Board

Reinhard Klein (Chief Executive Officer)	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)
	Sino-German Bausparkasse Co. Ltd., Tianjin (*)
	V-Bank AG, München
Jürgen Gießler	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Mike Kammann	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)
Peter Magel	Prvá stavebná sporiteľňa, a. s., Bratislava (Erste Bausparkasse AG) (*)
	Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall (*)

Employees

Claudia Klug (General Executive Manager)	Schwäbisch Hall Facility Management GmbH, Schwäbisch Hall
Christian Oestreich	Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest (Fundamenta-Lakáskassza Bausparkasse AG) (*)

Also within the Group

As at the reporting date, offices were also held on the statutory supervisory bodies of the following large corporations in Germany.

Andrea Hartmann	DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main

74 LIST OF SHAREHOLDINGS

Name	Location of registered office	Country	Ownership interest and share of voting rights (%)	Equity in € thousand	Profit or loss in € thousand
Consolidated subsidiaries					
Schwäbisch Hall Kreditservice GmbH	Schwäbisch Hall	Germany	100.00	27,775	–
Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt.	Budapest	Hungary	51.25	155,132	26,062
Fundamenta-Lakáskassza Pénzügyi Közvetitö Kft.	Budapest	Hungary	51.25	6,370	– 2,190
Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft.	Budapest	Hungary	51.25	2,483	– 239
Consolidated structured subsidiaries					
UIN Union Investment Institutional Fonds Nr. 817	Frankfurt/Main	Germany	–	2,826,628	7,637
Equity-accounted joint ventures					
Prvá stavebná sporitel' ňa, a. s.	Bratislava	Slovakia	32.50	258,255	14,890
Sino-German Bausparkasse Co. Ltd.	Tianjin	China	24.90	377,286	5,680
Unconsolidated subsidiaries					
Schwäbisch Hall Facility Management GmbH	Schwäbisch Hall	Germany	51.00	8,133	– 912
Schwäbisch Hall Wohnen GmbH	Schwäbisch Hall	Germany	100.00	613	1
SHT Schwäbisch Hall Training GmbH	Schwäbisch Hall	Germany	100.00	4,809	119
BAUFINEX GmbH	Schwäbisch Hall	Germany	70.00	1,659	– 1,866
VR Kreditservice GmbH	Hamburg	Germany	100.00	25	–

75 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 2019:

	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	**7,753,588**	**290,052,522**	**582,374**	**15,644,738**	**8,335,962**	**305,697,260**
B. Additions in financial year by						
1. New business honoured (contracts)[1]	502,482	26,589,694	–	–	502,482	26,589,694
2. Transfer	20,090	631,547	536	14,331	20,626	645,878
3. Allocation waiver and revocation of allocation	6,984	270,134	–	–	6,984	270,134
4. Splitting	141,357	–	33	–	141,390	–
5. Allocation or acceptance of allocation	–	–	384,354	9,800,135	384,354	9,800,135
6. Other	77,076	3,066,216	15	481	77,091	3,066,697
Total	**747,989**	**30,557,591**	**384,938**	**9,814,947**	**1,132,927**	**40.372.538**
C. Disposals in financial year by						
1. Allocation or acceptance of allocation	384,354	9,800,135	–	–	384,354	9,800,135
2. Reduction	–	880,764	–	–	–	880,764
3. Dissolution	272,687	7,625,456	301,184	7,599,995	573,871	15,225,451
4. Transfer	20,090	631,547	536	14,331	20,626	645,878
5. Merging[1]	57,979	–	–	–	57,979	–
6. Contract expiration	–	–	109,324	2,801,808	109,324	2,801,808
7. Allocation waiver and revocation of allocation	–	–	6,984	270,134	6,984	270,134
8. Other	77,076	3,066,216	15	481	77,091	3,066,697
Total	**812,186**	**22,004,118**	**418,043**	**10,686,749**	**1,230,229**	**32,690,867**
D. Net additions/disposals	**– 64,197**	**8,553,473**	**– 33,105**	**– 871,802**	**– 97,302**	**7,681,671**
E. Portfolio at end of financial year	**7,689,391**	**298,605,995**	**549,269**	**14,772,936**	**8,238,660**	**313,378,931**

[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	**58,513,142,699,73**
II. Additions in financial year	
1. Savings amounts (including offset house-building premiums)	9,512,821,223,76
2. Repayment amounts [1] (including offset house-building premiums)	1,139,373,627,73
3. Interest on *Bauspar* deposits	718,106,411,18
4. Technical security reserve	–
Total	**69,883,443,962,40**
B. Withdrawals	
I. Withdrawals in financial year	
1. Allocated sums, where disbursed	
a) *Bauspar* deposits	5,708,221,805,98
b) Building loans	1,151,291,543,58
2. Repayment of *Bauspar* deposits on as yet unallocated *Bauspar* contracts	1,430,681,618,68
3. Technical security reserve	–
II. Surplus of additions	
(amounts not yet disbursed) at end of the financial year [2]	**61,593,248,994,16**
Total	**69,883,443,962,40**

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	90,303,666,17
b) *Bauspar* loans from allocations not yet disbursed	2,954,415,767,23

Schwäbisch Hall, 13 February 2020

Bausparkasse Schwäbisch Hall Aktiengesellschaft
Bausparkasse der Volksbanken und Raiffeisenbanken

Management Board
Klein Gießler Kammann Magel

Independent Auditor's Report

To Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken –

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, Schwäbisch Hall (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet as at 31 December 2019, consolidated statement of changes in equity, and consolidated statement of cash flows for the fiscal year from 1 January to 31 December 2019, 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 has been combined with the management report of the Company for the fiscal year from 1 January to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the group non-financial statement included in the "Non-financial statement" section of the management report or the statement on corporate governance included in the "Other" section of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2019, and of its financial performance for the fiscal year from 1 January to 31 December 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the statement on corporate governance in the "Other" section or the non-financial statement in the "Non-financial statement" section.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions
We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon.

Below, we describe what we consider to be the key audit matters:

1. MEASUREMENT OF BUILDING SOCIETY PROVISIONS

Reasons why the matter was determined to be a key audit matter:
Building society provisions include provisions for interest rate bonuses (mainly loyalty bonuses) at Bausparkasse Schwäbisch Hall Aktiengesellschaft. The amount of the provisions to be recognized is determined based on the results of the collective simulation (building society forecast). The underlying probability of customer behavior (e.g., whether they use a customer loyalty bonus or not) is determined using assumptions regarding the future behavior of the deposit holders based on historical data as well as the forecast capital market yield, which have a material impact on the measurement of the provisions. The plausibility of the amount of the provisions determined in this way is verified using a supplementary process simulation. The forecast quality of the collective simulation model is subject to annual validation checks using backtesting, among other things.

The measurement of building society provisions was a key audit matter due to the complexity of the simulation models and the necessary inclusion of assumptions and estimates associated with a degree of uncertainty, which have a material impact on the amount of the provisions.

Auditor's response:
We assessed the design and effectiveness of the internal control system with regard to the process to determine the amount of the provisions for interest rate bonuses for appropriateness and effectiveness.

Using the results of the collective simulation, we reviewed the method as well as the clerical accuracy of the calculations performed by the Company to determine the amount of the provisions. This involved examining the model used to determine whether the relevant contract portfolio was fully included in the calculation, whether the key estimation parameters were included in the model and whether the model selected with the corresponding model assumptions appropriately determined the amount of the provisions in terms of accuracy of the estimates customary for the industry with similar types of mathematical models.

To validate the estimation parameters, we analyzed the current calculations using historical data as well as the periods used and their weighting in the model by comparing the result of the current validation report with the parameters estimated in prior years taking into account the past accuracy of forecasts.

Within the audit team, specialists with particular specialist knowledge in the area of buildings society mathematics were used for the review of the building society simulation model.

Our audit procedures did not lead to any reservations relating to the measurement of building society provisions.

Reference to related disclosures:
Disclosures on the measurement of building society provisions are included in sections 6, 24 and 54 of the notes to the consolidated financial statements.

2. DETERMINING THE AMOUNT OF RISK PROVISIONING FOR BUILDING LOANS TO PRIVATE CUSTOMERS WITHIN LEVEL 2

Reasons why the matter was determined to be a key audit matter:
Non-defaulted financial instruments are recognized using an expected credit loss model in accordance with the regulations of IFRS 9.

Where measured at amortized cost or at fair value through other comprehensive income, impairment losses for non-defaulted financial instruments are taken into account depending on the changes in credit quality since the time of addition either in the amount of the 12-month expected credit loss (level 1) or in the amount of the credit losses expected over the term (level 2) provided that the credit risk of the financial instrument has significantly worsened since the time of addition.

To determine the amount of risk provisioning for building loans to private customers within level 2, Bausparkasse Schwäbisch Hall AG uses complex internal procedures to calculate the credit risk. The bank uses these procedures to automatically determine impairment at a single transaction level for risk provisioning.

For each transaction, Bausparkasse Schwäbisch Hall AG uses the credit risk parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD) over the residual term of the respective agreement. These parameters form the basis for calculating the risk provisioning pursuant to IFRS 9. Determining the corresponding parameters is associated with a degree of uncertainty and includes various different assumptions and influencing factors. Small changes in these assumptions can lead to a significant divergence in the resulting parameters, which can in turn result in higher or lower impairment. Due to the key role the parameters play, Bausparkasse Schwäbisch Hall AG imposes stringent requirements as to their validation.

As risk provisioning is at its highest in the area of non-defaulting in this level 2 and the modeling of the parameters is at its most complex in level 2, reviewing the amount of risk provisioning for building loans to private customers within level 2 is a key audit matter. In this regard, uncertainty or discretionary judgments exercised when setting the assumptions on which the measurement of the loan portfolio is based can have a major impact on measuring risk provisioning.

Auditor’s response:
We assessed the design and effectiveness of the internal control system with regard to the significant accounting-related lending processes for appropriateness and effectiveness. The focus was on the process used to automatically calculate impairment, which is based on the internal rating models. Specifically, we verified the calculation of the risk provisioning during the valuation process conceptually with regard to the requirements resulting from IFRS 9 as well as in terms of clerical accuracy. This relates to the calculation of the provisioning for credit risks using the credit risk parameters in the “DataWarehouse”.

We also reviewed the appropriateness of the process to calculate the risk provisioning pursuant to IFRS 9 as well as the appropriateness and effectiveness of its validation. In particular, this involved reviewing the internal PD and LGD models using the validation concepts available as well as the effectiveness of the validations performed (including backtesting). We verified the risk provisioning determined according to the data extract from the “DataWarehouse” using the risk provisioning posted in the accounting system.

Within the audit team, specialists with particular technical knowledge in the area of quantitative valuation models were used for this review of the determination of the amount of risk provisioning for building loans to private customers within level 2.

Our audit procedures have not led to any reservations regarding risk provisioning for building loans to private customers within level 2.

Reference to related disclosures:
Disclosures on risk provisioning for building loans to private customers within level 2 under the statement of financial position item “Risk provisioning” are included in sections 22, 32, 50 and 62 of the notes to the consolidated financial statements.

Other information:
The supervisory board is responsible for the report of the supervisory board. In all other respects, the executive directors are responsible for the other information. The other information comprises the group non-financial statement included in the “Non-financial statement” section of the group management report and the statement on corporate governance included in the “Other” section of the group management report. This also includes additional reporting sections in the annual report, of which we received a copy by the time this independent auditor’s report was issued, in particular the “At a glance” key performance indicators, the foreword by the management board, the report of the supervisory board, information on the advisory board, addresses, memberships, the DZ BANK Group and the legal notice.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

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 consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures. ·

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 8 May 2019. We were engaged by the supervisory board on 13 May 2019. We have been the group auditor of Bausparkasse Schwäbisch Hall Aktiengesellschaft - Bausparkasse der Volksbanken und Raiffeisenbanken -, Schwäbisch Hall, without interruption since fiscal year 2003.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or entities controlled by it the following services that are not disclosed in the consolidated financial statements or in the group management report:

- Review of the IFRS reporting package for the period from 1 January to 30 June 2019 of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall (annual financial statements and subgroup consolidated financial statements), Schwäbisch Hall Kreditservice GmbH, Schwäbisch Hall, and Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Certification of the review of the IFRS reporting package for the period from 1 January to 31 December 2018 of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, to meet the requirements for regulatory reports pursuant to Art. 24 (2) CRR (Capital Requirements Regulation) in conjunction with the ECB Guide on the options and discretions available in European Union law.

- Quality assurance/project-related audit within the framework of the "NEXT" IT project of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall.

- Agreed-upon review procedures in connection with determining the assessment basis for the 2019 contribution to the protection scheme of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR), Bonn, for Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall.

- Reporting on our audit pursuant to Sec. V No. 11 (1) AGB/BBk (KEV ["Krediteinreichungsverfahren": loan submission program] at Deutsche Bundesbank) of Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall.

- Voluntary audits of annual financial statements of VR Kreditservice GmbH, Hamburg, and SHT Schwäbisch Hall Training GmbH, Schwäbisch Hall.

- Agreed-upon review procedures with regard to the regulatory banking provisions to be complied with by the Luxembourg branch of Bausparkasse Schwäbisch Hall AG.

- Agreed-upon review procedures with regard to the remuneration strategy of Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Separate reporting to the Hungarian National Bank particularly with regard to the compliance of Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt., Budapest, Hungary.

- Reporting in accordance with ISAE 3000 on IFRS of Fundamenta Értéklánc Ingatlanközvetitö es Szolgáltató Kft, Budapest, Hungary.

- Audit and certification of the tax information of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main, calculated in accordance with Sec. 51 (1) InvStG ["Investmentsteuergesetz": German Investment Tax Act].

- Audit of the annual reports/interim reports/liquidation reports/merger audits of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main.

- Audit of the calculation of risk weightings and actual currency composition of the UIN Union Investment Institutional Fonds No. 817 special fund, Frankfurt am Main.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Werner Frey.

Stuttgart, 17 February 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Frey	Müller
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

Supervisory Board and committees
Bausparkasse Schwäbisch Hall AG's Supervisory Board monitored the management activities of the Management Board during financial year 2019 in accordance with the legal provisions and the Articles of Association, and decided on items of business presented to it that required approval.

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).

On 19 June 2019, 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 order to implement the EBA Suitability Guideline, the Supervisory Board adopted a framework policy on 8 May 2019 consisting of a "Suitability Assessment Policy" relating to the individual and collective suitability of the Management and Supervisory Boards, an "On-boarding and Training Policy" for the members of both governing bodies and a "Diversity Policy" (including defined targets for female members of the Supervisory and Management Boards).

Insofar as there were indications of relevant conflicts of interest among members of the Supervisory Board in individual cases, those members of the Supervisory Board concerned abstained from voting.

Based on its own assessment, the Supervisory Board had adequate financial and human resources at its disposal in the reporting period to support new members in becoming familiar with their role and to provide the training that is necessary to maintain members' required level of expertise. For example, Bausparkasse Schwäbisch Hall AG offers to cover the costs for participation by the members of the Supervisory Board in an external provider's modular advanced training programme tailored specifically to the needs of Supervisory Board members, which they can make use of on an individual basis as needed (including topics such as comprehensive bank management, bank accounting and bank regulation). In addition, the Supervisory Board organised an internal specialist workshop in financial year 2019 that focused in particular on *Bauspar*-specific and regulatory issues relating to the duties of the Supervisory Board (e.g. IT security, IT strategy, IT portfolio management and IT portfolio control issues, as well as issues relating to the management of (inter)national groups and risks in connection with group structures).

Cooperation with the Management Board
The Management Board reported regularly, promptly and comprehensively, both in writing and verbally, to the Supervisory Board about the position and development of the *Bausparkasse* and the Schwäbisch Hall Group, and the general course of business. Furthermore, the Management Board informed the Supervisory Board about strategic developments on an ongoing basis. Additionally, the

Management Board reported in detail about the earnings position, operational and medium-term planning, the modernisation of the IT infrastructure and the performance of domestic and non-domestic investees. It also addressed the risk report, the audit report and the compliance report.

The Supervisory Board discussed the aforementioned issues with the Management Board, advised it and monitored its management activities. The Supervisory Board was at all times involved in decisions of fundamental importance.

Meetings of the Supervisory Board and its committees
The Supervisory Board held three meetings in financial year 2019. The joint Risk and Audit Committee met twice. The Nomination Committee and the Remuneration Committee each held two meetings. It was not necessary for the Mediation Committee to meet during financial year 2019. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2019 and participated in the written resolution procedures of the relevant bodies.

In its meetings, the Supervisory Board primarily discussed the report by the Management Board on current business performance, the earnings and risk position, and the strategic outlook. The Supervisory Board examined the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG as well as the consolidated financial statements and the Group management report as at 31 December 2018, 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 8 May 2019, including the resolutions contained in the agenda.

The Supervisory Board’s committees discharged their duties prescribed by law and the Articles of Association and – where necessary – adopted relevant recommendations for resolutions to the Supervisory Board. The committee chairs reported regularly to the Supervisory Board on the work of the committees.

The Supervisory Board also addressed the question of a successor for a departing member of the Management Board of Bausparkasse Schwäbisch Hall and adopted a resolution on this matter in line with the recommendation by the Nomination Committee. The Supervisory Board also dealt with the assessment of the Management and Supervisory Boards and the implementation of the EBA Suitability Guideline. In order to prepare future proposals for electing the members of the Supervisory Board, the existing job description and the candidate profile were updated.

The Supervisory Board additionally addressed issues relating to remuneration in accordance with the German Remuneration Regulation for Institutions (IVV) and – where necessary – adopted resolutions in line with the recommendation by the Remuneration Committee. Further, the Supervisory Board dealt with the structure of the employee remuneration systems, the Remuneration Report and the determination of the total amount of variable remuneration for financial year 2018. In addition, the Supervisory Board addressed the nomination for the election of a replacement shareholder representative to the Supervisory Board of the *Bausparkasse* in accordance with section 25d of the KWG as well as the regulatory requirements that are also applicable to this process, and submitted the corresponding proposal for a resolution to the Annual General Meeting in line with the recommendations by the Nomination Committee.

In the course of its duties, the joint Risk and Audit Committee also focused on the election of the auditor for financial year 2019, supervised the engagement for non-audit services and preparations for rotating the (Group-wide) auditor.

In urgent cases, the Supervisory Board approved significant transactions via the written resolution procedure. Furthermore, the Chairman of the Supervisory Board was also kept informed about significant developments and decisions outside of the meetings. Additionally, the Chairman of the Supervisory Board and the Chief Executive Officer of Bausparkasse Schwäbisch Hall AG, as well as the chairs of the Supervisory Board's committees and the responsible members of the Management Board, had regular discussions ahead of key decisions and significant transactions. The members of the Supervisory Board and its committees regularly attended the meetings during financial year 2019 and participated in the written resolution procedures of the relevant bodies.

Cooperation with the auditors

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart audited the annual financial statements and consolidated financial statements prepared by the Management Board for financial year 2019 as well as the management report and Group management report, including the accounting, and issued an unqualified auditor's opinion in each case. The audit reports were submitted to the members of the Supervisory Board in a timely manner and discussed in detail. The Supervisory Board concurred with the findings of the audit.

Adoption of the annual financial statements

During their meetings, the Supervisory Board and the joint Risk and Audit Committee established from among its members examined in detail the annual financial statements and management report of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements and the Group management report. The Chair of the joint Risk and Audit Committee comprehensively informed the Supervisory Board about the extensive deliberations of the committee regarding the aforementioned annual financial statements and management reports. The representatives of the auditor took part in the meeting of the Supervisory Board to adopt the annual financial statements and in the preparatory meeting of the joint Risk and Audit Committee, in order to report in detail on the material findings of the audit. They were also available to members of the Supervisory Board to provide information. The Supervisory Board did not raise any objections to the financial reporting.

It is not necessary to prepare a report on relationships with affiliated companies (dependent company report) due to the profit and loss transfer agreement between DZ BANK AG, Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main and Bausparkasse Schwäbisch Hall AG, Schwäbisch Hall, which was extended for a further five years in February 2016.

In the course of its audit of the 2019 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 6 March 2020, the Supervisory Board approved the annual financial statements of Bausparkasse Schwäbisch Hall AG and the consolidated financial statements as at 31 December 2019 that were prepared by the Management Board. The annual financial statements are therefore adopted.

Changes in the Supervisory Board and Management Board

Klaus Holderbach stepped down from the Supervisory Board at the end of the Annual General Meeting on 8 May 2019. Marianne Kugler-Wendt resigned her seat as at 31 May 2019 and Ralf W. Barkey resigned his seat as at 31 December 2019. The Supervisory Board would like to thank the former members for their positive collaboration and many years of commitment. Jörg Stahl was elected to the Supervisory Board effective the end of the Annual General Meeting on 8 May 2019. Katharina Kaupp was nominated by ver.di as the successor to Marianne Kugler-Wendt and appointed by the court effective 1 June 2019.

Mike Kammann was appointed to the Management Board of the *Bausparkasse* effective 1 January 2020. He succeeded Alexander Lichtenberg who stepped down from the Management Board as at the end of 2019. The Supervisory Board wishes to thank Alexander Lichtenberg for the positive collaboration and his many years of successful work for the *Bausparkasse*.

The Supervisory Board would like to thank the Management Board and all of the Company's employees for their work in 2019.

Schwäbisch Hall, March 2020

Bausparkasse Schwäbisch Hall AG
– *Bausparkasse der Volksbanken und Raiffeisenbanken* –

Dr Cornelius Riese
Chairman of the Supervisory Board

Advisory Board of Bausparkasse Schwäbisch Hall AG

The task of the Advisory Board is to advise the Management Board as part of an active exchange of views.

Bausparkasse Schwäbisch Hall's Advisory Board consists of up to 40 members, at least 75% of whom are full-time members of the management boards of cooperative banks. The remaining members may be representatives of cooperative associations, central banks and other network companies or customer groups:

Christoph Ochs
– Chairman of the Advisory Board –
Chief Executive Officer
VR Bank Südpfalz eG,
Landau

Jochen Kerschbaumer
– Deputy Chairman of the Advisory Board –
Member of the Management Board
Wiesbadener Volksbank eG,
Wiesbaden

Uwe Arendt
Member of the Management Board
Bank 1 Saar eG,
Saarbrücken

Jürgen Beerkircher
Chief Executive Officer
Volksbank Backnang eG,
Backnang

Dr Thomas Brakensiek
Member of the Management Board
Hamburger Volksbank eG,
Hamburg

Werner Braun
Member of the Management Board
VR Bank HessenLand eG,
Alsfeld

Bernhard Brudermiller
Spokesman of the Management Board
Volksbank Beilstein-Ilsfeld-Abstatt eG,
Beilstein
(Member of the Advisory Board until
21 Nov 2019)

Bernhard Carl
Spokesman of the Management Board
Volksbank Kurpfalz eG,
Heidelberg
(Member of the Advisory Board until
21 Nov 2019)

Markus Dauber
Chief Executive Officer
Volksbank in der Ortenau eG, Offenburg

Thomas Diederichs
Spokesman of the Management Board
Volksbank Rhein-Ruhr eG, Duisburg

Albert Griebl
Spokesman of the Management Board
VR-Bank Rottal-Inn eG,
Pfarrkirchen

Dr Hauke Haensel
Chief Executive Officer
Volksbank Pirna eG,
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Gerd Haselbach
Spokesman of the Management Board
Raiffeisenbank im Kreis Calw eG,
Neubulach

Stephan Heinisch
Member of the Management Board
Volksbank Freiburg eG,
Freiburg

Josef Hodrus
Spokesman of the Management Board
Volksbank Allgäu-Oberschwaben eG,
Leutkirch im Allgäu

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Volksbank Delbrück-Hövelhof eG,
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Volks- und Raiffeisenbank,
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(Member of the Advisory Board until
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Vereinigte Volksbank eG,
Brakel

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Member of the Management Board
Raiffeisenbank Kitzinger Land eG,
Obernbreit

Rainer Lukas
Member of the Management Board
Volksbank Raiffeisenbank
Nordoberpfalz eG,
Weiden
(Member of the Advisory Board since
8 May 2019)

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Chief Executive Officer
Volksbank Mönchengladbach eG,
Mönchengladbach

Andreas Mertke
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Berliner Volksbank eG,
Berlin
(Member of the Advisory Board until
8 May 2019)

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Volksbank eG Gera•Jena•Rudolstadt,
Rudolstadt

Heino Oehring
Member of the Management Board
Harzer Volksbank eG,
Wernigerode
(Member of the Advisory Board since
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Berliner Volksbank eG,
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Martin Rudolph
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Raiffeisenbank eG,
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Volksbank eG Bad Laer-Borgloh-Hilter-Melle,
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Volksbank Neckartal eG,
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Volksbank Lindenberg eG,
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Dr Gerhard Walther
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VR-Bank Mittelfranken West eG,
Ansbach

Memberships

BAUSPARKASSE SCHWÄBISCH HALL IS A MEMBER OF THE FOLLOWING PROFESSIONAL ASSOCIATIONS AND INSTITUTIONS OF THE HOUSING AND BANKING SECTORS:

National Association of German Cooperative Banks (BVR), Berlin

German Cooperative and *Raiffeisen* Confederation – reg. assoc. (DGRV), Berlin

German *Raiffeisen* Confederation – reg. assoc. (DRV), Berlin

German Association for Housing, Urban and Spatial Development – reg. assoc. (DV), Berlin

Association of Private *Bausparkassen* – reg. assoc., Berlin

Association of German *Pfandbrief* Banks – reg. assoc. (vdp), Berlin

vhw – Bundesverband für Wohnen und Stadtentwicklung – reg. assoc. (Federal association for housing and urban development), 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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North-East Berlin, Brandenburg, Bremen, Hamburg, Mecklenburg-West Pomerania, Lower Saxony, Saxony, Saxony Anhalt, Schleswig-Holstein, Thuringia	Überseering 32 22297 Hamburg	+49 (40) 82222-1600	
South Bavaria and Baden-Württemberg	Crailsheimer Straße 52 74523 Schwäbisch Hall	+49 (791) 46-2276	+49 (791) 46-5680
West Hesse, North Rhine-Westphalia, Rhineland-Palatinate, Saarland	Lyoner Straße 15 60528 Frankfurt/Main	+49 (69) 669097-60	+49 (69) 669097-70
Specialised banks Cooperative institutions (throughout Germany)	Lyoner Straße 15 60528 Frankfurt/Main	+49 (69) 669097-0	+49 (69) 669097-77

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Luxembourg	**Bausparkasse Schwäbisch Hall AG** Luxembourg branch 4, rue Thomas Edison 1445 Strassen LUXEMBOURG	+352 46-6040	+352 46-6041	www.schwaebisch-hall.lu
Slovakia	**Prvá stavebná sporiteľňa, a. s.** Bajkalská 30 829 48 Bratislava 25 Slovakia	+421 2 58231-111	+421 2 43422-919	www.pss.sk
Hungary	**Fundamenta-Lakáskassza** Lakás-takarékpénztár Zrt. Alkotás utca 55–61 1123 Budapest Hungary	+36 1 411-8000	+36 1 411-8001	www.fundamenta.hu

DZ BANK Group

The DZ BANK Group forms part of the German Cooperative Banking Group, which comprises around 850 local cooperative banks and is one of Germany's largest private-sector financial services organisations measured by total assets. Within the German Cooperative Banking Group, DZ BANK AG functions as a central institution. Its task is to support the work of the local cooperative banks and to boost their competitiveness. It is also active as a commercial bank and is the holding company for the DZ BANK Group.

The DZ BANK Group includes Bausparkasse Schwäbisch Hall, DZ HYP, DZ PRIVATBANK, R+V Versicherung, TeamBank, Union Investment Group, VR Smart Finanz and various other specialised institutions. With their strong brands, the companies of the DZ BANK Group constitute key pillars in the range of financial products and services offered by the German Cooperative Banking Group. The DZ BANK Group deploys its strategy and range of services for the cooperative banks and their customers through its four business lines – Retail Banking, Corporate Banking, Capital Markets and Transaction Banking.

This combination of banking, insurance, *Bausparen* and investment services offerings has a long and successful tradition in the German Cooperative Banking Group. The specialised institutions in the DZ BANK Group provide highly competitive products at reasonable prices within their specific areas of expertise. This ensures that the cooperative banks in Germany are able to offer their customers a comprehensive range of outstanding financial services.

LEGAL NOTICE AND ACKNOWLEDGEMENTS

This is a translation. The German version alone is authoritative wherever the intention or interpretation of the text is unclear.

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