Breaking new ground

Half-yearly financial report 2023

Content

Key figures of the LBBW Group

Income statement (EUR million)	**01/01 – 30/06/2023**	**01/01 – 30/06/2022**
Net interest income	1,417	1,039
Net fee and commission income	305	322
Net gains/losses on remeasurement and disposal	81	125
of which allowances for losses on loans and securities	– 86	– 85
Other operating income/expenses	120	76
Total operating income/expenses	*1,923*	*1,563*
Administrative expenses	– 1,043	– 897
Expenses for bank levy and deposit guarantee system	– 188	– 188
Net income/expenses from restructuring	– 0	– 2
Consolidated profit/loss before tax	*691*	*476*
Income taxes	– 203	– 160
Net consolidated profit/loss	*488*	*315*
Key figures in %	**01/01 – 30/06/2023**	**01/01 – 30/06/2022**
Return on equity (RoE)	9.1	6.8
Cost/income ratio (CIR)	61.3	66.0
Balance sheet figures (EUR billion)	**30/06/2023**	**31/12/2022**
Total assets	364.1	324.2
Equity	15.7	15.4
Ratios in accordance with CRR II/CRD V (after full implementation)	**30/06/2023**	**31/12/2022**
Risk weighted assets (EUR billion)	93.8	93.5
Common equity Tier 1 (CET 1) capital ratio (in %)	14.2	14.1
Total capital ratio (in %)	19.9	20.0
Employees	**30/06/2023**	**31/12/2022**
Group	10,158	10,384

Rating	**Moody’s**	**Rating**	**Fitch**	**Rating**	**DBRS**
Long-term Issuer Rating	Aa3, stable	Long-term Issuer Default Rating	A-, stable	Long-term Issuer Rating	A (high), stable
Long-term Bank Deposits	Aa3, stable	Long-term Deposit Rating	A	Long-term Deposits	A (high), stable
Senior Unsecured Bank Debt	Aa3, stable	Long-term Senior Preferred Debt Rating	A	Long-term Senior Debt	A (high), stable
Junior Senior Unsecured Bank Debt	A2	Long-term Senior Non-Preferred Debt Rating	A-	Senior Non-Preferred Debt	A, stable
Short-term Ratings	P–1	Short-term Issuer Default Rating	F1	Short-term Ratings	R-1 (middle), stable
Baseline Credit Assessment (financial strength)	baa2	Viability Rating (financial strength)	bbb+	Intrinsic Assessment (financial strength)	A
Public-sector covered bonds	Aaa	Public-sector covered bonds	-	Public-sector covered bonds	-
Mortgage-backed covered bonds	Aaa	Mortgage-backed covered bonds	-	Mortgage-backed covered bonds	-

(as at 2 August 2023)

01

Foreword

Foreword by the Board of Managing Directors

Dear Readers,

The new year continued as turbulently as the old one had ended. Despite all the challenges on the markets and in the world, we were able to successfully continue LBBW's strategy geared to growth and relevance and to significantly increase its net consolidated profit.

LBBW achieved pre-tax earnings of EUR 691 million in the first six months. This was the best half-year result since the introduction of IFRS accounting in 2007. The positive development was driven by strong operating business while the risk situation remained unremarkable. There was a substantial boost from the rise in interest rates as well. Thanks to earnings growth and despite the perceptible cost pressure, we significantly increased our efficiency. The cost/income ratio improved to 61.3%. The return on equity was also at a good level of 9.1% as at 30 June.

Thus, the positive trend of the past year has continued unchanged – and in an extremely demanding environment. High commodity and energy prices, the turnaround in interest rates and supply chain problems are having a massive impact on businesses in Germany and are contributing factors to the only very weak performance of the German economy.

In times such as these, the balance of our business model comes into its own as a strength: All four operating segments contributed a result in the hundreds of millions and contributed to our business success. In Corporate Customer business, for example, we further expanded our growth area of corporate finance. Our goal, and not just here, is to support our customers with innovative solutions and to guide their transformation to sustainable business models. We also see significant earnings growth in the Real Estate/Project Finance segment – thanks to last year's acquisition of Berlin Hyp, and also to innovative financing models for the expansion of renewable energies or digital infrastructure. In Capital Market business, we experienced very high demand for certificates in particular. In Private Customers/Savings Banks, there was a significant increase in earnings as a result of interest rates, and we were able to offer attractive products on the market.

In light of the ongoing geopolitical uncertainty and the bleak economic prospects, we are paying particular attention to our risk management. The risk situation remains robust at present. Our default rate is low at 0.4% as is the underlying requirement for allowances for losses on loans and securities. In view of the uncertain market developments, we have again recognized additional allowances in conjunction with model adjustments to bolster the Bank's resilience. The common equity Tier 1 capital ratio provides a solid foundation at 14.2% and is significantly higher than the regulatory guidelines.

Looking ahead to the coming months, we assume that economic performance will remain weak. This will likely also stifle demand for corporate loans and other financial products. Furthermore, the positive earnings effects of interest policy are set to diminish. However, LBBW is excellently positioned for this thanks to its diversified universal bank model. Our strong economic foundation and our strategic focus on the challenges of our times give us optimism for our ongoing growth. We therefore assume that we will surpass our original target for the current financial year and we predict a profit before tax in excess of EUR 1 billion.

Above all, however, we will do everything possible to continue standing by customers as a dependable partner. You can count on that, especially in these volatile times.

We would also like to thank our business partners, owners and employees for the trust they have shown in us and their personal commitment.

Sincerely,

The Board of Managing Directors

Rainer Neske
Chairman

Anastasios Agathagelidis

Andreas Götz

Karl Manfred Lochner

Stefanie Münz

Dr. Christian Ricken

Thorsten Schönenberger

02

Interim group management report

Business report for the Group

Overall economic development

The contraction of Germany's gross domestic product continued in the first half of the year. German GDP declined by 0.1% quarter-on-quarter in the first quarter. German economic performance then became stagnant in the second quarter. GDP stagnated in the euro area in the first quarter, but rose by 0.3% quarter-on-quarter in the second quarter. Since Croatia joined the euro area from 1 January, it now consists of 20 states. GDP grew by 2.0% in the US in the first quarter and by 2.4% in the second (all US figures annualized). In China, GDP rose by 2.2% as against the previous quarter in the first quarter as a result of the end of its zero-COVID policy, though this then slowed to 0.8% in the second quarter. The Ukraine war has become less significant to the direct development of the economy as a whole, but is nonetheless still a risk factor.

Inflation receded in the first half of 2023. According to the national consumer price index, inflation was still at 8.1% in December 2022, but then 6.4% in June 2023. The decline was due to the slowing price increase for household energy and fuel. This increase had been 20.3% in December 2022 and was 3.0% in June 2023. Prices fell more sharply in the euro area. While the rate of inflation was still 9.2% in December, it fell to 5.5% by June 2023. This was largely on account of energy prices, which declined by 5.6% as against the same month of the previous year in June, while in December of the previous year they had risen by 25.5% as against the same month of the previous year. Adjusting for energy prices, the rate of inflation was 6.9% after the first half of the year.

With the rate of inflation significantly higher than its target of 2%, the ECB raised interest rates by 150 basis points in total in four further increments in the first half of the year. The deposit rate was 3.50% after the first half of 2023 and the main refinancing operations rate 50 basis points above that. Rates were raised again in July to 3.75% for the deposit rate and 4.25% for the main refinancing operations rate. The US Federal Reserve raised the range for its Fed Funds Target Rate three times in the first half of the year by 25 basis points each time and again at the end of July to currently 5.25% to 5.50%.

On the bond markets, the return on 10-year German government bonds fell from 2.56% at the start of the year. In the US, the return on 10-year US Treasuries was virtually unchanged compared to the end of 2022 at 3.86% (3.83%). Turning to the stock markets, the DAX rose from 13,718 to 15,531 while the S&P in the US climbed from 3,756 to 4,297. The euro gained ground against the US dollar, with one euro costing slightly less than USD 1.07 at the beginning of the year and just under USD 1.09 by the end of the first half of the year.

Prices for residential, office and retail properties in Germany were in decline in the first quarter of 2023. In the US, the vacancy rate for office properties continued to rise in the first quarter. US house prices climbed slightly in the first few months of the current year. In the UK, developments in vacancy rates were mixed on the core London market and office prices were down. House prices in the UK declined slightly in the first few months of the year.

Business performance of the LBBW Group in the first half of 2023 – Results of operations, net assets and financial position

On a persistently challenging political and economic landscape, LBBW achieved a strong result in all segments in the first half of 2023. LBBW's universal bank model has thus proven its worth even on volatile markets.

Business development

In the first half of 2023, which continued to be dominated by a volatile political and economic environment and the effects of the war in Ukraine, LBBW increased its net consolidated profit before tax markedly from EUR 476 million to EUR 691 million, thereby continuing its positive trend. In particular, this was thanks to a significant increase in earnings and a consistently robust risk structure. All segments once again reported a good operating performance, benefiting in part from higher deposit revenue. The positive earnings contribution by all four segments once again shows that LBBW's universal bank model proves its worth even on volatile markets.

In line with the strategic focus on growth and relevance embarked on in the previous year, LBBW continued to expand its growth area of corporate finance in the **Corporate Customers** segment and positioned itself as an advisor and companion to its own customers. LBBW demonstrated its expertise in this field with the profitable sale of its IT consulting subsidiary targens GmbH to the IT service provider GFT. For the first time, LBBW's M&A team assisted in an M&A from within the Group rather than for its customers. LBBW also participated in the TransnetBW deal of its subsidiary EnBW. LBBW therefore played a key role as both an M&A consultant to the investment consortium and as a participant in shaping the investment vehicle.

On the Schuldschein market, the Corporate Finance department once again defended its market leadership, moving a volume of more than EUR 9 billion on the market dominated by LBBW in the first half of the year alone. The successful business performance was also reflected in the League Tables for corporate loans where LBBW further consolidated its position. LBBW is now in third place for both the number of deals for mandated lead arrangers and as a book runner, thereby reaffirming its strong role on the market. According to the Houlihan Lokey MidCapMonitor, the Acquisition Finance department was again in the top three in Germany. The extension of the cash management product range to include cash pooling is one of the most recent product innovations in the Corporate Customers segment.

The effects of the difficult environment predicted in previous quarters were plain to see in the **Real Estate/Project Finance** segment in the first half of 2023, especially on the real estate market. Transaction activity was slowed by sharp increases in interest rates and the costs of raw materials and construction. This was balanced out by the market environment for project financing, which benefited above all from high demand for financing in the renewable energies and digital infrastructure segments.

In Real Estate, despite the tense market situation, LBBW was able to buck the trend with a new business volume in excess of EUR 5 billion, thereby also contributing to the expansion of sustainable financing in the portfolio as a whole. The profitability of new business was increased as well.

The Real Estate business area continued to be defined by the integration of Berlin Hyp in the first half of 2023. Berlin Hyp was delighted to receive the Immobilienmanager Award for its sustainable product range in addition to being honored with the Real Estate Brand Award for the second time in a row. Furthermore, Berlin Hyp won the award for the strongest German real estate bank brand. The importance of ESG to Berlin Hyp is reflected by the structure of its refinancing: The bank was a regular issuer on the market for syndicated bonds with four benchmark issuances in total in euro and one in Swiss francs, including the first ESG dual tranche consisting of a social bond and a green bond. These once again included a benchmark issuance in the form of a green bond of EUR 750 million. This marks the twentieth green bond issued by Berlin Hyp since its debut in April 2015. LBBW's branch office in Toronto also celebrated its fifth anniversary and thus the successful entry into the Canadian commercial real estate market.

In the first half of 2023, the new business volume of EUR 1.5 billion in Project Finance was dominated by financing for digital infrastructure, following by financing in the energy sector (bridge technology/renewable energy). In total, more than 60% of the portfolio is invested in sustainable financing (renewable energy, social infrastructure and fiber optics).

The **Capital Markets Business** segment leveraged the volatile market environment and continued its profitable operations in interest/currency hedges and structured notes business. The high liquidity buffer for companies and institutional investors led to an increase in capital market activity in the first half of the year. LBBW was able to benefit from the general market situation and increased its assets under management in structured securities to EUR 14 billion in total, garnering a market share of around 16% and defending its position among Germany's top three structured note providers. Confirmation of LBBW's quality and expertise as an issuer of investment certificates on the primary market again came in the form of its "Certificates Management Rating" from Scope with a top grade of AAA. At the same time, LBBW Asset Management also saw growth in the first quarter of 2023 in particular and thus improved its BVI ranking by two places.

In the field of export finance, a further contribution was made to the transformation of the economy with various major transactions in renewable energies. LBBW's high market penetration and proximity to its customers is paying off and it was thus named one of the world's top performing banks in export finance for the fifth time. According to market intelligence provider TXF in London, LBBW was voted the number two best bank for export finance. The survey once again attests to its stand-out service, especially in customer service.

The fast pace on the interest markets opened up further investment potential in the **Private Customers/Savings Banks** segment. In order to meet the changes in market conditions head-on, BW-Bank introduced its new "BW-ZinsGeld" product, thereby offering even conservatively inclined investors a true alternative to the capital market.

The consistently high demand for capital market products was evidenced by new business in wealth management as well. In the second quarter following a good start to the year, both the volume and new business rate were up again for asset management mandates and the number of mandates managed rose to a record level. The good quality of asset management is also reflected by the Capital award. It was voted as one of the top three most sustainable asset managers in Germany and received top grades. Foundation management was similarly outstanding once again. For the tenth time since 2008, the team was awarded first place by FUCHS/RICHTER Prüfinstanz.

A key issue in the first half of 2023 was the ongoing refinement of LBBW's strategy. The goal is to place LBBW in a good competitive position for future challenges by focusing its strategy on **Growth and Relevance**. Also, five strategic levers have been defined to drive the sustainable development of the Group and the segments: Sustainable Transformation, Innovative Solutions, Enhanced Resilience, Inspire Employees and Social Contribution.

In **Sustainable Transformation**, LBBW is addressing customers' key needs for the coming years. In order to actively guide this transformation, LBBW has set itself an ambitious target for its sustainable business volume of EUR 300 billion by 2025, EUR 75 billion of which in sustainable financing.

In short, **Innovative Solutions** means harnessing the entire solutions expertise of the universal bank to meet customer requirements and to serve as a solutions provider. At the same time, the products offered and processes will be improved on an ongoing basis and digitalization will be leveraged as an enabling force both for customers and internally. In this context, LBBW recently secured an interest in the blockchain platform SWIAT and is thereby positioning itself as a creative player in the digital finance industry early on. The platform offers the technological infrastructure for the standardized issuance and settlement of digital assets.

Enhanced Resilience is LBBW's response to the ever-faster changing landscape in order to continuously optimize its own business model and to become progressively stronger. The management of capital and risk were further improved, for example by continuing to expand RWA-optimizing procedures. This also supports the optimization of the portfolio structure. In addition, LBBW enhanced its own process stability with further investment in IT and IT security.

The aim of the strategic lever **Inspire Employees** is to build and maintain a long-term, dynamic workforce. In order to counteract demographic change and to augment competitive capability moving forwards, LBBW has already been fostering highly qualified junior talent for many years. A number of new trainees launched their careers at LBBW in April, thus further raising the level of junior talent. Among other things, a new "hybrid working" agreement allows employees to work in another EU country for a maximum of 15 days per year, and teams will be making their own individual rules for on-site attendance in future in order to achieve a better work-life balance. In addition, the "performance dialog" was introduced as a new HR management tool. This links remuneration issues with personal development issues and relies above all on the dialog between management and employees. The process is assisted by a new tool that actively involves employees and enhances transparency at the same time.

Through the **Social Contribution** lever, LBBW is playing its part, in terms of both employee engagement and the Bank's own commitment, and actively getting involved in social developments, discourse and initiatives. In a pilot project, for example, LBBW allowed its employees to engage in selected social projects. Participants were allowed time off for corporate volunteering. The Bank also provides financial support to various social projects in the form of donations.

Key performance indicators

The key financial performance indicators confirm LBBW's successful business performance in the first half of 2023.

The cost/income ratio[1] (CIR) improved to 61.3% after 66.0% in the previous year, in particular as a result of income effects. Income climbed by EUR 362 million, mainly on account of growth in net interest income of EUR 378 million. Net interest income benefited considerably from strong deposit business and the incorporation of Berlin Hyp, which had not been included in the prior-year figures. Meanwhile, administrative expenses increased accordingly as the Berlin subsidiary was not added to the consolidated group until 1 July 2022. This indicator also developed noticeably better than expected in planning thanks to effects in both income and expenses. The return on equity[2] (RoE) rose to 9.1% (previous year: 6.8%), markedly higher than the target, which also reflected the improved income situation and lower expenses than projected.

The LBBW Group's **common equity Tier 1 capital ratio** as at the end of the reporting period remained considerably higher than the regulatory capital requirements (CRR II/CRD V "fully loaded"). At 14.2%, the ratio was as anticipated and only marginally higher than at the end of the previous year (14.1%).

Pillar 2 capital requirements are unchanged at 1.83%, 1.03% of which must be backed by common equity Tier 1. The German Federal Financial Supervisory Authority (BaFin) left the capital buffer for other systemically important institutions in accordance with Section 10g German Banking Act (Kreditwesengesetz, KWG) unchanged at 0.75%. The capital conservation buffer under Section 10c of the German Banking Act was unchanged at 2.50%. LBBW is therefore required to maintain a common equity Tier 1 capital ratio of 8.78% of its total risk-weighted assets. It also required to maintain common equity Tier 1 capital for two components of risk-weighted assets specified by the supervisory authority. These are firstly the countercyclical capital buffer in accordance with section 10d KWG, which was extended to domestic receivables in the amount of 0.75% by way of BaFin general ruling effective 1 February 2023 and also a share of international receivables. Also, another BaFin general ruling relates to introducing a systematic buffer of 2.0%, also effective 1 February 2023, but limited to receivables secured by German residential property. The ECB's capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital, still applies. In addition, some CET1 capital is held to meet the Tier 1 capital requirements that go beyond this.

Other LBBW Group performance indicators developed as follows:

Risk weighted assets (RWA) increased slightly to EUR 93.8 billion (31 December 2022: EUR 93.5 billion) in connection with marginal business growth in the reporting period, particularly in Capital Markets Business.

LBBW's leverage ratio was 4.1% on 30 June 2023 ("fully loaded" in accordance with CRR II/CRD V). The year-on-year decline in the leverage ratio (4.6%) primarily relates to higher risk exposures, in particular as business growth with states and central banks. Nonetheless, it remains significantly above the current regulatory minimum of 3.0%.

1 LBBW calculates its cost/income ratio as the ratio of total administrative expenses, expenses for the bank levy and deposit guarantee system and net income/expenses from restructuring to total net interest income, net fee and commission income, net gains/losses on remeasurement and disposal before allowances for losses and other operating income/expenses.
2 The return on equity is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet. This figure is adjusted for the unappropriated profit for the current period.

Results of operations

The consolidated profit/loss before tax rose significantly by EUR 216 million year-on-year to EUR 691 million in the first half of 2023. This was mainly thanks to a material increase in income in the Corporate Customers and Private Customers segments. In addition to a good operational first half of the year, LBBW's deposits benefited in particular from the high interest level compared to the previous year and a consistently robust risk structure. Under the exceptional general conditions, underlying allowances for losses on loans and securities remained unremarkable thanks to the high quality of the lending portfolio. Model adjustments were nonetheless also recognized for the Real Estate segment.

The condensed income statement for the LBBW Group has been presented below:

	01/01/2023 – 30/06/2023	01/01/2022 – 30/06/2022[1]	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	1,417	1,039	378	36.4
Net fee and commission income	305	322	– 17	– 5.2
Net gains/losses on remeasurement and disposal	81	125	– 45	– 35.6
of which allowances for losses on loans and securities	– 86	– 85	– 1	1.7
Other operating income/expenses	120	76	44	57.5
Total operating income/expenses	*1,923*	*1,563*	*361*	*23.1*
Administrative expenses	– 1,043	– 897	– 147	16.4
Expenses for bank levy and deposit guarantee system	– 188	– 188	0	– 0.1
Net income/expenses from restructuring	– 0	– 2	2	– 80.5
Consolidated profit/loss before tax	*691*	*476*	*216*	*45.4*
Income taxes	– 203	– 160	– 43	26.6
Net consolidated profit/loss	*488*	*315*	*173*	*54.9*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 The comparative prior-year figures do not include Berlin Hyp as it was included in consolidation for the first time as at 1 July 2022.

In the first half of 2023, LBBW's operating growth was mainly driven by its **net interest income** and, by extension, significantly higher deposit revenue on account of the fast and sharp rise in interest rates. Net interest income improved by EUR 378 million year-on-year to EUR 1,417 million. Without exception, all the operating segments contributed to the rise in profit, with the Corporate Customers and Private Customers/Savings Banks segments standing out as highlights thanks to higher margins and increased volumes. The Real Estate/Project Finance segment mainly benefited compared to the previous year as a result of the integration of Berlin Hyp and a good performance in project finance business. On the other hand, non-recurring effects in particular were lower than in the previous year. The bonus from participating in targeted longer-term refinancing operations (TLTRO III) reduced by EUR 68 million to EUR 0 million (previous year: EUR 68 million). Rising interest rates also meant that fewer loans were repaid early with the result that prepayment penalties were reduced to virtually EUR 0 million.

Net fee and commission income declined by EUR 17 million in the first half of the year to EUR 305 million. The development of the individual types of commission varied. Income from asset management rose to EUR 40 million (previous year: EUR 38 million) thanks to further mandates agreed in the reporting period. Income in the payments business also increased to EUR 55 million (previous year: EUR 53 million). Mainly as a result of guarantee fees, which LBBW had to pay itself, the profit in lending business including guarantees was down by around EUR 8 million at EUR 58 million (previous year: EUR 66 million). Securities and custody business was a key pillar of income, albeit not quite at the same strong level as in the previous year on account of interest rate developments, with the result that fee and commission income declined by EUR 12 million to EUR 123 million (previous year: EUR 135 million).

Net gains/losses on remeasurement and disposal declined by EUR 45 million to EUR 81 million and was defined by the effects described below:

The **allowances for losses on loans and securities** was virtually at the previous year's level at EUR – 86 million (previous year: EUR – 85 million) and thus below the long-term average. Underlying allowances for losses on loans and securities remained at an extremely low level. In line with risk considerations, however, model adjustments were topped up by an additional EUR – 83 million. The increase essentially results from an updated assessment of the effects of the rise in interest rates on the credit risk of commercial real estate finance. LBBW continues to enjoy good portfolio quality, as demonstrated by the very high exposure share in the investment grade range and an ongoing low default rate[1] unchanged at 0.4% as at 30 June 2023 (previous year: 0.4%).

1 See also Risk report, Risk situation of the LBBW Group, section on portfolio quality.

Net gains/losses from financial instruments measured at fair value through profit or loss declined by EUR 43 million to EUR 163 million (previous year: EUR 206 million). While demand for hedging and investment products, including interest, currency and commodities management and in structured notes business, remained at a high level, the net income from remeasurement was lower than in the previous year owing to market factors. This was countered by the contribution from banking book transactions, mainly thanks to a positive development in conjunction with hedging strategies for interest loan portfolios.

Other operating income/expenses rose by EUR 44 million to EUR 120 million (previous year: EUR 76 million). The increase was caused in particular by the sale of the wholly owned subsidiary targens GmbH to the IT service provider GFT. The sale/deconsolidation generated non-recurring income in the mid-eight figures. Furthermore, the reversal in profit or loss of provisions recognized in the previous year caused income to rise by EUR 19 million. This was countered by proceeds from the disposal of completed project developments at the LBBW Immobilien sub-group, entailing a reduction in profit of EUR 23 million to EUR 10 million (previous year: EUR 34 million). The effects of the difficult environment predicted in previous quarters were plain to see in the first half of 2023, especially on the real estate market. Transaction activity was held back by sharp increases in interest rates and the costs of raw materials and construction. In addition to this effect, the decline as against the previous year relates in particular to a high volume of project revenue recognized pro rata in first half of 2022.

Administrative expenses rose by EUR – 147 million on the previous year to EUR – 1,043 million (previous year: EUR -897 million). The overall increase was defined by the first-time inclusion of Berlin Hyp, which was not yet taken into account in the first half of 2022. *Staff costs* climbed by EUR – 51 million to EUR – 556 million as a result of the integration of the Berlin subsidiary, recruitment and pay rises under collective bargaining agreements. The increase in *other administrative expenses* by EUR – 85 million to EUR – 422 million was likewise clearly affected by Berlin Hyp's first-time inclusion in the figures, though investment in growth initiatives and IT was also a factor. Depreciation and amortization rose by EUR – 11 million to EUR – 65 million (previous year: EUR – 54 million), primarily as a result of amortization on third-party software and an impairment loss on property, plant and equipment.

Following many years with some significant increases, the expenses for the **bank levy and deposit guarantee** remained constant as against the previous year for the first time at EUR – 188 million. The *bank levy* was down by EUR 22 million on the previous year as a result of a lower target volume/lower growth in covered deposits in the euro area. Expenses for the *deposit guarantee system* also rose by EUR – 22 million year-on-year to EUR – 77 million, in particular on account of DKB Bank AG leaving the deposit guarantee system of the Sparkassen-Finanzgruppe.

At EUR 691 million, **consolidated profit before tax** was EUR 216 million higher than the previous year's figure of EUR 476 million. Income tax expenses were correspondingly higher, increasing by EUR – 43 million to EUR – 203 million (previous year: EUR – 160 million).

After taxes, the **net consolidated profit** rose markedly by EUR 173 million to EUR 488 million (previous year: EUR 315 million).

Results of operations in the segments

The following description of changes in earnings in the segments is based on the segment structure described in the Group overview in the 2022 annual report. Further information can be found in the notes to the consolidated financial statements in the segment report in section C.

The LBBW Group segments' contributions to consolidated profit before tax of EUR 691 million in the first half of 2023 (previous year: EUR 476 million) were as follows:

	01/01/2023 – 30/06/2023	01/01/2022 – 30/06/2022[1]	Change	
	EUR million	EUR million	EUR million	in %
Corporate Customers	418	280	138	49.4
Real Estate/Project Finance	119	169	– 49	– 29.2
Capital Markets Business	156	158	– 2	– 1.5
Private Customers/Savings Banks	154	42	112	>100
Corporate Items/Reconciliation/Consolidation	– 156	– 173	17	– 9.7
Consolidated profit/loss before tax	*691*	*476*	*216*	*45.4*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

The profit of the Corporate Customers segment increased substantially as against the previous year to EUR 418 million (EUR 280 million) while its return on equity improved to 17.1% (previous year: 10.8%). This was thanks to a further rise in income after what was already a good previous year for LBBW. The segment benefited from measurably higher deposit revenue on account of the fast and sharp climb in interest rates and from consistently good cross-selling. The good quality of the portfolio is reflected by unremarkable allowances for losses on loans and securities. The cost/income ratio improved by more than 7 percentage points to 45.1% in total as a result of income effects. By contrast, expenses were up slightly, in part as a result of efforts to stimulate growth in the focus products of corporate finance and environmental products.

The effects of the difficult environment predicted in previous quarters were already plain to see in the first half of 2023, especially on the real estate market. Sharp increases in interest rates and the costs of raw materials and construction as well as the high inflation rate slowed transaction activity on the real estate market and exacerbated the market trend, though LBBW was nonetheless well positioned. Income in the Real Estate/Project Finance segment increased significantly, largely as a result of the contribution by Berlin Hyp that was not yet included in the previous year. LBBW enjoyed positive growth in project finance business as well. The underlying allowances for losses on loans and securities were low despite current market distortion. To bolster the Bank's resilience in view of the uncertain market developments, additional allowances were recognized in conjunction with model adjustments. The profit is therefore EUR 119 million (previous year: EUR 169 million) with a return on equity of 6.9% (previous year: 17.2%). Expenses were higher than in the previous year, essentially as a result of the inclusion of Berlin Hyp. The cost/income ratio climbed from 33.8% to 49.3%.

Despite the difficult market environment, the profit of the Capital Markets Business segment was stable at the previous year's level at EUR 156 million (EUR 158 million). Demand for hedging and investment products (including structured notes) remained at a consistently high level. Following the recognition of allowances for losses on loans and securities for the consequences of the Russia/Ukraine war in the previous year, allowances for losses on loans and securities normalized in the first half of 2023. A reduction in capital employed allowed the return on equity to rise to 13.9% (previous year: 11.4%). Expenses were up as against the previous year, in particular as a result of the growth cases of asset and wealth management as well as custodial business. The cost/income ratio likewise rose slightly to 67.5% (previous year: 58.6%).

The profit of the Private Customers/Savings Banks segment increased considerably to EUR 154 million (previous year: EUR 42 million). After years of the low interest level, excess liquidity and thus a strained financial performance, income continued to rise as in the second half of 2022. The segment benefited from the high interest level. In line with these developments, the return on equity also improved to 27.0% (previous year: 7.6%). Expenses were up marginally as against the previous year, in part on account of the focused growth in asset and wealth management, though this was more than compensated by far by the increase in income. This is reflected in the further improvement of the cost/income ratio of 62.2% (previous year: 86.4%).

Profit/loss before tax in Corporate Items/Reconciliation/Consolidation (EUR – 156 million) improved slightly year-on-year in the first half of 2023 (EUR – 173 million). As in the previous year, this was essentially defined by expenses for the bank levy and deposit guarantee system with the ongoing pro rata allocation to the operating segments.

Net assets and financial position

Assets	30/06/2023 EUR million	31/12/2022[1] EUR million	Change EUR million	Change in %
Cash and cash equivalents	17,215	10,569	6,646	62.9
Financial assets measured at amortized cost	258,969	228,969	30,000	13.1
Financial assets measured at fair value through other comprehensive income	37,600	36,668	932	2.5
Financial assets designated at fair value	1,686	1,779	– 93	– 5.2
Financial assets mandatorily measured at fair value through profit or loss	41,400	39,379	2,021	5.1
Shares in investments accounted for using the equity method	207	226	– 18	– 8.1
Portfolio hedge adjustment attributable to assets	– 497	– 549	52	– 9.5
Non-current assets held for sale and disposal groups	25	1	24	>100.0
Intangible assets	211	209	2	0.9
Investment property	776	791	– 15	– 1.9
Property and equipment	798	813	– 15	– 1.9
Income tax assets	996	1,038	– 42	– 4.0
Other assets	4,736	4,281	455	10.6
Total assets	*364,124*	*324,174*	*39,950*	*12.3*

Equity and liabilities	30/06/2023 EUR million	31/12/2022[1] EUR million	Change EUR million	Change in %
Financial liabilities measured at amortized cost	313,978	273,657	40,322	14.7
Financial liabilities designated at fair value	3,440	3,584	– 144	– 4.0
Financial liabilities mandatorily measured at fair value through profit or loss	29,159	29,825	– 666	– 2.2
Portfolio hedge adjustment attributable to liabilities	– 2,874	– 3,164	290	– 9.2
Provisions	1,825	1,825	– 0	– 0.0
Income tax liabilities	191	212	– 20	– 9.6
Other liabilities	2,746	2,794	– 48	– 1.7
Equity	15,658	15,442	217	1.4
Total equity and liabilities	*364,124*	*324,174*	*39,950*	*12.3*
Guarantee and surety obligations	9,656	9,549	107	1.1
Irrevocable loan commitments	35,321	41,416	– 6,095	– 14.7
Business volume	*409,101*	*375,138*	*33,963*	*9.1*

1 The prior-year figures for the statement of financial position are as at 31 December 2022 and include Berlin Hyp.

Increase in total consolidated assets

Total assets climbed by EUR 39.9 billion to EUR 364.1 billion as at 30 June 2023. The growth in total assets mostly relates to financial assets measured at amortized cost, while the increase in total equity and liabilities relates almost exclusively to financial liabilities measured at amortized cost.

The **business volume** (consolidated total assets including the off-balance-sheet surety and guarantee agreements and irrevocable loan commitments) rose in line with this, growing by EUR 34.0 billion to EUR 409.1 billion.

Lending

Cash and cash equivalents amounted to EUR 17.2 billion as at 30 June 2023, an increase of EUR 6.6 billion on the figure for the previous year (EUR 10.6 billion). This was attributable almost exclusively to an increase in central bank balances.

Financial assets measured at amortized cost increased by EUR 30.0 billion to EUR 259.0 billion, essentially as a result of loans and advances to banks.

Loans and advances to banks rose by EUR 22.2 billion, closing at EUR 103.5 billion. Public-sector loans in particular increased by EUR 18.6 billion to EUR 88.5 billion, mainly in connection with a deposit under the ECB's deposit facility. Furthermore, securities repurchase agreements rose by EUR 2.7 billion to EUR 9.6 billion.

The growth trajectory was also evident in the development of **loans and advances to customers**, which grew by EUR 6.4 billion to EUR 153.0 billion. Securities repurchase agreements rose by EUR 2.9 billion to EUR 10.1 billion, mortgage-backed loans by EUR 2.4 billion to EUR 68.8 billion and current account receivables by EUR 0.9 billion to EUR 3.7 billion.

Financial assets measured at fair value through other comprehensive income changed by EUR 0.9 billion to EUR 37.6 billion. The development of the securities portfolio to manage liquidity portfolios led to an increase in bonds and debentures of EUR 1.4 billion to EUR 34.0 billion. By contrast, loans and advances declined by EUR 0.5 billion to EUR 2.7 billion.

Financial assets mandatorily measured at fair value through profit or loss climbed by EUR 2.0 billion to EUR 41.4 billion. Receivables from securities repurchase agreements rose by EUR 1.7 billion with debentures and other fixed-income securities up by EUR 1.5 billion. Meanwhile, asset-side derivatives declined by EUR 1.5 billion to EUR 18.0 billion.

The **portfolio hedge adjustment attributable to assets** was stable at the previous year's level at EUR – 0.5 billion.

Other assets increased by EUR 0.5 billion to EUR 4.7 billion, essentially as a result of the development in connection with intangible assets.

Funding

The increase in total equity and liabilities related almost exclusively to **financial liabilities measured at amortized cost**. **This** item rose by EUR 40.3 billion year-on-year to EUR 314.0 billion as at 30 June 2023.

Deposits from banks increased by EUR 7.3 billion to EUR 91.4 billion. The volume of overnight and term deposits climbed by EUR 4.0 billion to EUR 44.0 billion. This change resulted in part from a repayment of liabilities to the ECB in connection with the participation in the tender program (TLTRO III), though this was by far more than compensated by a large new volume of overnight and term deposits with international commercial and central banks. Securities repurchase agreements rose by EUR 3.4 billion, relating almost exclusively to transactions settled by EUREX Clearing.

At EUR 133.5 billion, the item **deposits from customers** was up EUR 17.7 billion as against the figure for 31 December 2022. Here, too, there was a significant increase in overnight and term deposits, which grew by EUR 22.7 billion to EUR 61.5 billion. A substantial increase resulted from German federal states that used LBBW investment products. The shift into overnight and term deposits reduced current account liabilities by EUR 8.8 billion in total to EUR 51.1 billion.

The volume of **securitized liabilities** rose by EUR 15.7 billion to EUR 84.3 billion in the reporting period. The New York branch further increased its short-term refinancing with commercial papers and certificates of deposit, causing money market transactions to increase by EUR 6.4 billion to EUR 23.9 billion. Within other debentures, there was a steady increase in the volume of short- and medium-term securities of EUR 5.6 billion to EUR 30.4 billion.

Subordinated capital was down by EUR 0.4 billion as against the previous year at EUR 4.8 billion, essentially as a result of scheduled maturities in the first half of 2023.

Financial liabilities designated at fair value declined marginally by EUR 0.1 billion to EUR 3.4 billion, though losses due to the higher interest level were compensated by corresponding new business.

Financial liabilities mandatorily measured at fair value through profit or loss fell by EUR 0.7 billion to EUR 29.2 billion. While liability derivatives were down by EUR 1.7 billion at EUR 19.4 billion in line with the counterpart item under assets, securitized liabilities climbed by EUR 0.8 billion to EUR 6.8 billion. Negative fair values from derivative hedging instruments were stable at the previous year's level with a change of EUR – 0.1 billion.

The **portfolio hedge adjustment attributable to liabilities** rose a little more than the corresponding item on the assets side by EUR 0.3 billion to EUR 2.9 billion.

Provisions were stable at the previous year's level at EUR 1.8 billion.

Equity

LBBW's **equity** amounted to EUR 15.7 billion as at 30 June 2023, up EUR 0.2 billion on the previous year's EUR 15.4 billion. The consolidated net profit for the year of EUR 0.5 billion allowed equity to rise and was offset by a distribution to shareholders of EUR 0.2 billion.

Financial position

The funding strategy at LBBW is proposed by the Asset Liability Committee (ALCo) and determined by management. Here the Group focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. The first half of 2023 was defined by persistently high inflation and by a central bank policy that strove to reduce it again by raising interest rates and cutting back on the supply of money. Even in this phase, LBBW successfully presented itself to investors and was able to raise the cash funds required at all times. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The Group LCR ratio was satisfied at the times of calculation throughout the reporting period and was 137.2% as at 30 June 2023. The net stable funding ratio (NSFR) requirements applicable since June 2021 were also met at all times and were exceeded at 114.2% as at 30 June 2023.

Risk report

Risk management systems

The risk management methods and processes presented in the combined management report as at 31 December 2022 are still applied by the LBBW Group as at 30 June 2023. There were no material changes in the first half of 2023.

Risk types

Detailed notes on the definition of risks and on the risk management system as a whole can be found in the combined management report for 2022.

Regulatory conditions

LBBW is assigned to Directorate General within the ECB, which supervises special banks and less significant banks.

The ECB has set medium-term priorities based on the key vulnerabilities it has identified and has assigned these strategic objectives and potential regulatory measures. The aim of the banking supervision authority is that "banks increase their resilience to macro-financial and geopolitical risks", "structural weaknesses are addressed using effective IT and digitalization strategies and enhanced governance" and "emerging risks (such as climate-related and environmental risks) are tackled". This includes the medium-term priorities of thoroughly examining climate and environmental risks, cyber risks, credit risks, interest rate and refinancing risks and developments in the context of digitalization.

The EBA/ECB stress test formed a key part of supervisory activities to date in 2023, the aim of which was to assess banks' stability in view of adverse economic developments in order to identify potential risks and any banking supervisory action required and to improve market discipline. Furthermore, supervisory authorities turned their attention to the short-term and medium-term implications of the rapid rise in interest rates, high inflation and a possible economic cool-down for banks.

The future design of the regulatory framework will depend to a large extent on further macroeconomic and geopolitical developments and the impact these have on the banking sector.

Risk situation of the LBBW Group

LBBW manages its risks from two mutually complementary perspectives. To ensure adequate capitalization from an economic point of view, a Group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of these with the capital calculated from an economic perspective (aggregate risk cover). In addition to the economic perspective, LBBW's risk appetite and management concept includes the regulatory steering group. This steering group is responsible for ensuring compliance with regulatory capital and risk parameters at all times. To this end, internal targets are set above the minimum regulatory requirements and compliance is ensured by way of an ongoing monitoring process. Details on the regulatory key figures can be found in the report on results of operations, net assets and financial position, the notes and in the section on liquidity risks.

The economic capital commitment has increased by around EUR 0.1 billion in total since the end of 2022. The increase relates in particular to portfolio developments in market price risks.

As at the end of the first half of 2023, aggregate risk cover (ARC) had increased by around EUR 0.3 billion compared to the end of 2022. The increase relates in particular to the current net consolidated profit/loss.

In summary, the risk-bearing capacity of the LBBW Group was maintained at every reporting date in the first half of 2023. The permanent viability required in line with regulations was guaranteed. To test this, specific scenarios were simulated detailing the further development of various crises in light of current geopolitical issues. The bank retained its risk-bearing capacity even in the severe scenario.

The economic capital limit was maintained at all reporting dates at Group level. The utilization of aggregate risk cover was 44% as at 30 June 2023.

LBBW Group – Risk-bearing capacity

	30/06/2023		31/12/2022	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	13,657	44%	13,335	44%
Economic capital limit[2]	10,700	56%	10,700	54%
Correlated total economic capital	5,967		5,830	
of which inter-risk correlations	– 694		– 672	
of which counterparty default risks	3,643		3,604	
of which market price risks	1,778		1,665	
of which investment risks	25		30	
of which operational risks	704		690	
of which development risks	122		98	
of which real estate risks	135		135	
of which other risks[3]	253		279	

1 Confidence level 99.9%/1 year holding period.
2 The individual risk types are capped by economic capital limits.
3 In particular reputation, business and model risks.

Other potential effects of the Russia/Ukraine conflict, supply chain bottlenecks, inflation and interest rate hikes on LBBW’s economic and regulatory key performance indicators are regularly analyzed and investigated in stress scenarios. However, the pace of developments means that only very limited exact forecasts can be made.

Risk types[1]

Counterparty risk

Risk situation of the LBBW Group[2]

The description of the risk situation is based on the credit risk management methods and instruments described in the combined management report for 2022.

The primary parameter in the following comments is gross/net exposure. In this context, gross exposure is defined as the fair value or utilization plus outstanding external loan commitments. Net exposure also takes risk-mitigating effects into account. These include netting and collateral agreements, the hedging effect of credit derivatives or the inclusion of classic credit collateral such as real estate liens, financial collateral, guarantees or bonds.

In addition to the following tables, Note 19 ("Counterparty risk") contains additional detailed overviews broken down by rating classes, sectors and regions in accordance with IFRS 7.

Development of exposure

The following table shows the performance of the two exposure variables and the risk-mitigating effects on the respective reporting date.

Default risk and effect of risk-mitigating measures

EUR million	30/06/2023	31/12/2022
Gross exposure	*564,811*	*534,207*
Netting/collateral	173,490	172,707
Credit derivatives (protection buy)	7,043	7,956
Classic credit collateral	74,543	73,203
Net exposure	*309,735*	*280,340*

Figures may be subject to rounding differences.

Gross exposure amounted to EUR 565 billion as at 30 June 2023, up by around EUR 31 billion on the end of 2022. Net exposure rose by around EUR 29 billion or 11% to EUR 310 billion, mainly driven by the main Financials sector.

1 Information on correlated total economic capital for the individual risk types can be found in the section on the risk situation of the LBBW Group.
2 Statements on the risk situation are based on the management approach. Differences compared to the accounting valuations are due to the reasons described in the 2022 Risk report.

The following information on portfolio quality, sectors and regions provide an overview of the aspects relevant to LBBW's risk situation on the basis of its net exposure.

Portfolio quality

Rating cluster (internal rating class)

Net exposure	EUR million 30/06/2023	in % 30/06/2023	EUR million 31/12/2022	in % 31/12/2022
1(AAAA)	86,269	27.9	63,687	22.7
1(AAA) – 1(A–)	139,992	45.2	125,377	44.7
2 – 5	61,665	19.9	66,751	23.8
6 – 8	12,730	4.1	16,069	5.7
9 – 10	3,114	1.0	3,007	1.1
11 – 15	2,216	0.7	1,937	0.7
16 – 18 (default)[1]	1,229	0.4	1,105	0.4
Other[2]	2,519	0.8	2,407	0.9
Total	*309,735*	*100.0*	*280,340*	*100.0*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 "Default" refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default.
The net exposure is presented before accounting for allowances for losses on loans and securities.
2 Non-rated transactions, in particular rating waivers.

The investment grade share (ratings 1 (AAAA) to 5) increased to 93.0% as at 30 June 2023 (previous year: 91.3%) in particular as a result of an increase in exposure with good credit ratings (mainly at central banks in rating cluster 1 (AAAA)). Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 5.8% (previous year: 7.5%). The top rating class 1 (AAAA) mainly includes the German public sector and central banks. The net exposure on default accounts for 0.4% of the entire portfolio.

The economic environment and how this will develop moving forwards remain uncertain in view of the war in Ukraine, the recessive economic performance, high inflation, interest rate changes and the digital and sustainable transformation.

Sectors

The presentation of the sectors by net exposure, credit value-at-risk (CVaR) and default portfolio also provides information on the scope of business activities and the risk situation in the respective sector. The sector classification is based on LBBW's internal risk-oriented industry code.

Sectors

EUR million	Net exposure 30/06/2023	CVaR 30/06/2023	Net exposure on default 30/06/2023	Net exposure 31/12/2022	CVaR 31/12/2022	Net exposure on default 31/12/2022
Financials	*166,707*	*796*	*23*	*138,598*	*743*	*53*
Corporates	*99,941*	*1,578*	*915*	*97,764*	*1,585*	*889*
Automotive	10,810	293	463	10,658	304	441
Construction	10,080	196	57	9,376	181	55
Chemicals and commodities	8,165	125	12	7,993	145	13
of which chemicals	3,789	64	0	3,825	63	0
of which commodities	4,376	61	12	4,168	82	13
Retail and consumer goods	15,096	204	132	14,213	188	131
of which consumer goods[1]	10,844	95	27	10,106	103	13
of which durables	4,252	110	105	4,107	85	118
Industry	10,997	156	124	11,156	171	131
Pharmaceuticals and healthcare[1]	5,784	77	33	5,101	70	34
TM and electronics/IT[1]	10,634	193	15	11,522	174	14
Transport and logistics	7,270	105	6	6,911	114	7
Utilities and energy[1]	13,043	165	58	12,747	178	49
of which utilities and disposal companies	8,341	105	54	8,352	106	44
of which renewable energies	4,702	60	5	4,395	71	5
Other	8,062	65	15	8,086	60	14
Real estate	*18,674*	*813*	*274*	*19,591*	*822*	*147*
Commercial real estate (CRE)	12,572	648	272	12,856	667	145
Housing	6,102	165	2	6,735	156	2
Public sector	*18,569*	*145*	*0*	*17,909*	*124*	*0*
Private individuals	*5,844*	*116*	*17*	*6,478*	*117*	*16*
Total	*309,735*	*3,448*	*1,229*	*280,340*	*3,392*	*1,105*

Figures may be subject to rounding differences.
1 Growth sectors.

Financials represent the largest of the five main sectors with net exposure of about EUR 167 billion as at 30 June 2023. The increase of EUR 28 billion as against the end of 2022 is as a result in particular of the increased exposure to central banks and savings banks.

In the corporates portfolio, in addition to the construction industry, the growth sectors of consumer goods and pharmaceuticals & healthcare in particular contributed EUR 2 billion to net exposure, bringing the total to EUR 100 billion in the first half of 2023. As in the previous year, LBBW's growth sectors accounted for 40% of the corporates portfolio.

By contrast, the net exposure in real estate decreased by around EUR 1 billion year-on-year to EUR 19 billion as a result of a decline in various exposures.

Public-sector net exposure increased slightly by around EUR 19 billion as against the end of 2022.

With a net exposure of around EUR 6 billion, the portfolio of private individuals is down on the previous year's level and has a particularly high level of granularity.

Most customers have exposures with a net exposure of up to EUR 10 million. Other exposures also include a few with a net exposure in excess of EUR 500 million. As at 30 June 2023, the portfolio also had three large exposures (individual exposures with a net exposure of over EUR 2 billion). These are three credit ratings rated at least 1(A-).

Regions

Geographic breakdown

Net exposure in %	Share 30/06/2023	Share 31/12/2022
Germany	68.4	68.5
Western Europe (excluding Germany)	17.0	17.8
North America	9.3	7.9
Asia/Pacific	3.1	3.6
Other[1]	2.2	2.2
Total	*100.0*	*100.0*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions).

The share of domestic business in net exposure was 68.4% as at 30 June 2023. The basic distribution by region was largely constant, although there were regional shifts in North America, in particular on account of the increased exposure to a central bank as at the end of the reporting period. The focus on the core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will ensure a dominant German share in the future as well. Foreign exposure is spread across Western Europe and North America in particular.

Market price risks

Risk situation of the LBBW Group

The LBBW Group's market price risk receded in the first half of 2023. The following table shows the composition of the value-at-risk (99%/10 days) by risk type at LBBW Group level. Berlin Hyp has been integrated into all material aspects of market price risk management at the LBBW Group since 1 July 2022.

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30/06/2023	31/12/2022
LBBW Group	*264*	*296*	*237*	*246*	*272*
Interest rate risk	241	269	195	215	263
Credit spread risk	161	183	142	168	141
Equity risks	23	28	13	20	26
Foreign exchange risk[1]	12	22	5	9	13

1 Including commodity risks.

The decrease in risk is mainly due to an increase in the expected payments for pension obligations, which are calculated by an external actuary and updated annually in the risk model. The expected payments for pension obligations reduce risk as they are a liability item and a counterweight to asset items in the banking book.

The following table shows the composition of the value-at-risk (99%/10 days) by risk type at trading book level. Berlin Hyp does not have a trading book.

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30/06/2023	31/12/2022
Trading book	*23*	*31*	*15*	*18*	*28*
Interest rate risk	12	19	6	10	21
Credit spread risk	13	18	10	14	10
Equity risks	7	10	5	5	8
Foreign exchange risk[1]	12	22	5	9	13

1 Including commodity risks.

The decrease in risk in the trading book essentially results from position and market changes in actively managed trading book portfolios.

Regulatory bodies have accepted the use of the LBBW Group's risk model excluding Berlin Hyp for general interest rate and general equity risks as an internal model to determine the regulatory capital requirements for market risks of the trading book[1]. Berlin Hyp is a non-trading book institution. The internal model for capital adequacy does not cover any specific risks. The risks identified are included in the capital backing requirements using a weighting factor.

The LBBW Group's risk model, not including Berlin Hyp, is also used to calculate economic capital for the bank as a whole in conjunction with the risk-bearing capacity assessment. For this, the VaR in a significant stress period is scaled to a cross-risk-type parameter set with regard to confidence level and holding period. The economic capital calculated by Berlin Hyp using its own, comparable model is added to the value for the LBBW Group excluding Berlin Hyp.

The market risk model used by the LBBW Group excluding Berlin Hyp, is leading in the Group and is subject to an extensive validation program, in which the potential model risks are identified in the stochastics of the market factors (including distribution model, risk factor model), in the implemented valuation procedures (valuation model) and in the relevant market data (market data model), and are measured in terms of their materiality using tailor-made validation analyses. The validation analyses are conducted within the Risk Control division by the Independent Validation Unit, which is organizationally independent from the model development. Daily backtesting plays a particularly important role within the validation program. As part of this, a statistical backward comparison of risk forecasts compared to hypothetical changes in the value of the portfolio (clean backtesting) and actual changes in the value of the portfolio (dirty backtesting) is performed. If the validation indicates material model risks, these are made transparent to model developers and those who receive reports so that necessary model optimization measures can be promptly initiated.

Up to and including the last reporting date of 30 June 2023, the internal risk model shows three outliers for the Clean P/L for the preceding 250 trading days in the CRR portfolio, the portfolio relating to capital adequacy.

Additional backtesting on the basis of dirty P/L is performed on account of regulatory requirements. On this basis, there were two outliers in the CRR portfolio by 30 June 2023.

These were due to market movements in connection with news on central banks, inflation, the Ukraine conflict and the banking confidence crisis in the spring of 2023.

1 Trading book not including funds that are not mapped transparently.

Liquidity risks

Risk situation of the LBBW Group

The impact of continued excess liquidity is also reflected in LBBW's extensive liquidity. Despite the changing interest landscape, customer deposit business remains stable and capital market placements attracted keen interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and diversification.

Funding requirements and counterbalancing capacity broke down as follows as at 30 June 2023:

Overview of funding requirements and counterbalancing capacity

	3 months		12 months	
EUR billion	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Funding requirement from the business portfolio (deterministic cash flow)[1]	8.5	– 9.8	17.5	– 4.4
Funding requirement from material call risks (stochastic cash flow)	28.8	25.8	56.8	48.1
Funding potential from free liquidity reserves	30.7	19.2	38.7	30.6
Funding potential on the market	94.1	77.1	116.2	95.5
Surplus	*87.4*	*80.3*	*80.6*	*82.5*

1 Comparative figures are negative as liquidity inflows from the business portfolio exceed the funding requirements over a period of three or twelve months as at year-end.

The funding requirement from the business portfolio in the three- and 12-month forecast is still negative for the comparative figure as at the end of 2022 as cash and cash equivalents and the forecast liquidity inflows exceed the funding requirements for existing business (excess liquidity). Mainly as a result of tender repayments that are due and anticipated, there is now a funding requirement here again. At the same time, the funding potential from unutilized liquidity reserves is higher as the collateral released when a tranche matures replenishes the level. In the shorter term especially, the deterministic cash flow is characterized by net inflows in EUR (excess liquidity) that are offset by net outflows in USD and GBP (funding requirements). The funding potential is sufficient to compensate for any short-term liquidity outflows and still ensures a significant surplus on a three month (approximately EUR 87 billion) and 12-month (approximately EUR 81 billion) horizon. The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the twelve-month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

The results of economic liquidity risk stress scenarios rating downgrade, financial market crisis, and a combination of the two, structured in accordance with the guidelines of MaRisk (BTR 3.2), showed that the funding potential on the market, plus the free liquidity buffer, always exceeded the potential funding requirements under stress scenarios in the first half of 2023. Sufficient surpluses were also available at all times in the foreign currency stress tests and in the EUR stress test for intraday liquidity in this period.

Results of the economic stress scenarios

	Funding requirement (3 months)		Funding potential (3 months)	
EUR billion	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Rating downgrade scenario	43.4	25.9	50.0	44.4
Financial market crisis scenario	46.4	25.7	60.9	56.5
Combined scenario of market crisis with downgrade	46.0	25.6	59.5	55.0

The required minimum of 100% for the European liquidity coverage ratio (LCR) was complied with. The Group's LCR was 137.2% as at 30 June 2023 (31 December 2022: 144.2%). The net stable funding ratio (NSFR) guidelines were also complied with. At 114.2%, the requirement was also exceeded as at 30 June (31 December 2022: 111.3%).

Non-financial risk

Risk situation of the LBBW Group

The comments on the risk situation as at the end of 2022, in particular in connection with the legal risks arising from customer transactions involving complex derivatives and developments in consumer protection law in addition to the partial application of principles developed for consumers to commercial clients, continue to apply. The banking landscape will continue to face legal risks owing to the ongoing development of banking case law. LBBW takes this into account by monitoring the legal situation on an ongoing basis. On the basis of current knowledge, adequate provision has been made to cover any resulting legal risks.

Further legal risks exist as at 30 June 2023 in fiscal law terms concerning capital gains tax. Here, a developed legal position with a retrospective impact on the basis of current legislation or more recent pronouncements by the tax authorities cannot be ruled out.

IT risk management continues to focus on risks arising from cyberspace threats in particular. These risks are addressed with risk-mitigating measures aimed at prevention, detection and response.

In turn, as a result of the Ukraine conflict, there has been an increase in the number of entries on sanctions lists and the sanctions have become more complex. It is assumed that risk-based audit procedures to ensure compliance with sanctions will remain elevated in the long term.

LBBW’s compliance risk management also continues to focus on the other compliance sub-risk types that are deemed material.

Other material risks

Regarding the other material risks, namely

Financial risk
- Real estate risks
- Development risks
- Investment risks

Non-financial risk
- Tax compliance risks
- Reputation risks
- Investment risks
- Model risks

Crossover issues
- ESG risks (environmental, social, governance)
- Concentration risks
- Pandemic risks

the statements made in the risk report in the LBBW Group’s combined management report for 2022 still apply.

Forecast and opportunity report

Anticipated economic performance

The state of the economy is likely to remain muted for the remainder of the year. The anticipated decline in the rate of inflation due to falling energy prices and baseline effects should prove beneficial. In particular, the real available income of private households is likely to benefit from this. By contrast, the consequences of monetary policy tightening in the euro area and the US will continue to weigh on the economy. LBBW expects GDP to decline by 0.5% in 2023 as a whole after adjustment for calendar effects. Taking calendar effects into account, the decline could be as high as 0.7%. GDP growth in the euro area is expected to be 0.2% year-on-year adjusted for calendar effects. LBBW anticipates GDP growth of 1.5% in the US and 4.5% in China in 2023.

Central banks in the euro area and the US are unlikely to tighten their monetary policy any further in the second half of the year. For the ECB, we are currently forecasting a further increase in key interest rates (deposit facility rate) by a further 25 basis points to then 4.00% for the deposit rate by the end of the year. The US Federal Reserve looks set to keep its Fed Funds Target Rate at the same level as at the end of July of between 5.25% and 5.50%.

Central bank monetary policy will be dominated by the inflation outlook, which points to only a gradual easing. In the euro area and Germany alike, average inflation rates of 6% are anticipated for the year. In the US, LBBW is forecasting a rate of inflation of 4.5% on average for the year.

LBBW expects yields on ten-year German government bonds to decline slightly to 2.40% by the end of the year. The EUR/US exchange rate is likely rise to USD 1.15 to the euro at the end of 2023. We expect the DAX to be at 16,000, only a minor change from where it stands now. We anticipate price declines over the current year on all the real estate markets looked at here, as they are impacted by the prior rise in interest rates and the dimmer economic outlook. The drop in prices for commercial property will be more pronounced than for residential property.

Industry and competitive situation

The complex conditions for the European banking sector were defined by lingering geopolitical tension, a weak economic environment and further interest rate hikes by the ECB in the first half of 2023. In principle, little about these difficult circumstances is expected to change in the coming months. In addition, there was turbulence on the financial market in March, triggered by idiosyncratic problems at some regional US banks and the bailout of Credit Suisse, which had a negative impact on risk premiums at European institutions. Despite all this, LBBW Research feels that the fundamental data for the European banking system are strong.

For example, the credit margin is at a multi-year high, which mainly relates to the ECB's cycle of interest rate hikes. However, in the opinion of LBBW Research, the future rise in competition for customer deposits, partly as an affordable refinancing alternative as long-term ECB tenders gradually expire, could cause margin momentum to diminish. The share of non-performing loans is at multi-year low according to the European Banking Authority (EBA). Risk costs similarly remain at a historically low level. However, an increase in allowances for losses on loans and securities is anticipated in view of the weak economic performance. Furthermore, the recent survey by the ECB on lending business signals a tightening of offering guidelines and waning demand for business loans in the Eurozone. According to LBBW Research, this will impair the momentum of lending but the growth rate will remain positive. Against this backdrop, LBBW Research anticipates a robust development in the profitability of Europe's banks.

Furthermore, the regulatory ratios for liquidity and equity are still close to their all-time highs. However, the agreements reached in the second quarter on the introduction of the Basel IV regulations in the EU in the coming years could lead to pressure on equity ratios. This could then also reduce the currently high buffer on minimum capital requirements.

Company forecast

General conditions

The lingering geopolitical uncertainty, high inflation, the interest rate hikes by the European Central Bank to counteract this and the forecast recession predicted for the forecast period as at the end of 2022 dominated the first half of 2023 and will persist. The anticipated economic development has not yet been reflected in increased re-ratings and a greater need for allowances for losses on loans and securities as a result. The rise in interest rates has also been higher than anticipated at the end of 2022.

Outlook for LBBW

The statements made in the 2022 annual report regarding the company forecast were based on the planning prepared at the end of 2022, which in turn was derived from the conditions outlined above. LBBW's current estimates regarding the development of its key financial performance indicators and other indicators for LBBW halfway through 2023 are examined below.

LBBW's net consolidated profit before tax increased perceptibly to EUR 691 million in the first half of 2023 despite the consistently volatile market environment. All segments once again reported a good operating performance that was supported in part by high interest on deposits. The positive earnings contribution by all four segments once again shows that LBBW's universal bank model proves its worth even on volatile markets. Overall, LBBW is thus strengthening its basis for a landscape that remains challenging in terms of economic parameters.

LBBW anticipates bigger challenges for the second half of the year, mainly in the form of declining margins with a corresponding trend in interest rates, lower investment demand and uncertainty on the capital and real estate markets. Nevertheless, the net consolidated profit before tax should be over a billion by the end of 2023, thereby outperforming the operating profit for the previous year[1] and the forecast figure. Income is likely to develop better than assumed, while the risk costs are expected to stay under budget. In particular, the Corporate Customers and Private Customers/Savings Banks segments should by the main drivers of the positive trend in income as a result of higher revenue from deposits. Thanks to the positive development in earnings, the return on equity is likely to exceed the budgeted figure considerably. The cost/income ratio should similarly benefit from the development in income and end up slightly better than planned despite administrative expenses being marginally higher than expected.

Regarding the common equity Tier 1 capital ratio (fully loaded), LBBW is forecasting a slight improvement as against the previous year and planning, mainly as a result of the improved earnings level. Thus, the common equity Tier 1 (CET 1) capital ratio should be well in excess of the CRR II/CRD V minimum requirements and the SREP[2] requirement of 8.78% in the 2023 forecast period. The common equity Tier 1 capital ratio should also be far above requirements even considering additional current requirements[3], such as the countercyclical capital buffer and the systemic risk buffer for real estate.

Compared to its original planning, LBBW assumes that the operating segments will develop as follows over the rest of the 2023 financial year:

LBBW expects the profit for the Corporate Customers segment to be better than planned. It cannot yet be said with sufficient certainty whether or not the anticipated increase in allowances for losses on loans and securities driven by economic circumstances will materialize in the forecast period. A positive scenario would mean further earnings potential. In 2023, the segment is also benefiting from the interest situation and higher deposit revenue than planned as well as the further expansion of cross-selling. As a result of the anticipated earnings development, the return on equity should also remain at a high level above that originally planned as at the end of 2023. The cost/income ratio is also likely to be slightly lower than previously assumed.

In the Real Estate/Project Finance segment, LBBW looks set to achieve its planned earnings target for the 2023 financial year. The allowances for losses on loans and securities, which are higher than planned owing to the currently difficult situation on the real estate market and to adjustments, can be compensated for by the good earnings situation mainly in project finance and in the core business of the two Real Estate Finance units. Due to the earnings development, the cost/income ratio and the return on equity should also be in line with planning as at the end of 2023.

1 Net consolidated profit before tax not including badwill from BerlinHyp acquisition.
2 Supervisory Review and Evaluation Process.
3 Details can be found in the report on the results of operations, net assets and financial position.

LBBW expects the Capital Markets Business segment to achieve profit before tax that will likely slightly outperform planning. This development will essentially be driven by perceptibly higher than expected increases in revenue from structured notes business. The segment is also benefiting from reversals of allowances for losses on loans and securities. The return on equity should be moderately higher than planned as at the end of 2023 as a result of earnings effects. LBBW expects the cost/income ratio to be marginally better than previously assumed as at the end of the year.

LBBW is forecasting that the Private Customers/Savings Banks segment's profit before tax will be considerably higher than planning and the previous year's level as at the end of 2023. The main driver for this positive development is higher deposit revenue. In line with this earnings development, the return on equity will likewise climb considerably. The cost/income ratio will improve perceptibly as well.

Opportunities and risks

The opportunities and risks for business performance in 2023 described by LBBW in the company forecast in the 2022 annual report are still valid. The defining features of the current landscape are inflation, which is falling but still high, and the recession that has already begun, though LBBW has made corresponding adjustments with allowances for losses on loans and securities. LBBW will likewise closely monitor the risks on the real estate markets. Following the market turbulence in connection with Credit Suisse and regional US banks, the tightening of regulation will also become increasingly likely. Nevertheless, as the year progresses, there are also still earnings opportunities as interest rates may continue to rise or growing demand for hedges from our customers due to high market volatility. Problems in connection with the COVID pandemic and the Russia/Ukraine conflict, such as supply chain disruption and high energy prices, should continue to resolve themselves.

03

Condensed consolidated interim financial statements

Contents

Income statement

for the period 1 January to 30 June 2023

EUR million	Notes	01/01 – 30/06/2023	01/01 – 30/06/2022[1]
Net interest income	7	1,417	1,039
Interest income and current income from equity instruments		20,234	7,493
of which interest income from financial assets measured at amortized cost		4,436	1,193
of which interest income from financial assets measured at fair value through other comprehensive income		296	102
Interest expenses and current expenses from equity instruments		– 18,818	– 6,454
of which interest expenses from financial liabilities measured at amortized cost		– 3,741	– 523
Net fee and commission income	8	305	322
Fee and commission income		397	397
Fee and commission expenses		– 92	– 75
Net gains/losses on remeasurement and disposal	9	81	125
of which allowances for losses on loans and securities		– 86	– 85
Other operating income/expenses	10	120	76
Administrative expenses	11	– 1,043	– 897
Expenses for bank levy and deposit guarantee system	12	– 188	– 188
Net income/expenses from restructuring	13	– 0	– 2
Consolidated profit/loss before tax		*691*	*476*
Income taxes	14	– 203	– 160
Net consolidated profit/loss		*488*	*315*
of which attributable to shareholders after tax		488	315

1 The comparative prior-year figures do not include Berlin Hyp as it was included in consolidation for the first time as at 1 July 2022. If there are major deviations concerning comparability, please refer to the comments on the results of operations in the interim management report.

Statement of comprehensive income

for the period 1 January to 30 June 2023

EUR million	Notes	01/01 – 30/06/2023	01/01 – 30/06/2022[1]
Net consolidated profit/loss		*488*	*315*
Items that will not be transferred subsequently to the income statement			
Retained earnings	36	– 5	218
Actuarial gains/losses before tax		– 7	367
Realized gains/losses from the sale of equity instruments		0	– 37
Income taxes	14, 33	2	– 112
Measurement gains/losses from own credit rating	36	10	39
Measurement gains/losses from own credit rating before tax		15	55
Income taxes	14, 33	– 4	– 17
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)	36	– 10	14
Measurement gains/losses before tax		– 10	– 8
Transfer to realized gains/losses from the sale of equity instruments		0	37
Income taxes	14, 33	– 0	– 14
Measurement gains/losses from investments accounted for using the equity method (financial assets measured at fair value through other comprehensive income)	36	1	0
Measurement gains/losses before tax		1	0
Items that will be transferred subsequently to the income statement when specific conditions are met			
Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income)	36	4	– 287
Measurement gains/losses before tax		3	– 352
Change in allowances for losses on loans and securities		– 2	0
Transferred to income statement		– 4	– 8
Income taxes	14, 33	6	73
Measurement gains/losses of the currency basis element from hedging transaction	36	0	1
Measurement gains/losses before tax		0	2
Currency translation differences	36	– 2	12
Changes before tax		– 2	12
Net consolidated profit/loss in equity		*– 1*	*– 2*
Net consolidated total comprehensive income		*487*	*313*
of which attributable to shareholders after tax		486	312

1 The comparative prior-year figures do not include Berlin Hyp as it was included in consolidation for the first time as at 1 July 2022. If there are major deviations concerning comparability, please refer to the comments on the results of operations in the interim management report.

Statement of financial position

as at 30 June 2023

Assets

EUR million	Notes	30/06/2023	31/12/2022[1]
Cash and cash equivalents	16	17,215	10,569
Financial assets measured at amortized cost	17	258,969	228,969
Loans and advances to banks		103,489	81,283
Loans and advances to customers		152,952	146,542
Debentures and other fixed-income securities		2,528	1,144
Financial assets measured at fair value through other comprehensive income	18	37,600	36,668
Financial assets designated at fair value	21	1,686	1,779
Financial assets mandatorily measured at fair value through profit or loss	22	41,400	39,379
Shares in investments accounted for using the equity method	6	207	226
Portfolio hedge adjustment attributable to assets		– 497	– 549
Non-current assets and disposal groups held for sale	29	25	1
Intangible assets	30	211	209
Investment property	31	776	791
Property and equipment	32	798	813
Current income tax assets	33	41	71
Deferred income tax assets	33	956	967
Other assets	34	4,736	4,281
Total assets		*364,124*	*324,174*

1 The prior-year figures for the statement of financial position are as at 31 December 2022 and include Berlin Hyp.

Equity and liabilities

EUR million	Notes	30/06/2023	31/12/2022[1]
Financial liabilities measured at amortized cost	23	313,978	273,657
Deposits from banks		91,383	84,082
Deposits from customers		133,486	115,748
Securitized liabilities		84,315	68,660
Subordinated capital		4,795	5,167
Financial liabilities designated at fair value	24	3,440	3,584
Financial liabilities mandatorily measured at fair value through profit or loss	25	29,159	29,825
Portfolio hedge adjustment attributable to liabilities		– 2,874	– 3,164
Provisions	35	1,825	1,825
Current income tax liabilities	33	170	190
Deferred income tax liabilities	33	22	22
Other liabilities	34	2,746	2,794
Equity	*36*	*15,658*	*15,442*
Share capital		3,484	3,484
Capital reserve		8,240	8,240
Retained earnings		2,906	1,665
Other comprehensive income		– 234	– 237
Net consolidated profit/loss		488	1,517
Shareholders' equity		*14,884*	*14,669*
Additional equity components		745	745
Equity attributable to non-controlling interests		30	28
Total equity and liabilities		*364,124*	*324,174*

1 The prior-year figures for the statement of financial position are as at 31 December 2022 and include Berlin Hyp.

Statement of changes in equity

for the period 1 January to 30 June 2023

EUR million	Share capital	Capital reserve	Retained earnings[1]	Valuation reserve for equity instruments	Valuation reserve for debt instruments	Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses of the currency basis element from hedging transaction	Measurement gains/losses from own credit rating	Currency translation reserve	Net consolidated profit/loss	Shareholders' equity	Additional equity components	Equity attributable to non-controlling interests	Total
Equity as at 1 January 2022	*3,484*	*8,240*	*1,211*	*– 38*	*78*	*– 2*	*0*	*1*	*25*	*418*	*13,417*	*745*	*35*	*14,197*
Allocation to retained earnings	0	0	418	0	0	0	0	0	0	– 418	0	0	0	0
Distribution to shareholders	0	0	– 230	0	0	0	0	0	0	0	– 230	0	0	– 230
Net consolidated profit/loss in equity	0	0	218	14	– 287	0	1	39	12	0	– 2	0	0	– 2
Net consolidated profit/loss	0	0	0	0	0	0	0	0	0	315	315	0	0	315
Net consolidated total comprehensive income	0	0	218	14	– 287	0	1	39	12	315	312	0	0	313
Servicing of additional equity components	0	0	– 30	0	0	0	0	0	0	0	– 30	0	0	– 30
Other changes in equity	0	0	– 1	0	0	0	0	0	0	0	– 1	0	1	0
Equity as at 30 June 2022[2]	*3,484*	*8,240*	*1,585*	*– 23*	*– 209*	*– 2*	*1*	*40*	*38*	*315*	*13,468*	*745*	*36*	*14,249*
Net consolidated profit/loss in equity	0	0	79	– 13	– 71	2	– 1	1	0	0	– 2	0	0	– 2
Net consolidated profit/loss	0	0	0	0	0	0	0	0	0	1,203	1,203	0	– 8	1,195
Net consolidated total comprehensive income	0	0	79	– 13	– 71	2	– 1	1	0	1,203	1,201	0	– 8	1,193
Equity as at 31 December 2022[3]	*3,484*	*8,240*	*1,665*	*– 36*	*– 280*	*0*	*0*	*40*	*38*	*1,517*	*14,669*	*745*	*28*	*15,442*
Equity as at 1 January 2023	*3,484*	*8,240*	*1,665*	*– 36*	*– 280*	*0*	*0*	*40*	*38*	*1,517*	*14,669*	*745*	*28*	*15,442*
Transfer to retained earnings	0	0	1,517	0	0	0	0	0	0	– 1,517	0	0	0	0
Distribution to shareholders	0	0	– 240	0	0	0	0	0	0	0	– 240	0	0	– 240
Net consolidated profit/loss in equity	0	0	– 5	– 10	4	1	0	10	– 2	0	– 1	0	0	– 1
Net consolidated profit/loss	0	0	0	0	0	0	0	0	0	488	488	0	0	488
Net consolidated total comprehensive income	0	0	– 5	– 10	4	1	0	10	– 2	488	486	0	0	487
Servicing of additional equity components	0	0	– 30	0	0	0	0	0	0	0	– 30	0	0	– 30
Other changes in equity	0	0	– 1	0	0	0	0	0	0	0	– 1	0	1	0
Equity as at 30 June 2023	*3,484*	*8,240*	*2,906*	*– 46*	*– 275*	*1*	*0*	*51*	*36*	*488*	*14,884*	*745*	*30*	*15,658*

1 Profit and loss carryforwards and restatement of prior-year amounts from prior periods are also recognized under retained earnings.
2 The comparative prior-year figures do not include Berlin Hyp as it was included in consolidation for the first time as at 1 July 2022. If there are major deviations concerning comparability, please refer to the comments on the results of operations in the interim management report.
3 The prior-year figures are as at 31 December 2022 and include Berlin Hyp.

Condensed cash flow statement

for the period 1 January to 30 June 2023

EUR million	Notes	01/01 – 30/06/2023	01/01 – 30/06/2022[1]
Cash and cash equivalents at the beginning of the period	*16*	*10,569*	*36,871*
Cash flow from operating activities		7,045	33,902
Cash flow from investing activities		3	– 50
Cash flow from financing activities		– 616	– 196
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		213	– 1,013
Cash and cash equivalents at the end of the period	*16*	*17,215*	*69,513*

1 The comparative prior-year figures do not include Berlin Hyp as it was included in consolidation for the first time as at 1 July 2022. If there are major deviations concerning comparability, please refer to the comments on the results of operations in the interim management report.

The drop in cash and cash equivalents at the end of the period essentially stems from the drop in balances with central banks.

In addition to the cash change in equity (dividends paid, issuing and servicing additional equity components), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. In the period under review, the volume of subordinated capital held decreased by EUR 372 million compared to the previous year. Besides the cash reduction of EUR 294 million, the change results from remeasurement effects of EUR – 7 million and changes in deferred interest of EUR – 33 million. Furthermore, changes in exchange rates of EUR – 18 million affected the amount of subordinated capital. In addition, profit participation rights not yet repaid on maturity of EUR – 20 million were reclassified to other liabilities.

LBBW's disposal of targens GmbH caused a reduction of EUR 4 million in other assets and EUR 9 million in other equity and liabilities particular. There was only a minor amount of cash and cash equivalents. There was a mid-eight-figure net inflow of cash (sale price less cash and cash equivalents sold).

Selected notes to the consolidated interim financial statements

for the first half of the 2023 financial year

A. Material changes

1. Basis of accounting

Landesbank Baden-Württemberg (LBBW (Bank)), as the parent company of the Group (LBBW), is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with four registered offices in Germany: in Stuttgart (Am Hauptbahnhof 2, 70173 Stuttgart), Karlsruhe (Ludwig-Erhard-Allee 4, 76131 Karlsruhe), Mannheim (Augustaanlage 33, 68165 Mannheim) and Mainz (Rheinallee 86, 55120 Mainz). The commercial register numbers at the responsible district court in Germany are as follows: district court of Stuttgart HRA 12704, district court of Mannheim HRA 104440 (for Karlsruhe) and HRA 4356 (for Mannheim) and district court of Mainz HRA 40687.

The LBBW Group operates locally in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and selectively takes advantage of growth opportunities in selected economic areas.

LBBW offers the full range of products and services throughout Germany that a medium-sized universal bank provides. In the state capital Stuttgart, BW-Bank fulfills the role of a savings bank as LBBW's customer bank. LBBW also assists its corporate customers and those of the savings banks in their international operations. Subsidiaries specializing in specific areas of business such as leases, factoring, asset management, real estate development/financing or equity finance diversify and supplement LBBW's portfolio of services within the Group.

The consolidated interim financial statements of LBBW as at 30 June 2023 were prepared in accordance with Section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with Section 117 no. 2 WpHG pursuant to the International Financial Reporting Standards (IFRS) as adopted in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and effective for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

2. Accounting principles

The reporting period for the consolidated interim financial statements covers the period from 1 January to 30 June 2023. The consolidated interim financial statements as at 30 June 2023 do not contain all the information and disclosures required of the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2022. Unless explicitly stated, the interim financial statements use the same accounting policies as the 2022 consolidated financial statements. In addition, for information on major changes, please refer to the commentary in the report on the results of operations, net assets and financial position in the interim Group management report.

The consolidated interim financial statements are based on the going concern principle.

In accordance with IFRS 10.19 and IAS 28.35, financial statements at LBBW are prepared using uniform accounting policies across the Group. These were applied consistently to the reporting periods shown, unless stated otherwise. The financial statements of the consolidated companies or investments accounted for using the equity method are prepared as at the date of the consolidated interim financial statements of LBBW.

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated interim financial statements are generally rounded to EUR millions in accordance with commercial principles. This may result in marginal aggregation differences, though these do not have any adverse effect on the quality of reporting.

The reporting year is the calendar year.

3. Changes and estimates

The section below provides an explanation of IFRS relevant to LBBW that are to be applied for the first time in the financial year or that are to be applied in the future.

IFRS applied for the first time

The following IFRS were applied for the first time in the 2023 financial year:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
  The amendment has no material effect on the LBBW consolidated interim financial statements.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
  The amendment has no material effect on LBBW's interim consolidated financial statements; see descriptions below.
- IFRS 17 "Insurance Contracts" and Amendments to IFRS 17
  The new standard and the associated amendments have no material effect on LBBW's interim consolidated financial statements; see descriptions below.
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information – Amendment to IFRS 17
  The amendment has no material effect on LBBW's interim consolidated financial statements; see descriptions below.

IFRS 17 "Insurance Contracts" and Amendments to IFRS 17

IFRS 17 regulates accounting for insurance contracts for the insurance provider. It thus also regulates actuarial processes and guidelines.

LBBW is not an insurance sector company. It expects that the products in its portfolio with features similar to insurance will be outside the scope of IFRS 17.

The effective date of IFRS 17 was postponed to 1 January 2023 by the amendment (amendments to IFRS 17, endorsed together with IFRS 17). Various other amendments related, for instance, to the exclusion of certain banking products from the scope of IFRS 17 and specific application and disclosure regulations for IFRS 17, such as the distribution of the profit margin when an insurance contract also contains investment services, accounting for reinsurance, the inclusion of tax payments charged to the policyholder, the treatment of payments at the inception of the contract beyond its term and extensions as well as other minor adjustments and amendments.

The amendment's impact on LBBW was limited to the postponement of first-time adoption.

Initial Application of IFRS 17 and IFRS 9 – Comparative Information – Amendment to IFRS 17

The amendment (endorsed on 8 September 2022) addresses inconsistencies in the first-time adoption of IFRS 17 with the simultaneous first-time adoption of IFRS 9. These regulations are irrelevant to LBBW as it has already applied IFRS 9 for some time.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

This is an update to IAS 12 to clarify how entities should account for deferred tax on transactions such as leases or decommissioning and restoration liabilities.

Previously, the initial recognition exemption applied under certain circumstances when assets and liabilities were recognized for the first time (IAS 12.15). As an exception, this meant that deferred taxes were not recognized. The amendment further restricts the initial recognition exemption. Such transactions in which both deductible and taxable temporary differences arise in the same amount on first-time recognition are no longer exempt. Deferred taxes must therefore be recognized.

The amendment confirms the accounting practice already applied by LBBW.

IFRS to be applied in the future

The following IFRS are not yet effective, no or only immaterial effects are expected and LBBW does not intend to apply them early on a voluntary basis:

Title of IFRS	First-time adoption expected in	Endorsement (yes/no)	IFRS subject matter
Classification of Liabilities as Current or Non-Current – Amendments to IAS 1	2024 financial year	No	This amendment updates IAS 1 by clarifying in which cases an existing right to defer settlement of liabilities results in this being classified as "non-current".
Classification of Liabilities as Current or Non-current – Deferral of Effective Date	2024 financial year	No	This amendment defers the effective date of Classification of Liabilities as Current or Non-Current – Amendments to IAS 1 to 1 January 2024.
Non-current Liabilities with Covenants – Amendments to IAS 1	2024 financial year	No	The amendment relates to the presentation of current or non-current liabilities with covenants (that can trigger termination) that must be satisfied within the next 12 months.
Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules	2023 financial year	No	The amendment addresses exceptions to deferred taxes and disclosure requirements under IAS 12 on the basis of the international tax reform concerning international minimum taxation. The amendment will become effective when endorsed by the EU as its effective date is already in the past.
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	2024 financial year	No	The amendments concerns the accounting for supply chain finance arrangements. The content of the amendments affects the obligor of the liabilities of such arrangements.
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	2024 financial year	No	The amendments set out additional IFRS 16 regulations on the subsequent measurement of lease liabilities that arise in connection with sale and leaseback transactions.

Adjustments

As a result of technical improvements, some disclosures in the notes were determined in more detail in the first half of the financial year, in particular in Note 27. The relevant prior year figures were restated accordingly to improve clarity and transparency. This affects only disclosures in the notes and has no impact on figures in the statement of financial position or earnings in the income statement.

4. Events after the reporting period

There were no events after the end of the reporting period.

B. Group of companies

5. Basis of consolidation

In addition to LBBW (Bank) as the parent company, 87 subsidiaries (31 December 2022: 91 subsidiaries) including four structured entities were included in the consolidated interim financial statements.

Following the deconsolidation of its two general partner companies as at 1 February 2023, the consolidated subsidiary Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG accrued to the consolidated subsidiary LBBW Immobilien Management GmbH.

The consolidated subsidiaries Erste IMBW Capital & Consulting Komplementär GmbH and Zweite IMBW Capital & Consulting Komplementär GmbH were merged with the consolidated subsidiary LOOP GmbH effective 2 March 2023.

The consolidated subsidiary targens GmbH was sold effective 3 April 2023.

Five joint ventures and five associates (unchanged from the previous year) were accounted for using the equity method in the consolidated financial statements.

41 subsidiaries in total (31 December 2022: 42 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These are predominantly property and shelf companies.

6. Shares in investments accounted for using the equity method

EUR million	30/06/2023	31/12/2022
Associates	207	226
Total	*207*	*226*

Investments in associates, joint ventures and subsidiaries that are not incorporated in the consolidated financial statements on account of their immaterial importance, are recognized under “Financial assets mandatorily measured at fair value through profit or loss”.

C. Segment reporting

LBBW's segment reporting for the first half of 2023 has been prepared in accordance with the provisions of IFRS 8. Under the "management approach", segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions on the allocation of resources and the assessment of the performance of the segments on this basis.

Segment definition

The segments presented below are based on the organizational structures, taking into account customer and product responsibilities. Subsidiaries and equity investments are assigned to the individual segments according to their business orientation.

There have been no changes to LBBW's segment structure since 2022. The description of the individual segments can be found in the 2022 Annual Report.

Measurement methods

Segment information is based on LBBW's internal control data, which combine external financial reporting methods and economic measurement methods. The resulting differences in measurement and reporting compared to the IFRS Group figures are presented in the reconciliation statement.

LBBW's income and expenses are allocated to the individual segments in which they arise. There is therefore no significant income resulting from transactions between the segments.

Net interest income is calculated at segment level using the market interest method. Interest income and expense are netted and shown as net interest income. This also includes the capital benefit, i.e. investment income from restricted equity.

Besides direct personnel and material expenses, the administrative expenses of a segment also include expenses assigned on the basis of intragroup cost allocation.

The assets on the statement of financial position are reported as segment assets. They are allocated to the segments on the basis of internal management reporting.

The average restricted capital in the segments is calculated on the basis of calculated risk-weighted assets and an imputed Tier 1 capital backing ratio. A segment's return on equity is calculated as the ratio of (annualized) consolidated profit/loss before tax to the average restricted equity in the reporting period.[1]

1 For definitions of Group return on equity and the cost/income ratio, see the report on the results of operations, net assets and financial position.

Segment results

01/01 – 30/06/2023 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	580	411	222	266	– 63	1,417
Net fee and commission income	113	4	60	134	– 6	305
Net gains/losses on remeasurement and disposal	52	– 124	159	4	– 11	81
of which allowances for losses on loans and securities	5	– 109	16	2	0	– 86
Other operating income/expenses	13	49	6	0	53	120
Total operating income/expenses	*757*	*341*	*447*	*403*	*– 26*	*1,923*
Administrative expenses	– 309	– 192	– 250	– 248	– 45	– 1,043
Expenses for bank levy and deposit guarantee system	– 30	– 30	– 41	– 2	– 86	– 188
Consolidated profit/loss before tax	*418*	*119*	*156*	*154*	*– 156*	*691*
Income taxes						– 203
Net consolidated profit/loss						*488*
Assets (EUR billion)	70.1	69.8	181.1	43.0	0.0	364.1
Risk-weighted assets[1] (EUR billion)	37.5	26.1	17.6	8.5	4.1	93.8
Tied-up equity[1] (EUR billion)	4.9	3.4	2.2	1.1	3.5	15.2
Return on equity (RoE) (in %)	17.1	6.9	13.9	27.0		9.1
Cost/income ratio (CIR) (in %)	45.1	49.3	67.5	62.2		61.3

1 In accordance with CRR II/CRD V.

01/01 – 30/06/2022 EUR million	Corporate Customers[2]	Real Estate/Project Finance[2]	Capital Markets Business[2]	Private Customers/ Savings Banks[2]	Corporate Items/ Reconciliation/ Consolidation[2]	LBBW Group
Net interest income	484	247	190	141	– 23	1,039
Net fee and commission income	115	9	55	143	0	322
Net gains/losses on remeasurement and disposal	– 3	– 40	194	4	– 30	125
of which allowances for losses on loans and securities	– 12	– 46	– 39	3	10	– 85
Other operating income/expenses	7	62	– 2	– 2	10	76
Total operating income/expenses	*604*	*278*	*437*	*287*	*– 43*	*1,563*
Administrative expenses	– 295	– 96	– 236	– 242	– 28	– 897
Expenses for bank levy and deposit guarantee system	– 29	– 14	– 43	– 2	– 100	– 188
Net income/expenses from restructuring	0	0	0	0	– 2	– 2
Consolidated profit/loss before tax	*280*	*169*	*158*	*42*	*– 173*	*476*
Income taxes						– 160
Net consolidated profit/loss						*315*
Assets (EUR billion)	66.9	33.9	183.5	41.9	3.3	329.4
Risk-weighted assets[1] (EUR billion)	40.8	15.0	22.0	8.5	5.0	91.4
Tied-up equity[1] (EUR billion)	5.2	2.0	2.8	1.1	2.9	14.0
Return on equity (RoE) (in %)	10.8	17.2	11.4	7.6		6.8
Cost/income ratio (CIR) (in %)	52.5	33.8	58.6	86.4		66.0

1 In accordance with CRR II/CRD V.
2 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items 01/01 – 30/06/2023	Corporate Items 01/01 – 30/06/2022[2]	Reconciliation/Consolidation 01/01 – 30/06/2023	Reconciliation/Consolidation 01/01 – 30/06/2022[2]	Corporate Items/Reconciliation/ Consolidation 01/01 – 30/06/2023	Corporate Items/Reconciliation/ Consolidation 01/01 – 30/06/2022[2]
Net interest income	16	– 5	– 78	– 19	– 63	– 23
Net fee and commission income	– 2	5	– 4	– 5	– 6	0
Net gains/losses on remeasurement and disposal	– 17	– 28	7	– 1	– 11	– 30
of which allowances for losses on loans and securities	0	10	0	0	0	10
Other operating income/expenses	53	10	0	0	53	10
Total operating income/expenses	*50*	*– 18*	*– 76*	*– 25*	*– 26*	*– 43*
Administrative expenses	– 45	– 28	0	0	– 45	– 28
Expenses for bank levy and deposit guarantee system	– 86	– 100	0	0	– 86	– 100
Net income/expenses from restructuring	0	– 2	0	0	0	– 2
Consolidated profit/loss before tax	*– 81*	*– 148*	*– 76*	*– 25*	*– 156*	*– 173*
Assets (EUR billion)	8.5	6.8	– 8.5	– 3.5	0.0	3.3
Risk weighted assets[1] (EUR billion)	4.7	5.4	– 0.6	– 0.4	4.1	5.0
Tied-up equity[1] (EUR billion)	3.6	3.0	– 0.1	– 0.1	3.5	2.9

1 In accordance with CRR II/CRD V.
2 Restatement of prior year amounts due to methodology changes that resulted in more detailed segment allocation.

Reconciliation of segment results to the consolidated income statement

In the first half of 2023, the total of “Reconciliation/Consolidation” in consolidated profit/loss before tax was EUR – 76 million (previous year: EUR – 25 million) and is essentially due to the following factors:

- In internal management reporting, net interest income is calculated on the basis of the market interest method. Differences compared to the income statement therefore result from prior-period net interest income and measurements specific to IFRS not included in internal management reporting.
- IFRS specific items such as offsetting result from repurchase of own issues.

D. Income statement

7. Net interest income

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Interest income and current income from equity instruments	*20,234*	*7,493*
Interest income	20,210	7,463
Trading derivatives	10,900	4,409
Lending and money market transactions	4,809	1,210
Hedging derivatives	3,063	925
Fixed-income securities and debentures	364	109
Early termination fees[1]	1	17
Leasing business	132	103
Other	935	360
Positive interest expenses from financial liabilities	6	330
Current income from equity instruments	25	30
Equities and other non-fixed-income securities	22	28
Equity investments and affiliates	3	2
Interest expenses and current expenses from equity instruments	*– 18,818*	*– 6,454*
Interest expenses	– 18,818	– 6,454
Trading derivatives	– 10,755	– 4,272
Hedging derivatives	– 2,954	– 948
Deposits	– 2,737	– 336
Securitized liabilities	– 1,054	– 212
Leasing business	– 12	– 11
Lease liabilities	– 1	– 1
Subordinated capital	– 93	– 90
Other	– 1,193	– 383
Negative interest income from financial assets	– 18	– 202
Total	*1,417*	*1,039*

1 The offsetting effect from refinancing costs is included in interest expenses.

In connection with participation in the tender program net interest income included EUR – 244 million (previous year: EUR 135 million) in the first 2023 financial year. The interest bonus in conjunction with TLTRO III was reduced to EUR 0 million after an amount of EUR 68 million was recognized for the same period in the previous year. This was offset by interest income from deposits held by LBBW with central banks, banks and customers.

Accounts payable from TLTRO III still amounted EUR 9.03 billion as at the end of the reporting period (31 December 2022: EUR 20.21 billion).

8. Net fee and commission income

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Fee and commission income	*397*	*397*
Securities and custody business	174	183
Payments business	68	65
Brokerage business	24	24
Loans and guarantees	79	71
Lending business fee and commission income	40	40
Fee and commission income from financial guarantees	8	7
Fee and commission income from guarantee business	30	24
Fee and commission income from factoring business	9	9
Fee and commission income from asset management	40	38
Other	3	7
Fee and commission expenses	*– 92*	*– 75*
Securities and custody business	– 51	– 48
Payments business	– 13	– 12
Loans and guarantees	– 21	– 5
Lending business fee and commission expense	– 5	– 4
Fee and commission expense from guarantee business	– 16	– 1
Brokerage business	– 3	– 2
Leasing business	– 1	– 1
Other	– 2	– 6
Total	*305*	*322*

Income from payment transactions, securities and custody business are recognized on a pro-rata basis over the performance period. The transaction price is determined on the basis of the agreed payment and is recognized in the amount at which no reimbursement is anticipated. These services include providing credit and debit cards and services as part of portfolio management and custodian business. Fees within the context of credit transactions and the guarantee business are recognized on a pro rata basis over the performance period. Services are billed either during the year or at the end of the year depending on the type of service provided.

Net fee and commission income resulted mainly from financial assets and financial assets measured at fair value through profit or loss.

9. Net gains/losses on remeasurement and disposal

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Net income/expenses from investments accounted for using the equity method	0	– 3
Net gains/losses from financial assets measured at amortized cost	– 88	– 85
Net gains/losses from financial instruments measured at fair value through other comprehensive income	5	8
Net gains/losses from financial instruments measured at fair value through profit or loss	163	206
Total	*81*	*125*

Net income/expenses from investments accounted for using the equity method

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Net gains/losses on measurement	*0*	*– 3*
Net gains/losses from investments in associates	0	– 2
Current expenses	0	– 3
Current income	7	11
Impairment	– 7	– 11
Net gains/losses from investments in joint ventures	0	– 1
Impairment	0	– 1
Total	*0*	*– 3*

Net gains/losses from financial assets measured at amortized cost

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 88*	*– 84*
Reversal of/disposals from allowances for losses on loans and securities	176	207
Net gains/losses from provisions for lending business	34	45
Recoveries on loans and securities previously written off	5	7
Direct loan write-offs	– 1	– 1
Gains/losses from financial assets that were already impaired when purchased or originated	31	0
Additions to allowances for losses on loans and securities	– 330	– 340
Other expenses for the lending business	– 3	– 2
Realized gains/losses	*0*	*– 1*
Securities net gains/losses on disposal	0	– 1
Total	*– 88*	*– 85*

For more details on changes in allowances for losses on loans and securities see Notes 17 and 19.

Net gains/losses from financial instruments measured at fair value through other comprehensive income

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*2*	*– 0*
Reversal of/disposals (from allowances for losses on loans and securities)	4	1
Additions to allowances (for losses on loans and securities)	– 2	– 1
Realized gains/losses	*4*	*8*
Net gains/losses on disposal	4	8
Total	*5*	*8*

Net gains/losses from financial instruments measured at fair value through profit or loss

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Net gains/losses from hedging transactions	*15*	*– 41*
Portfolio fair value hedge	6	– 42
of which hedged items	55	– 533
of which hedging instruments	– 49	491
Micro fair value hedge	8	1
of which hedged items	– 24	– 62
of which hedging instruments	32	62
Group fair value hedge	– 0	0
of which hedged items	50	– 8
of which hedging instruments	– 50	9
Net trading gains/losses	*151*	*247*
Lending business	– 4	9
Equity transactions	258	– 636
Foreign exchange transactions	73	72
Economic hedging derivatives	95	197
Interest rate transactions	– 269	602
Gains/losses from foreign exchange/commodity products	– 3	2
Net gains/losses from financial instruments designated at fair value	*– 47*	*215*
Realized gains/losses	31	0
Unrealized gains/losses	– 78	215
Net gains/losses from financial instruments measured at fair value through profit or loss not classified as held for trading and financial investments in equity instruments	*45*	*– 215*
Net gains/losses from bills	3	0
Net gains/losses from credits and loans	– 11	– 174
Net gains/losses from equity investments	1	2
Net gains/losses from investments in affiliates	1	– 2
Net gains/losses from shares and other equity instruments	51	– 42
Total	*163*	*206*

In net gains/losses from hedging transactions, micro and portfolio fair value hedges are used only to avoid income statement volatility from interest rate risks. Group fair value hedges are intended to avoid income statement volatility from basis risks for foreign currency transactions.

10. Other operating income/expenses

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Other operating income	*190*	*267*
Disposal of inventories	24	146
Reversal of other provisions	16	7
Revenue from property services	9	9
Income from cost refunds by third parties	12	15
Operating leases	8	11
Property and equipment and intangible assets	5	3
Lease income from investment property	26	26
Net income from the fair value measurement of investment property	3	0
Miscellaneous operating income	87	52
Other operating expenses	*– 70*	*– 191*
Disposal of inventories	– 14	– 112
Addition to other provisions	– 3	– 12
Operating leases	– 6	– 4
Operating expenses for leased properties	– 7	– 5
Net losses from the fair value measurement of investment property	– 1	– 3
Foreign currency translation on investment property	– 5	– 1
Miscellaneous operating expenses	– 33	– 53
Total	*120*	*76*

Other operating income also includes income from deconsolidation, which related in particular to the disposal of the wholly owned subsidiary targens GmbH to the IT service provider GFT. The sale/deconsolidation generated non-recurring income in the mid-eight figures.

The sub-item income and expenses from the disposal of inventories includes revenues in girder fabrication, revenues from real estate business, revenues from the sale of new properties, revenues from construction services, revenues from development measures and revenues from the sale of undeveloped land in accordance with IFRS 15. Sale proceeds from projects completed in the reporting period contributed to earnings.

11. Administrative expenses

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Staff costs	*– 556*	*– 506*
Wages and salaries	– 395	– 366
Expenses for pensions and benefits	– 44	– 44
Social security contributions	– 69	– 63
Other staff costs	– 49	– 34
Other administrative expenses	*– 422*	*– 337*
IT costs	– 222	– 197
Legal and consulting expenses	– 54	– 37
Expenses from leases	– 2	– 1
Cost of premises	– 47	– 24
Association and other contributions	– 25	– 22
Advertising, public relations and representation costs	– 15	– 11
Audit costs	– 5	– 5
Miscellaneous administrative expenses	– 53	– 39
Depreciation, amortization and write-downs[1]	*– 65*	*– 54*
Amortization and write-downs of intangible assets	– 27	– 23
Depreciation and write-downs of property and equipment	– 20	– 11
Depreciation and write-downs on right-of-use assets	– 19	– 20
Total	*– 1,043*	*– 897*

1 Including depreciation/amortization and impairment.

In the reporting period, administrative expenses were affected by the first-time inclusion in the figures of Berlin Hyp, which had not been included in the first half of 2022. Furthermore, pay rises under collective bargaining agreements and investment in growth initiatives and IT also contributed to the general increase.

12. Expenses for bank levy and deposit guarantee system

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Expenses for bank levy	– 112	– 134
Expenses for deposit guarantee system	– 77	– 55
Total	*– 188*	*– 188*

13. Net income/expenses from restructuring

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Reversal of provisions for restructuring measures	0	1
Additions to restructuring provisions	– 0	– 3
Total	*– 0*	*– 2*

14. Income taxes

EUR million	01/01 – 30/06/2023	01/01 – 30/06/2022
Income taxes from the reporting period	– 188	– 187
Deferred income taxes	– 15	28
Total	*– 203*	*– 160*

The notional effective tax rate for the Group was 29% in the reporting period (previous year: 34%).

E. Financial instruments

Accounting policies

15. Determining fair value

General information

Fair value is the price at which an asset could be bought and sold at the measurement date in an orderly transaction between market participants.

When determining the fair value, a company specifies the preferred (i.e. the principal) market for the asset or liability or, in the absence thereof, the most advantageous market. LBBW defines the principal market as the market with the highest trading volume and highest level of market activity for the cash-generating unit. This is not necessarily the market on which LBBW’s trading activity is the highest. LBBW sees the most advantageous market as that market on which – taking transaction and transport costs into account – the maximum proceeds can be achieved or the lowest amount must be paid when transferring a liability.

When calculating fair values, LBBW uses prices (if available) from the principal market, provided these represent prices used within the scope of regular and current transactions. These are reviewed on the basis of the following criteria: timely availability, amount, executability and bid-offer spreads.

If prices quoted in active markets are not available, measurement methods, prices for similar assets or liabilities on active markets, prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for measurement methods are based on inputs observable on the markets if available. The application of these models and the use of these parameters requires assumptions and assessments on the part of the management, the extent of which depends on price transparency with regard to the financial instrument and its market and the complexity of the instrument. A significant amount of subjective assessment is necessary, particularly if there are no inputs observable on the markets.

The aim of the applying measurement methods is to determine the price at which a transaction for a financial asset or liability could take place between knowledgeable third parties at the end of the reporting period. Measurement methods therefore have to include all factors which market participants would take into account when determining prices.

The fair values of holdings measured at fair value are subject to the LBBW Group’s internal controls and processes that set out the standards for the independent review or validation of fair values. These controls and procedures are monitored by the “Independent Valuation” organizational unit within the “Risk Control” division. The models, the data used in them and the resulting fair values are regularly reviewed by the “Risk Methods Markets” organizational unit.

The following table contains an overview of the measurement models used for financial instruments:

Financial instruments	Measurement models	Material inputs
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean revers
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index/dividend options, equity/index/dividend futures	Black-Scholes, local volatility model, present value method	Equity prices, share volatility, dividends, interest rates (swap, repo)
Currency options	Garman-Kohlhagen (modified Black-Scholes)	FX rates, yield curves, FX volatility
Commodity options	Garman-Kohlhagen (modified Black-Scholes)	Commodity rates, yield curves, commodity volatility
Credit derivatives	Intensity model	Credit spreads, yield curves
Money market transactions	Net present value method	Credit spreads, yield curves
Securities repurchase transactions	Net present value method	Yield curves
Schuldschein loans, loans	Net present value method	Credit spreads, yield curves
Securities, forward security transactions	Net present value method	Securities prices, credit spreads, yield curves
Own bearer notes and Schuldschein loans issued	Net present value method	Yield curves, own credit spread
Investments and shares in affiliates	Net asset value method, discounted cash flow method, income value method	Capitalization rate, projected figures
Securitized transactions	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and default rates, loss severity

The valuation and the use of material parameters for “Non-current assets and disposal groups held for sale”, and “Liabilities from disposal groups”, is performed in line with the original statement of financial position items.

The following table shows how financial instruments are assigned to product classes:

Product class	Financial instruments
Financial assets measured at fair value	
Derivatives	Currency options, currency forwards, interest rate swaps and interest rate options, interest forwards, credit derivatives, equity/index options, equity index/dividend futures, commodity options, forward commodity agreements, interest rate swaps
Equity instruments	Investment units, equities, equity investments, shares in affiliates
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial assets measured at amortized cost	
Cash and cash equivalents	Cash, balances with central banks
Debentures and other fixed-income securities	Securities, money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans, forwards, securities repurchase transactions
Financial liabilities measured at fair value	
Derivatives	Currency options, currency forwards, interest rate swaps and interest rate options, interest forwards, credit derivatives, equity/index options, equity index/dividend futures, commodity options, forward commodity agreements, interest rate swaps
Delivery obligations from short sales of securities	Delivery obligations from short sales of securities
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions
Financial liabilities measured at amortized cost	
Securitized liabilities	Issued debentures, subordinated bonds
Deposits	Subordinated deposits, Schuldschein loans, money market transactions

Securities

To the extent possible, the securities in the trading portfolio are measured using market prices or liquid prices of the relevant OTC market. If no active market price is available, fixed-income securities are measured using the discounted cash flow method based on yield curves dependent on the rating or sector and credit spreads derived from market data.

Derivatives

Exchange-traded derivatives are measured using market prices. The fair values of equity-based and raw materials based derivatives are calculated uniformly using models on the basis of the portfolio approach.

The fair value of OTC derivatives is calculated using measurement models. A distinction is made between simple derivatives traded on liquid markets (such as interest rate swaps, cross-currency interest rate swaps and currency options) and complex derivatives that are traded on illiquid markets.

Simple derivatives traded on active markets are valued using recognized valuation measures that resort at most to non-observable parameters on a minor scale.

Derivatives whose fair value is calculated on the basis of complex methods using non-observable parameters with a material influence on the valuation are classified in Level III of the measurement hierarchy. In order to reduce price uncertainty from the unobservable parameters as far as possible, these are calibrated so that measurements from observed transactions or offers for comparable instruments, consensus prices of price service agencies or valuations of other market participants from matching processes match LBBW's own measurements to the extent possible.

For certain complex interest derivatives, the interest-interest correlations required for measurement by reference to option price models are based on expert estimates which are partially gained from historical observations and partially from correlations derived from market prices. The "Correlation" parameter is assumed to be non-observable in this case and a Day One Reserve is formed for these complex interest rate derivatives.

LBBW uses the portfolio exception in accordance with IFRS 13.48 to measure derivatives in the following cases:

- The adjustment amount is calculated on the basis of the net risk positions for some fair value adjustments (e.g. closeout costs).
- When measuring counterparty risks in relation to OTC derivatives, for which netting agreements were entered into with the counterparty, the credit value adjustments (hereinafter referred to as CVA) were calculated on net positions.

The fair value of securitizations for which the market prices of market services providers are available is measured on the basis of these prices and classified as Level II (see fair value hierarchy). The fair values of securitization transactions for which current market prices are not sufficiently available (Level III) are calculated using measurement models. These are standard market models based on the discounted cash flow method.

If the fair value of a financial instrument calculated using measurement methods does not sufficiently take into account factors such as bid-offer spreads or close-out costs, liquidity, model, credit or counterparty risk, the Bank calculates valuation adjustments. In some cases, the methods used take into account parameters that are not observable on the market. Valuation adjustments are currently made within LBBW for the following issues in particular:

- Recognition of counterparty default risks from OTC derivatives (CVA/DVA)
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives
- Weaknesses in the models or inputs used, for example, model valuation adjustments for specific equities, interest rate and credit derivatives
- Day one profit or loss on specific complex derivatives and loans measured at fair value.

Refinancing effects represent a price component for unsecured derivatives and are included in the fair value measurement as a funding valuation adjustment (FVA). At LBBW, refinancing effects are taken into account in the measurement when calculating the present value by way of premiums on the discount rates. The DVA is adjusted accordingly to avoid overlaps regarding the Bank's own default risk between the FVA and DVA calculation (valuation adjustment for FVA-DVA overlap).

Equity instruments

If available, quoted prices on active markets are used to calculate the fair value of listed equity investments assigned to the category “Financial assets mandatorily measured at fair value through profit or loss” or “Financial assets measured at fair value through other comprehensive income”. For non-listed equity investments or if prices traded on an active market are not available, the fair value is measured using a measurement method. In these cases, LBBW essentially measures fair value using the net income value, the discounted cash flow or the net asset value method. The valuation method is selected on the basis of a fixed decision tree. The fair value of real estate leasing special purpose vehicles is measured on the basis of the DCF method. The net income value approach is used to measure all other major equity investments. If the application of the net income value approach entails considerable uncertainty or is not reliable due to a lack of data, the net asset value method is used, provided the equity investment’s business activities are stable.

Receivables

The fair value of assets and liabilities measured at amortized cost is calculated by discounting the future cash flows, taking into account rating-dependent spreads (exception: repurchase transactions). If rating-dependent spreads are derived from rating information obtained from external sources, this constitutes Level II classification. Rating information obtained from internal sources constitutes Level III classification. The fair values of receivables with a default rating are determined on the basis of expected future cash flows. The carrying amount is stated as the fair value of current assets and liabilities (e.g. current account assets and liabilities).

Determining rating-induced changes in fair value

At LBBW, a rating-induced change in fair value is calculated as the difference between the following two amounts:

- Fair value based on the current credit spread at the reporting date
- Fair value based on the current credit spread at the time of comparison

To be able to take into account the instrument-specific credit risk that is decisive for the rating-induced changes in fair value, a spread curve appropriate to the risk profile is used. Primary market prices are used to form the spread curves; in the absence of primary market activity, secondary market prices and approximation methods based on liquid market prices of comparable bonds may be employed.

Financial assets

16. Cash and cash equivalents

EUR million	30/06/2023	31/12/2022
Balances with central banks	17,064	10,404
Cash	151	165
Total, gross	*17,215*	*10,569*
Allowances for losses on loans and securities	– 0	– 0
Total, net	*17,215*	*10,569*

Balances with central banks included balances with Deutsche Bundesbank of EUR 677 million (previous year: EUR 593 million).

17. Financial assets measured at amortized cost

Loans and advances to banks

EUR million	30/06/2023	31/12/2022
Public-sector loans	88,464	69,897
Current account claims	821	670
Securities repurchase transactions	9,572	6,886
Other loans	1,224	893
Schuldschein loans	10	10
Overnight and term money	2,937	2,671
Other receivables	504	324
Total, gross	*103,533*	*81,351*
Allowances for losses on loans and securities	– 44	– 69
Total, net	*103,489*	*81,283*

The increase in public-sector loans was mainly in connection with a deposit under the ECB's deposit facility. Public-sector loans include gross transmitted loans of EUR 28,013 million (previous year: EUR 27,765 million).

Loans and advances to customers

EUR million	30/06/2023	31/12/2022
Other loans	27,778	27,649
Mortgage loans	69,330	66,848
Public-sector loans	13,296	13,339
Receivables from finance leases	5,800	5,676
Transmitted loans	4,119	4,060
Securities repurchase transactions	10,136	7,257
Current account claims	3,809	2,936
Overnight and term money	6,045	5,885
Schuldschein loans	7,623	8,032
Other receivables	6,544	6,226
Total, gross	*154,480*	*147,907*
Allowances for losses on loans and securities	– 1,528	– 1,364
Total, net	*152,952*	*146,542*

In addition to the transmitted loans shown in the table, the sub-item of mortgage loans also includes gross transmitted loans of EUR 3,252 million (previous year: EUR 3,128 million). Public-sector loans also include gross transmitted loans of EUR 773 million (previous year: EUR 900 million).

Debentures and other fixed-income securities

EUR million	30/06/2023	31/12/2022
Government bonds and government debentures	232	257
Other bonds and debentures	2,303	896
Total, gross	*2,535*	*1,152*
Allowances for losses on loans and securities	– 7	– 8
Total, net	*2,528*	*1,144*

The increase in other bonds and debentures essentially relates to new business with European banks.

Development of allowances for losses on loans and securities and gross carrying amounts

The following table shows the allowances for losses on loans and securities deducted from assets:

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2023	*503*	*328*	*607*	*3*	*1,441*
Changes	34	66	54	– 0	155
Transfer to Stage 1	15	– 14	– 1	0	0
Transfer to Stage 2	– 30	31	– 1	0	– 0
Transfer to Stage 3	– 2	– 2	4	0	– 0
Additions	91	84	106	0	282
Reversals	– 41	– 32	– 30	– 0	– 103
Utilization	0	0	– 24	0	– 24
Additions	21	6	22	0	48
Disposals	– 6	– 5	– 60	– 2	– 73
Other changes	– 0	– 0	7	0	7
Balance as at 30 June 2023	*552*	*395*	*630*	*2*	*1,578*

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2022	*89*	*716*	*524*	*– 1*	*1,328*
Changes	292	– 378	91	4	9
Transfer to Stage 1	358	– 357	– 0	0	– 0
Transfer to Stage 2	– 10	12	– 1	0	– 0
Transfer to Stage 3	– 4	– 6	10	0	0
Additions	21	63	205	4	293
Reversals	– 72	– 90	– 63	– 0	– 224
Utilization	0	0	– 60	0	– 60
Additions	128	7	56	0	191
Disposals	– 5	– 18	– 80	0	– 103
Other changes	0	1	15	0	17
Balance as at 31 December 2022	*503*	*328*	*607*	*3*	*1,441*

It is a great challenge to calculate the allowances for losses on loans and securities given the current economic and geopolitical uncertainties (e.g. Ukraine conflict). Statistical allowances for losses on loans and securities, which are based on normal economic situations and calibrated in line with cyclical averages, do not provide unlimited reliability in the current situation. For this reason, LBBW again determined allowances for losses on loans and securities in the 2023 half-year financial statements using a multi-scenario approach that adequately represents the many possible economic developments. This single- and multi-year PDs were initially forecast on the basis of macro-factor projections using statistical macro-models. A qualitative overlay was then applied to these and the LGD forecasts to appropriately take into account the effects of persistently high rates of inflation and the sharp rise in interest rates on PD and LGD. The statistical PD and LGD models cannot do this as there are no phases with high inflation rates and abrupt climbs in interest rates in the data histories available for modelling. Allowances for losses on loans and securities to quantify the effects of structural change towards e-mobility were unchanged as against the end of 2022. Another increase in the model adjustments had a net negative effect of EUR 83 million on allowances for losses on loans and securities in total.

The increase essentially results from an updated assessment of the effects of the rise in interest rates on the credit risk of commercial real estate finance. This also included components recognized in lending business provisions.

For more details on changes in allowances for losses on loans and securities see Note 19.

The gross carrying amount of financial assets measured at amortized cost was EUR 260,547 million (previous year: EUR 230,410 million) as at 30 June 2023 and broke down as follows: EUR 239,209 million Stage 1 (previous year: EUR 210,113 million), EUR 19,874 million Stage 2 (previous year: EUR 19,018 million), EUR 1,450 million Stage 3 (previous year: EUR 1,249 million) and EUR 14 million credit impaired on recognition (previous year: EUR 30 million).

Sensitivity analysis

The cyclically adjusted allowances for losses on loans and securities are determined using a multi-scenario model based on macro factor projections by LBBW Research. Four scenarios were considered at the end of the first half of 2023 that appropriately represent the possible economic developments:

(1) a baseline scenario;
(2) a negative scenario characterized by persistently high inflation, an initial ongoing rise in interest rates and a weak economic performance lasting two years (negative inflation);
(3) a negative scenario characterized by a severe recession in 2024 triggered by an escalation of geopolitical conflict or other crises (negative geopolitical) and
(4) a positive scenario.

Following on from the macro factor projections in the scenarios, the PD and LGD parameters contingent on these are forecast using macro models with a qualitative overlay if applicable and aggregated to form the expected credit loss in the respective scenario. The expected credit loss of a financial instrument is the probability-weighted average of the expected credit losses in the four scenarios.

German GDP growth is the most significant macro factor in the quantitative macro model to calculate allowances for losses on loans and securities. As at the end of the first half of 2023, average GDP growth across the four macro scenarios considered was assumed to be – 0.4% in 2023, with growth of 0.5% for 2024 and an economic recovery with GDP growth of 1.3% in 2025. With a GDP decline of 1.5 percentage points p.a. in the first three forecast years, allowances for losses on loans and securities would rise by around EUR 100 million. This is around EUR 70 million higher than the additional allowances for losses on loans and securities that would result in the negative inflation scenario. A one percentage point p.a. GDP rise compared to the figure expected at the end of the half-year would reduce allowances for losses on loans and securities by around EUR 65 million, provided the level of the model adjustments otherwise remained unchanged.

Modifications

Stage 2 and Stage 3 financial assets for which adjustments were made to the contract during the reporting period and that were not derecognized were as follows:

30/06/2023 EUR million	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	2,242	627	3	2,872

31/12/2022 EUR million	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	1,702	346	1	2,049

In the reporting period, there were situations in which Stage 2 or 3 financial assets of EUR 13 million were allocated to Stage 1 after adjustments were made (previous year: EUR 0 million).

18. Financial assets measured at fair value through other comprehensive income

EUR million	30/06/2023	31/12/2022
Equity instruments	*35*	*46*
Equity investments	32	43
Shares in affiliates	3	3
Debentures and other fixed-income securities	*34,907*	*33,474*
Money market instruments	861	858
Bonds and debentures	34,046	32,616
Receivables	*2,658*	*3,147*
Total	*37,600*	*36,668*

Development of allowances for losses on loans and securities and gross carrying amounts

Allowances for losses on loans and securities for financial assets mandatorily measured at fair value through other comprehensive income developed as follows:

EUR million	Stage 1	Total
Balance as at 1 January 2023	*8*	*8*
Changes	– 3	– 3
Reversals	– 3	– 3
Additions	2	2
Balance as at 30 June 2023	*6*	*7*

EUR million	Stage 1	Total
Balance as at 1 January 2022	*3*	*3*
Changes	– 1	– 1
Reversals	– 1	– 1
Additions	6	6
Balance as at 31 December 2022	*8*	*8*

The gross carrying value of financial assets mandatorily measured at fair value through other comprehensive income as at 30 June 2023 was EUR 37,564 million (previous year: EUR 36,621 million) and broke down as follows: EUR 37,436 million Stage 1 (previous year: EUR 36,621 million) and EUR 128 million Stage 2 (previous year: EUR 0 million).

Note 20 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

19. Counterparty risk

The quantitative information on credit risk is based on the management approach. By contrast to the basis of consolidation for accounting purposes under IFRS, only the SüdLeasing Group, LBBW México Sofom and Berlin Hyp are included in consolidation under the management approach. In line with internal risk management, the primary parameter in the information below is gross/net exposure.

Collateral

The LBBW has high standards for collateral. Guidelines and collateral strategy requirements ensure that collateral is of a high quality. In addition to the individual measurement of collateral, its carrying amount is also subject to LGD modeling haircuts (recovery rates).

The following table shows the maximum counterparty risk (equal to gross exposure) and the effect of risk-mitigating measures:

30/06/2023 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	41,346	149	0	0	41,197
Equity instruments	1,404	0	0	0	1,404
Debentures and other fixed-income securities	37,352	149	0	0	37,203
Receivables	2,589	0	0	0	2,589
Financial assets designated at fair value	1,800	0	917	0	884
Debentures and other fixed-income securities	38	0	0	0	38
Receivables	1,763	0	917	0	846
Financial assets mandatorily measured at fair value through profit or loss	153,703	132,757	6,126	817	14,003
Trading assets	142,691	122,822	6,126	749	12,993
Derivatives	107,725	99,151	4,598	73	3,902
Equity instruments	521	461	0	0	60
Debentures and other fixed-income securities	9,313	4,176	510	139	4,488
Receivables	25,131	19,034	1,018	537	4,543
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,378	354	0	68	957
Equity instruments	465	141	0	0	324
Debentures and other fixed-income securities	503	213	0	0	290
Receivables	410	0	0	68	342
Positive fair values from derivative hedging instruments	9,635	9,582	0	0	53
Financial assets measured at amortized cost					
Cash and cash equivalents	16,613	0	0	0	16,613
Financial assets measured at amortized cost	274,898	40,584	0	69,176	165,138
Loans and advances to banks	119,833	27,163	0	623	92,047
Loans and advances to customers	152,538	13,421	0	68,554	70,563
Debentures and other fixed-income securities	2,528	0	0	0	2,528
Total	*488,361*	*173,490*	*7,043*	*69,993*	*237,834*
Loan commitments and other agreements	76,450	0	0	4,550	71,901
Total exposure	*564,811*	*173,490*	*7,043*	*74,543*	*309,735*

31/12/2022 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets measured at fair value through other comprehensive income	40,451	43	0	407	40,001
Equity instruments	1,506	0	0	0	1,506
Debentures and other fixed-income securities	35,947	43	0	0	35,904
Receivables	2,997	0	0	407	2,590
Financial assets designated at fair value	1,846	0	937	0	908
Debentures and other fixed-income securities	37	0	0	0	37
Receivables	1,809	0	937	0	872
Financial assets mandatorily measured at fair value through profit or loss	156,397	136,182	7,019	578	12,618
Trading assets	144,778	125,375	7,019	485	11,898
Derivatives	113,335	103,774	4,738	73	4,750
Equity instruments	628	569	0	0	59
Debentures and other fixed-income securities	6,943	3,179	516	138	3,110
Receivables	23,872	17,854	1,765	274	3,979
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	863	132	0	93	638
Equity instruments	476	132	0	0	344
Receivables	386	0	0	93	293
Positive fair values from derivative hedging instruments	10,757	10,674	0	0	82
Financial assets measured at amortized cost					
Cash and cash equivalents	9,938	0	0	0	9,938
Financial assets measured at amortized cost	246,509	36,483	0	67,726	142,299
Loans and advances to banks	98,929	25,785	0	641	72,503
Loans and advances to customers	146,445	10,698	0	67,086	68,662
Debentures and other fixed-income securities	1,135	0	0	0	1,135
Total	*455,141*	*172,707*	*7,956*	*68,712*	*205,765*
Loan commitments and other agreements	79,066	0	0	4,491	74,575
Total exposure	*534,207*	*172,707*	*7,956*	*73,203*	*280,340*

The combined effect of netting and collateral agreements, credit derivatives (protection buy) and credit collateral (risk mitigation) in relation to the maximum counterparty risk of EUR 565 billion as at 30 June 2023 is EUR 255 billion or 45.2% in total (previous year: 47.5%). Nonetheless, there are differences between segments – for example, credit collateral is higher for real estate financing than for corporate customers.

In exceptional cases (< 1% of the portfolio), the securities cover the gross exposure in full, meaning that no impairment losses are recognized.

Of the total portfolio of EUR 565 billion of gross exposures and EUR 310 billion of net exposures as at 30 June 2023, transactions of EUR 399 billion of gross exposures and EUR 288 billion of net exposures are within the scope of the provisions of IFRS 9 on allowances for losses on loans and securities.

Credit-impaired assets

Credit-impaired assets in accordance with IFRS 9 are financial instruments in default (rating classes 16 to 18). These rating classes accounted for gross exposure of EUR 1.5 billion and net exposure of EUR 1.2 billion as at 30 June 2023.

The table below shows the maximum counterparty risk and the effect of risk-mitigating measures on credit-impaired assets:

30/06/2023 EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,363	374	989
Loans and advances to banks	28	6	22
Loans and advances to customers	1,335	368	968
Total	*1,363*	*374*	*989*
Loan commitments and other agreements	185	11	174
Total exposure	*1,548*	*385*	*1,164*

31/12/2022 EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Financial assets measured at amortized cost	1,204	309	895
Loans and advances to banks	48	0	48
Loans and advances to customers	1,156	309	847
Total	*1,204*	*309*	*895*
Loan commitments and other agreements	192	25	167
Total exposure	*1,396*	*334*	*1,062*

Default risk and concentrations

The following information is based on the tables in the risk report for counterparty risk. However, unlike those tables, only financial instruments subject to the scope of the impairment provisions of IFRS 9 are presented here.

Gross exposure by rating cluster (internal rating class)

30/06/2023 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	83,420	0	0	0	83,420
1 (AAA)–1 (A-)	184,225	1,405	0	1	185,630
2–5	80,974	9,742	0	9	90,725
6–8	15,251	7,330	0	0	22,581
9–10	2,119	3,252	0	0	5,370
11–15	2,221	3,773	0	0	5,994
16–18 (default)[1]	0	0	1,539	10	1,548
Other[2]	3,423	32	0	0	3,455
Gross exposure	*371,633*	*25,533*	*1,539*	*20*	*398,725*

1 “Default” refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before accounting for allowances for losses on loans and securities.
2 Non-rated transactions, in particular rating waivers.

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	61,828	73	0	0	61,901
1 (AAA)–1 (A-)	167,247	1,360	0	1	168,608
2–5	86,587	9,213	0	10	95,810
6–8	18,110	8,291	0	0	26,401
9–10	2,034	2,645	0	0	4,678
11–15	2,237	3,403	0	0	5,640
16–18 (default)[1]	0	0	1,341	55	1,396
Other[2]	3,279	22	0	0	3,301
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

1 “Default” refers to exposure for which a default event as defined in Article 178 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before accounting for allowances for losses on loans and securities.
2 Non-rated transactions, in particular rating waivers.

Gross exposure by sector

30/06/2023 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Financials	*190,380*	*728*	*35*	*0*	*191,143*
Corporates	*94,144*	*14,404*	*1,154*	*10*	*109,711*
Automotive	8,193	2,311	484	0	10,988
Construction	9,945	917	65	0	10,927
Chemicals and commodities	7,790	947	12	0	8,748
of which chemicals	3,650	481	0	0	4,131
of which commodities	4,140	466	12	0	4,617
Retail and consumer goods	15,240	2,836	288	0	18,364
of which consumer goods[1]	11,212	1,074	145	0	12,431
of which durables	4,028	1,762	143	0	5,933
Industry	10,192	1,522	130	7	11,851
Pharmaceuticals and healthcare[1]	5,489	762	44	2	6,298
TM and electronics/IT[1]	9,781	1,031	17	0	10,829
Transport and logistics	6,882	1,938	27	0	8,847
Utilities and energy[1]	11,394	1,637	66	0	13,097
of which utilities and disposal companies	6,996	1,021	61	0	8,079
of which renewable energies	4,398	616	5	0	5,019
Other	9,238	502	21	0	9,761
Real estate	*60,145*	*8,848*	*324*	*1*	*69,317*
Commercial real estate (CRE)	41,238	7,287	320	0	48,845
Housing	18,907	1,561	4	1	20,473
Public sector	*17,220*	*1*	*0*	*0*	*17,221*
Private individuals	*9,744*	*1,554*	*26*	*9*	*11,333*
Gross exposure	*371,633*	*25,533*	*1,539*	*20*	*398,725*

1 Growth sectors.

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Financials	*160,142*	*1,059*	*67*	*0*	*161,268*
Corporates	*92,247*	*15,262*	*1,046*	*55*	*108,609*
Automotive	7,924	2,511	466	41	10,943
Construction	9,515	652	63	0	10,230
Chemicals and commodities	7,523	1,134	13	0	8,670
of which chemicals	3,557	623	0	0	4,180
of which commodities	3,966	511	13	0	4,490
Retail and consumer goods	14,871	2,860	198	0	17,929
of which consumer goods[1]	11,047	1,166	40	0	12,253
of which durables	3,824	1,694	158	0	5,676
Industry	10,240	1,686	137	11	12,074
Pharmaceuticals and healthcare[1]	4,910	685	45	3	5,643
TM and electronics/IT[1]	10,995	684	15	0	11,694
Transport and logistics	6,214	2,160	28	0	8,401
Utilities and energy[1]	10,878	2,378	61	0	13,318
of which utilities and disposal companies	6,979	1,486	56	0	8,521
of which renewable energies	3,899	893	5	0	4,797
Other	9,176	511	20	0	9,707
Real estate	*61,688*	*6,962*	*204*	*1*	*68,855*
Commercial real estate (CRE)	43,214	5,497	200	0	48,911
Housing	18,474	1,465	4	1	19,944
Public sector	*17,185*	*72*	*0*	*0*	*17,257*
Private individuals	*10,062*	*1,652*	*25*	*10*	*11,747*
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

1 Growth sectors.

The exposures in financials and the public sector (and the German public sector in particular) generally have very good, stable credit quality with a low exposure share in stage 2.

In relative terms, there is a higher share of stage 2 exposure in the corporates and real estate portfolio. This is due to the fact that the credit rating in the two customer groups is more volatile and reacts more to negative economic stimuli. Such stimuli currently include consistently elevated energy prices, persistently high rates of inflation, the sharp rise in interest rates and the recessive economic performance plus, for real estate, the current structural change as well.

Gross exposure by region

30/06/2023 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Germany	234,888	16,624	1,069	20	252,600
Western Europe (excluding Germany)	83,418	4,343	119	0	87,879
North America	33,844	2,447	152	0	36,442
Asia/Pacific	10,211	763	12	0	10,985
Other[1]	9,273	1,357	187	0	10,818
Gross exposure	*371,633*	*25,533*	*1,539*	*20*	*398,725*

1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions).

31/12/2022 EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Credit impairment at recognition	Total
Germany	218,970	16,651	994	28	236,643
Western Europe (excluding Germany)	74,343	4,143	50	28	78,565
North America	28,703	1,888	164	3	30,757
Asia/Pacific	10,451	830	13	0	11,294
Other[1]	8,855	1,494	121	7	10,476
Gross exposure	*341,323*	*25,007*	*1,341*	*66*	*367,736*

1 Other regions and transactions not allocated to a particular country (e.g. transactions with supranational institutions).

The risk report contains further information on impairment on the portfolio and qualitative disclosures.

Forbearance

As at 30 June 2023, LBBW held assets with a net carrying amount of EUR 1,685 million (31 December 2022: EUR 1,371 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A sub-portfolio of the assets for which forbearance measures have been adopted of EUR 382 million (31 December 2022: 287 million) comprises credit-impaired assets.

LBBW has received guarantees of EUR 145 million (31 December 2022: EUR 140 million) for assets with forbearance measures.

The risk report contains further information on impairment on the portfolio.

20. Equity instruments voluntarily measured at fair value through other comprehensive income

For some financial investments in equity instruments LBBW exercises the fair value through other comprehensive income option in accordance with IFRS 9.5.7.5. These essentially comprise equity investments in a real estate company held with no intention to sell.

Equity instruments measured voluntarily at fair value through other comprehensive income amounted to EUR 35 million as at 30 June 2023 (previous year: EUR 46 million; see Note 18).

Dividends of EUR 1 million (previous year: EUR 1 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the reporting period. As in the previous year, these relate entirely to equity instruments still held as at 30 June 2023.

21. Financial assets designated at fair value

EUR million	30/06/2023	31/12/2022
Debentures and other fixed-income securities	*39*	*37*
Bonds and debentures	39	37
Receivables	*1,647*	*1,742*
Total	*1,686*	*1,779*

22. Financial assets mandatorily measured at fair value through profit or loss

EUR million	30/06/2023	31/12/2022
Trading assets	39,674	38,126
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	1,225	728
Positive fair values from derivative hedging instruments	501	525
Total	*41,400*	*39,379*

Trading assets

EUR million	30/06/2023	31/12/2022
Positive fair values from derivative financial instruments	*18,045*	*19,586*
Equity instruments	*481*	*603*
Equities	367	463
Investment fund units	114	138
Other securities	0	3
Debentures and other fixed-income securities	*8,041*	*6,497*
Money market instruments	288	53
Bonds and debentures	7,753	6,444
Receivables	*13,106*	*11,440*
Schuldschein loans	3,124	4,042
Other money market transactions	2,322	1,666
Receivables from securities repurchase agreements	6,266	4,592
Other receivables	1,394	1,140
Total	*39,674*	*38,126*

Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments

EUR million	30/06/2023	31/12/2022
Equity instruments	*427*	*411*
Equities	4	3
Investment fund units	183	174
Equity investments	216	210
Shares in affiliates	23	23
Debentures and other fixed-income securities	*505*	*2*
Debentures	503	0
Silent partner contributions	2	2
Receivables	*292*	*315*
Loans and advances to customers	292	315
Total	*1,225*	*728*

Positive fair values from derivative hedging instruments

EUR million	30/06/2023	31/12/2022
Positive fair values from portfolio fair value hedges	384	340
Positive fair values from micro fair value hedges	117	142
Positive fair values from group fair value hedges	0	43
Total	*501*	*525*

Financial liabilities

23. Financial liabilities measured at amortized cost

Deposits from banks

EUR million	30/06/2023	31/12/2022
Securities repurchase transactions	3,434	80
Transmitted loans	36,060	35,829
Schuldschein loans	2,293	2,553
Overnight and term money	43,973	40,014
Public-sector registered covered bonds issued	372	413
Current account liabilities	2,003	1,946
Mortgage-backed registered covered bonds issued	218	290
Other liabilities	3,030	2,957
Total	*91,383*	*84,082*

In addition to the transmitted loans shown in the table, other liabilities also include transmitted loans of EUR 62 million (previous year: EUR 64 million).

Deposits from customers

EUR million	30/06/2023	31/12/2022
Current account liabilities	51,090	59,885
Overnight and term money	61,514	38,822
Schuldschein loans	3,913	3,956
Securities repurchase transactions	2,578	1,134
Public-sector registered covered bonds issued	2,671	2,736
Savings deposits	6,589	4,645
Mortgage-backed registered covered bonds issued	1,695	1,462
Other liabilities	3,435	3,108
Total	*133,486*	*115,748*

Other liabilities included transmitted loans of EUR 185 million (previous year: EUR 179 million).

Securitized liabilities

EUR million	30/06/2023	31/12/2022
Issued debentures	*60,372*	*51,131*
Mortgage-backed covered bonds	23,630	21,333
Public-sector covered bonds	6,327	5,030
Other debentures	30,415	24,767
Other securitized liabilities	*23,943*	*17,529*
Total	*84,315*	*68,660*

Further information on issuing activities can be found in Note 26.

Subordinated capital

EUR million	30/06/2023	31/12/2022
Typical silent partners' contributions	873	891
Subordinated liabilities	3,922	4,255
Capital generated from profit participation rights	0	21
Total	*4,795*	*5,167*

24. Financial liabilities designated at fair value

EUR million	30/06/2023	31/12/2022
Securitized liabilities	*1,846*	*1,963*
Other securitized liabilities	1,501	1,589
Junior bonds	346	375
Deposits	*1,594*	*1,621*
Schuldschein loans	569	567
Subordinated deposits	13	39
Money market transactions	107	108
Other	906	907
Total	*3,440*	*3,584*

25. Financial liabilities mandatorily measured at fair value through profit or loss

EUR million	30/06/2023	31/12/2022
Trading liabilities	28,381	28,975
Negative fair values from derivative hedging instruments	778	850
Total	*29,159*	*29,825*

Trading liabilities

EUR million	30/06/2023	31/12/2022
Negative fair values from derivatives	*19,357*	*21,083*
Other trading liabilities	*9,024*	*7,891*
Delivery obligations from short sales of securities	1,290	1,026
Securitized liabilities	6,804	6,050
Schuldschein loans	287	280
Liabilities from securities repurchase agreements	537	473
Money market transactions	101	59
Other	5	5
Total	*28,381*	*28,975*

Negative fair values from derivative hedging instruments

EUR million	30/06/2023	31/12/2022
Negative fair values from portfolio fair value hedges	369	413
Negative fair values from micro fair value hedges	402	437
Negative fair values from group fair value hedges	7	0
Total	*778*	*850*

26. Issuing activities

EUR million	30/06/2023	31/12/2022
Securitized liabilities	84,315	68,660
Securitized liabilities designated at fair value	1,501	1,589
Securitized liabilities mandatorily measured at fair value through profit or loss	6,804	6,050
Total	*92,619*	*76,298*

New issuances, essentially short-dated money market paper, with a nominal volume of EUR 1,436,709 million (previous year: EUR 3,023,752 million) were issued in the period under review. Initial sales may fall substantially short of the issued nominal volume. Over the same period, the volume of buybacks was nominally EUR 516 million (previous year: 1,852 million) and the volume of repayments was nominally EUR 1,083,621 million (previous year: EUR 2,134,083 million).

Other disclosures about financial instruments

27. Fair value and carrying amounts of financial instruments

The following table compares the carrying amounts and fair values of financial instruments measured at amortized cost:

Assets

EUR million	30/06/2023 Carrying amount	30/06/2023 Fair value	31/12/2022 Carrying amount	31/12/2022 Fair value
Financial assets measured at amortized cost				
Cash and cash equivalents	17,215	17,207	10,569	10,526
Financial assets measured at amortized cost	258,969	252,779	228,969	224,079
Loans and advances to banks	103,489	100,083	81,283	77,829
Loans and advances to customers	152,952	150,205	146,542	145,135
Debentures and other fixed-income securities	2,528	2,491	1,144	1,115

Equity and liabilities

EUR million	30/06/2023 Carrying amount	30/06/2023 Fair value	31/12/2022 Carrying amount	31/12/2022 Fair value
Financial liabilities measured at amortized cost				
Financial liabilities measured at amortized cost	313,978	306,259	273,657	268,782
Deposits from banks	91,383	90,717	84,082	83,533
Deposits from customers	133,486	132,682	115,748	115,377
Securitized liabilities	84,315	78,589	68,660	65,213
Subordinated capital	4,795	4,270	5,167	4,660

28. Fair value hierarchy

The fair values used when measuring financial instruments are assigned to a three-level fair value hierarchy, taking into account the measurement methods and parameters used to carry-out this measurement. If parameters from different levels are used to determine the fair value, the resulting fair value is assigned to the next level whose parameters have a material effect on fair value measurement.

The three-level fair value hierarchy with Level I, Level II, and Level III – the terminology provided for in IFRS 13 – is specified as follows at LBBW:

- All financial instruments with unadjusted prices quoted on active markets are assigned to the first group (Level I).
- Derivatives measured using models, tradable credits, structured Group debt instruments designated at fair value, units in investment funds and certain corporate/financial and government bonds with automatic provision from market information systems (observable parameters) and liquid asset-backed securities are assigned to the second group (Level II).
- Level III comprises financial instruments for which one or more parameters are not based on observable market data and these data have a more than immaterial effect on the fair value of an instrument. These include complex OTC derivatives, certain private equity investments, certain high-grade structured bonds including illiquid asset-backed securities and structured securitizations.

The following table shows the breakdown of the classifications by measurement method:

Assets

EUR million	Prices traded on active markets (Level I)		Measurement method – on the basis of externally observable parameters (Level II)		Measurement method – on the basis externally unobservable parameters (Level III)	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial assets measured at fair value						
Financial assets measured at fair value through other comprehensive income	28,382	23,154	9,214	13,511	3	3
Equity instruments	32	43	0	0	3	3
Debentures and other fixed-income securities	28,350	23,111	6,556	10,363	0	0
Receivables	0	0	2,658	3,147	0	0
Financial assets designated at fair value	20	0	1,667	1,779	0	0
Debentures and other fixed-income securities	20	0	19	37	0	0
Receivables	0	0	1,647	1,742	0	0
Financial assets mandatorily measured at fair value through profit or loss	2,375	1,225	37,778	37,335	1,247	819
Trading assets	2,370	1,220	36,394	36,447	910	459
Derivatives	0	0	18,030	19,558	15	28
Equity instruments	367	402	114	201	0	0
Debentures and other fixed-income securities	2,001	818	6,040	5,680	0	0
Receivables	2	1	12,210	11,008	895	432
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	5	5	882	363	337	360
Equity instruments	5	5	183	174	238	232
Debentures and other fixed-income securities	0	0	503	0	2	2
Receivables	0	0	195	189	97	126
Positive fair values from derivative hedging instruments	0	0	501	525	0	0

Equity and liabilities

EUR million	Prices traded on active markets (Level I)		Measurement method – on the basis of externally observable parameters (Level II)		Measurement method – on the basis externally unobservable parameters (Level III)	
	30/06/2023	31/12/2022	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial liabilities measured at fair value						
Financial liabilities designated at fair value	0	0	3,344	3,478	97	106
Securitized liabilities	0	0	1,775	1,882	72	81
Deposits	0	0	1,569	1,596	25	25
Financial liabilities mandatorily measured at fair value through profit or loss	699	969	28,378	28,741	82	115
Trading liabilities	699	969	27,600	27,891	82	115
Derivatives	0	0	19,275	20,969	82	115
Delivery obligations from short sales of securities	698	968	592	57	0	0
Securitized liabilities	0	0	6,804	6,050	0	0
Deposits	1	1	929	815	0	0
Negative fair values from derivative hedging instruments	0	0	778	850	0	0

Transfers between levels

If the main parameters used in fair value measurement change, the classification in the fair value hierarchy is also adjusted. At the end of the reporting period, the necessary reclassifications between Levels I-III are carried out using quality criteria for the market data used in the valuation that are defined by risk controlling. Prompt availability, volume, executability and bid-offer spreads of the market data used play a particular role.

For financial instruments measured using models, Risk Controlling identifies the model parameters necessary for the fair value measurement. The models are subject to a regular validation process and the observability of the necessary model inputs is monitored in Risk Controlling's price review process. This allows those financial instruments to be identified that must be transferred between Levels II and III of the measurement hierarchy.

The following transfers were made between Levels I and II in the fair value hierarchy since the last reporting date:

Assets

	Reclassification from Level I to Level II		Reclassification from Level II to Level I	
EUR million	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income	222	1,937	2,120	2,865
Debentures and other fixed-income securities	222	1,937	2,120	2,865
Financial assets designated at fair value	0	0	20	0
Debentures and other fixed-income securities	0	0	20	0
Financial assets mandatorily measured at fair value through profit or loss	54	103	127	187
Trading assets	54	103	127	187
Equity instruments	0	34	0	27
Debentures and other fixed-income securities	54	68	127	160

Equity and liabilities

	Reclassification from Level I to Level II		Reclassification from Level II to Level I	
EUR million	30/06/2023	31/12/2022	30/06/2023	31/12/2022
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss	4	3	23	375
Trading liabilities	4	3	23	375
Delivery obligations from short sales of securities	4	3	23	375

In the first half of 2023, LBBW reclassified instruments from Level I to II of the fair value hierarchy as there were no longer quoted prices from active markets for the corresponding financial instruments. Instruments were also reclassified in the other direction as quoted prices from active markets became available again.

Development of Level III

The development of the portfolios of financial instruments measured at fair value, which were calculated using valuation models which include material non-observable parameters (Level III), is shown in the tables below. The unrealized gains/losses on Level III financial instruments are based on both observable and unobservable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

Assets

EUR million	Financial assets measured at fair value through other comprehensive income – Equity instruments	Financial assets mandatorily measured at fair value through profit or loss – Trading assets – Derivatives	Trading assets – Receivables	Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments – Equity instruments	– Debentures and other fixed-income securities	– Receivables	Total
Carrying amount as at 1 January 2023	*3*	*28*	*432*	*232*	*2*	*126*	*822*
Gains and losses recognized in net consolidated profit/loss	0	– 11	– 20	1	0	– 23	– 52
Net interest income and current net income from equity instruments	0	1	6	0	0	1	8
Net gains/losses from financial instruments measured at fair value through profit or loss	0	– 12	– 26	1	0	– 24	– 61
Additions through acquisitions	0	0	570	6	0	0	576
Repayments/offsetting	0	0	– 101	0	0	– 6	– 107
Reclassification to Level III	0	0	13	0	0	0	14
Reclassification from Level III	0	– 2	0	0	0	0	– 2
Carrying amount as at 30 June 2023	*3*	*15*	*895*	*238*	*2*	*97*	*1,250*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	– 11	– 25	1	0	– 23	– 59
Net interest income and current net income from equity instruments	0	1	1	0	0	0	2
Net gains/losses from financial instruments measured at fair value through profit or loss	0	– 12	– 26	1	0	– 24	– 61

EUR million	Financial assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss					Total
	Equity instruments	Trading assets		Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments			
		Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables	
Carrying amount as at 1 January 2022	*3*	*28*	*376*	*199*	*2*	*55*	*662*
Gains and losses recognized in net consolidated profit/loss	0	– 13	– 24	7	0	7	– 23
Net interest income and current net income from equity instruments	0	– 1	6	0	0	– 0	5
Net gains/losses from financial instruments measured at fair value through profit or loss	0	– 12	– 30	7	0	7	– 28
Additions through acquisitions	0	0	146	35	0	2	183
Disposals through sales	0	0	– 62	– 14	0	0	– 75
Repayments/offsetting	0	0	– 110	0	0	– 40	– 151
Changes in the scope of consolidation	0	0	107	4	0	102	213
Reclassification to Level III	0	12	0	0	0	0	12
Carrying amount as at 31 December 2022	*3*	*28*	*432*	*232*	*2*	*126*	*822*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	– 13	– 28	6	0	7	– 28
Net interest income and current net income from equity instruments	0	– 1	0	0	0	0	– 0
Net gains/losses from financial instruments measured at fair value through profit or loss	0	– 12	– 29	6	0	7	– 28

Equity and liabilities

EUR million	Financial liabilities designated at fair value – Securitized liabilities	Financial liabilities designated at fair value – Deposits	Financial liabilities mandatorily measured at fair value through profit or loss – Trading liabilities – Derivatives	Total
Carrying amount as at 1 January 2023	*81*	*25*	*115*	*221*
Gains and losses recognized in net consolidated profit/loss	– 10	0	– 31	– 41
Net interest income and current net income from equity instruments	– 1	– 0	2	1
Net gains/losses from financial instruments measured at fair value through profit or loss	– 9	0	– 33	– 41
Reclassification from Level III	0	0	– 2	– 2
Carrying amount as at 30 June 2023	*72*	*25*	*82*	*178*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 10	0	– 31	– 41
Net interest income and current net income from equity instruments	– 1	– 0	2	1
Net gains/losses from financial instruments measured at fair value through profit or loss	– 9	0	– 33	– 41

EUR million	Financial liabilities designated at fair value – Securitized liabilities	Financial liabilities designated at fair value – Deposits	Financial liabilities mandatorily measured at fair value through profit or loss – Trading liabilities – Derivatives	Total
Carrying amount as at 1 January 2022	*92*	*0*	*113*	*205*
Gains and losses recognized in net consolidated profit/loss	– 11	0	– 9	– 19
Net gains/losses from financial instruments measured at fair value through profit or loss	– 11	0	– 9	– 19
Reclassification to Level III	0	25	12	36
Reclassification from Level III	0	0	– 2	– 2
Carrying amount as at 31 December 2022	*81*	*25*	*115*	*221*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 11	0	– 9	– 19
Net gains/losses from financial instruments measured at fair value through profit or loss	– 11	0	– 9	– 19

As parameters observable on the market in the first half of the financial year were no longer available or these were now considered to have a material influence on fair value, LBBW made reclassifications from Level II to Level III. Offsetting this, parameters that were again observable were available on the market or the influence of non-observable parameters on fair value was considered immaterial, and so LBBW made reclassifications from Level III to II.

Sensitivity analysis Level III

If the model value of financial instruments is based on unobservable market parameters, alternative parameters are used to determine the potential estimation uncertainty. For most of the securities and derivatives classified as Level III only one non-observable parameter is included in the fair value calculation, preventing any interactions between Level III parameters. The overall sensitivity of the products whose fair value calculation includes more than one non-observable parameter is immaterial. A calculation of the interactions between these parameters has therefore been dispensed with.

For the investments classified as Level III, sensitivities are essentially calculated by shifting the individual beta factors up or down. If no beta factors are used in measurement, the sensitivities are calculated on the basis of the average percentage change in fair value. This is based on the upward/downward shift of the investments whose measurement is based on a beta factor.

The information is intended to show the potential effects of the relative uncertainty in the fair values of financial instruments, the measurement of which is based on unobservable parameters:

Assets

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	**30/06/2023**	**31/12/2022**	**30/06/2023**	**31/12/2022**
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	20.0	14.4	– 19.8	– 12.6
Trading assets	13.3	7.7	– 13.8	– 7.7
Derivatives	1.6	1.0	– 2.1	– 1.0
Receivables	11.7	6.7	– 11.7	– 6.7
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	6.7	6.7	– 5.9	– 5.0
Equity instruments	5.6	5.6	– 4.8	– 3.8
Receivables	1.1	1.1	– 1.1	– 1.1
Total	*20.0*	*14.4*	*– 19.8*	*– 12.6*

Equity and liabilities

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	**30/06/2023**	**31/12/2022**	**30/06/2023**	**31/12/2022**
Financial liabilities measured at fair value				
Financial liabilities designated at fair value	0.2	0.2	– 0.1	– 0.1
Securitized liabilities	0.2	0.2	– 0.1	– 0.1
Financial liabilities mandatorily measured at fair value through profit or loss	3.1	2.1	– 2.3	– 2.3
Trading liabilities	3.1	2.1	– 2.3	– 2.3
Derivatives	3.1	2.1	– 2.3	– 2.3
Total	*3.2*	*2.3*	*– 2.4*	*– 2.5*

Significant unobservable Level III parameters

The significant unobservable parameters of the financial instruments measured at fair value and classified as Level III are shown in the following tables.

The range shown below depicts the highs and lows in the non-observable parameters on which the valuations in the Level III category were based. As the financial instruments in question differ significantly, the range of certain parameters can be considerable.

The parameter shifts in the table depict the changes in the unobservable parameters that are tested in the sensitivity analysis. They thus provide information on the range of alternative parameters selected by LBBW for its calculation of fair value.

Assets

30/06/2023 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	54% – 100%	relative – 20%/+ 10%
	Option price models	Volatility	5% – 11%	relative – 25%/+ 25%
Receivables	Net present value method	Credit spread (bp)	52 – 501	relative – 10 – 30% /+ 10 – 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/ – 5%
Receivables	Net present value method	Credit spread (bp)	141 – 263	relative – 30%/+ 30%

31/12/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	n/a	n/a	n/a
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	– 82% – 100%	relative – 20%/+ 10%
Receivables	Net present value method	Credit spread (bp)	55 – 529	relative – 10 – 30% /+ 10 – 30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	Beta factor	1.00 – 1.17	relative + 5%/ – 5%
Receivables	Net present value method	Credit spread (bp)	138 – 256	relative – 30%/+ 30%

Equity and liabilities

30/06/2023 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – +100%	relative – 20%/+ 10%
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81% – +100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	52 – 96	relative – 30%/+ 30%
	Option price models	Volatility	5% – 11%	relative – 25%/+ 25%

31/12/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – 100%	relative – 20%/+ 10%
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 82% – 100%	relative – 20%/+ 10%
	TRS model	Discount curve (bp)	53 – 162	relative – 30%/+ 30%

Day One Profit or Loss

The use of unobservable parameters for the measurement of financial instruments can lead to differences between the transaction price and the fair value. This deviation is referred to as day one profit or loss, which is distributed throughout the term of the financial instrument through profit or loss.

Credit spreads and correlations between interest rates and default risks of different asset classes are not consistently observable on the market or cannot be derived from prices observed on the market. Market participants can have different opinions on the characteristics of the unobservable parameters used in these models, hence the transaction price can deviate from what LBBW considers to be the fair value.

LBBW recognizes day one profits for trading portfolios of interest rate-linked derivatives.

The table below shows the changes in day one profits for the first half of the 2023 financial year as against the end of 2022, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	**2023**	**2022**
Balance as at 1 January	*0*	*1*
Income recognized in the income statement in the reporting period (reversals)	– 0	– 0
Balance as at 30 June/31 December	*0*	*0*

F. Other

29. Non-current assets and disposal groups held for sale

In the course of the constant optimization of its portfolio, LBBW held or concluded negotiations for the sale of non-current assets held for sale and disposal groups in the period under review.

Compared with the previous year, the following changes arose in relation to the non-current assets and disposal groups classified as held for sale:

- One investment property was sold in the first half of 2023. This affects the “Corporate Items” segment.
- Sales negotiations were conducted for one property reported as property and equipment. The contract has been signed for this property. This affects the “Corporate Items” segment.
- In addition, sales negotiations were conducted for two assets held as investment property. The contract has been signed for both properties. This affects the “Corporate Items” and “Real Estate/Project Finance” segments.

The main groups of assets and liabilities held for sale were as follows:

EUR million	30/06/2023	31/12/2022
Assets		
Investment property	15	1
Property and equipment	10	0
Total	*25*	*1*

As for the line item, investment property held for sale is measured on the basis of externally unobservable parameters (Level III). Corresponding statements on financial instruments and investment property (see Notes 28 and 31) also apply.

The development of investment property held for sale, which was calculated using valuation models which include material non-observable parameters (Level III), is shown in the table below:

EUR million	2023	2022
Carrying amount as at 1 January	*1*	*0*
Disposals through sales	– 1	– 16
Transfers in accordance with IFRS 5	15	17
Carrying amount as at 30 June/31 December	*15*	*1*

30. Intangible assets

EUR million	30/06/2023	31/12/2022
Purchased software	91	81
Goodwill	10	10
Advance payments and cost for development and preparation	49	47
Internally generated intangible assets	17	23
Other purchased intangible assets	44	49
Total	*211*	*209*

The goodwill of EUR 10 million relates to Acteum Investment GmbH, which was acquired in the previous year.

31. Investment property

Property leased to third parties for the purposes of generating profit is reported separately in the balance sheet as “Investment property” according to IAS 40 as long as it is held to earn rental income or for capital appreciation. Where mixed-use properties exist and the non-owner-occupied parts can be sold separately or leased out separately, these parts are accounted for separately. Mixed-use properties with a leased portion of over 80 % of the total area are classified in their entirety as “Investment property”.

Investment property is measured initially at cost including transaction costs. Remeasurement is at fair value on the closing date. This is primarily determined from model-based valuations. Regular actuarial reports are obtained for material investment properties to validate the fair value from the model-based valuations.

In the measurement of investment property, the estimating uncertainties are based on the assumptions used to calculate future cash flows. Changes in parameters such as the inflation rate, interest rate, anticipated cost trends and leasing, market conditions and vacancy rates affect future cash flows and, consequently, the fair value.

The value of investment property is assessed based on cash calculated per property on the basis of the discounted cash flow method. The contributions to earnings determined by this method are checked for plausibility and verified by means of reference figures from broker associations, past experience from LBBW's own disposals and appraisals by external experts. In order to ensure that the appraisals are available at the time the financial statements are drawn up, the management team responsible decides for which properties external appraisals are to be commissioned in the second half of the year. In line with internal provisions, it must be ensured that an appraisal of the main properties is conducted at least once every three years by an independent expert.

Fair value is calculated using the discounted cash flow method based on the following assumptions. As a valuation object, the respective building serves as an independent, strategic cash-generating unit. The expected cash flows generated per cash-generating unit are calculated assuming income from property management. For a detailed planning period of ten years, the cash generated is calculated as the net amount of payments received and payments made in connection with management of the property. A residual value for the cash-generating unit is forecast for the end of the planning period by capitalizing the cash generated in the tenth year as a perpetual annuity.

The following table illustrates the changes in carrying amounts:

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2023	*765*	*27*	*791*
Additions	0	1	1
Reclassification to non-current assets held for sale or disposal groups	– 15	0	– 15
Currency translation differences	– 3	– 1	– 4
Changes in fair value from assets (through profit or loss)	3	– 1	2
Carrying amount 30 June 2023	*750*	*26*	*776*

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2022	*778*	*27*	*805*
Disposals	– 1	0	– 1
Reclassification to non-current assets held for sale or disposal groups	– 17	0	– 17
Currency translation differences	6	1	8
Changes in fair value from assets (through profit or loss)	– 3	– 2	– 5
Carrying amount as at 31 December 2022	*765*	*27*	*791*

Investment property is measured on the basis of externally unobservable parameters (Level III). Corresponding statements on financial instruments (see Note 28) also apply.

The development of investment property measured at fair value, which was calculated using valuation models which include material non-observable parameters (Level III), is shown in the table below:

EUR million	2023	2022
Carrying amount as at 1 January	*791*	*805*
Gains and losses recognized in net consolidated profit/loss	– 3	– 7
Other earnings items	– 3	– 7
Additions through acquisitions	1	0
Disposals through sales	0	– 1
Other changes	1	10
Transfers in accordance with IFRS 5	– 15	– 17
Carrying amount as at 30 June/31 December	*776*	*791*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 3	– 7
Other earnings items	– 3	– 7

The tables below show the significant unobservable parameters of the investment property.

30/06/2023 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50 %	n/a
		Discount rate	1.60 % – 10.90 %	
		Risk of loss of rent	0.7% – 5.00 %	
		Basic maintenance costs	0.00 – 24.20 EUR/m^2	
		Administration costs (% of target rent)	1.00 % – 6.50 %	

31/12/2022 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Investment property	Discounted cash flow method	Rent dynamization/indexing	1.50 %	n/a
		Discount rate	1.60 % – 11.50 %	
		Risk of loss of rent	2.00 % – 5.00 %	
		Basic maintenance costs	0.00 – 19.00 EUR/m^2	
		Administration costs (% of target rent)	0.10 % – 2.60 %	

32. Property and equipment

Amortization and write-downs (both scheduled and unscheduled) are recognized under the “Depreciation and write-downs of property and equipment” item in “Administrative expenses”. Reversals of impairment losses and gains and losses on the disposal of property and equipment are recorded under “Other operating income/expenses”.

EUR million	30/06/2023	31/12/2022
Land and buildings	319	340
Leased assets under operating leases	158	163
Operating and office equipment	103	101
Technical equipment and machinery	8	8
Rights-of-use from leases	179	182
Advance payments and assets under construction	33	20
Total	*798*	*813*

33. Income taxes

Income tax assets

EUR million	30/06/2023	31/12/2022
Current income tax assets	41	71
Domestic	28	55
Abroad	13	16
Deferred income tax assets	956	967
Total	*996*	*1,038*

Income tax liabilities

EUR million	30/06/2023	31/12/2022
Current income tax liabilities	170	190
Deferred income tax liabilities	22	22
Total	*191*	*212*

34. Other assets and other liabilities

Other assets

EUR million	30/06/2023	31/12/2022
Inventories	499	420
Receivables from tax authorities	92	37
Other miscellaneous assets	4,145	3,824
Total	*4,736*	*4,281*

Other liabilities

EUR million	30/06/2023	31/12/2022
Liabilities from		
Other taxes	258	44
Employment	12	12
Trade payables	76	75
Non-controlling interests	8	11
Leasing	219	225
Advances received	64	54
Other miscellaneous liabilities	2,109	2,373
Total	*2,746*	*2,794*

The increase in miscellaneous other assets was essentially as a result of the development in connection with intangible assets. Miscellaneous other assets and equity and liabilities mainly included initial and other margins.

35. Provisions

EUR million	30/06/2023	31/12/2022
Provisions for pensions	905	870
Provisions for litigation and recourse risk	186	192
Provisions for lending business	292	327
Other personnel-related provisions	151	190
Other provisions	290	245
Total	*1,825*	*1,825*

The following table shows the development of provisions in lending business:

EUR million	Stage 1	Stage 2	Stage 3 Impairment after recognition	Total
Balance as at 1 January 2023	*187*	*62*	*77*	*327*
Changes	– 33	10	2	– 21
Transfer to Stage 1	5	– 5	0	0
Transfer to Stage 2	– 8	8	– 0	– 0
Transfer to Stage 3	– 1	– 0	1	0
Additions	2	19	22	43
Reversals	– 31	– 12	– 20	– 64
Additions	4	1	5	9
Disposals	– 2	– 1	– 20	– 22
Balance as at 30 June 2023	*155*	*73*	*64*	*292*

36. Equity

EUR million	30/06/2023	31/12/2022
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	2,906	1,665
Other comprehensive income	– 234	– 237
Net consolidated profit/loss	488	1,517
Shareholders' equity	*14,884*	*14,669*
Additional equity components	745	745
Equity attributable to non-controlling interests	30	28
Total	*15,658*	*15,442*

Retained earnings included cumulative actuarial gains/losses after tax of EUR – 785 million (previous year: EUR – 780 million). Profit and loss carryforwards from prior periods are also recognized under “Retained earnings”.

As at the end of the current reporting period, a measurement effect after deferred taxes of 51 million (previous year: EUR 40 million) in connection with the measurement of LBBW’s own credit rating was included in “Other comprehensive income”.

Equity includes taxes recognized in other comprehensive income of EUR 367 million (previous year: EUR 364 million).

The detailed development of the individual components of the Equity item is shown in statement of changes in equity.

37. Equity and total amount at risk

The following table shows the structure of the LBBW Group’s own funds and the total amount of risk under current supervisory law (phase-in) as at 30 June 2023:

EUR million	30/06/2023	31/12/2022
Own funds	*18,628*	*18,754*
Tier 1 capital	14,239	14,272
of which common equity Tier 1 capital (CET 1)	13,496	13,528
of which additional Tier 1 capital (AT 1)	744	744
Supplementary capital (Tier 2)	4,388	4,482
Total amount at risk	93,643	93,157
Total capital ratio (in %)	19.9	20.1
Tier 1 capital ratio (in %)	15.2	15.3
Common equity Tier 1 (CET 1) capital ratio (in %)	14.4	14.5

The common equity Tier I (CET 1) of the LBBW Group is virtually unchanged as against the end of the previous year. This is essentially because a majority of the net retained profits for 2022 were already taken into account. This was countered by the change in the transitional provisions for IFRS 9. The decline in supplementary capital (Tier 2) results in particular from the repayment of a bond of USD 300 million, as well as the daily reduction and the performance of the euro relative to USD and AUD.

The total risk amount is also virtually unchanged as against the end of the previous year on account of mutually compensatory effects. These essentially result from business performance and rating improvements. Within market price risks calculated according to the internal model, the regulatory adjustment was reduced as a result of the discontinuation of the regulatory mark-up. This factor arose due to repeated backtesting outliers in the market risk model in conjunction with the Ukraine crisis, which are now no longer included in the one-year history.

LBBW publishes further information in accordance with Article 435 et seqq. CRR, including on own funds and own funds requirements under Article 437 and 438 CRR, in its Disclosure report pursuant to Section 26a of the German Banking Act (Kreditwesengesetz – KWG). The Disclosure report is updated each quarter and can be found on LBBW's website under "Disclosure report".

38. Off-balance-sheet transactions

Contingent liabilities

EUR million	30/06/2023	31/12/2022
Sureties and guarantee agreements	9,656	9,549
Other contingent liabilities	263	230
Total	*9,919*	*9,779*

Contingent liabilities predominantly comprise sureties and guarantee agreements:

- In accordance with Section 765(1) of the German Civil Code (BGB), a surety is a contractual obligation by the guarantor to the creditor of a third party to be responsible for the third party's obligation.
- Guarantee agreements are all contractual commitments that do not qualify as a surety and that concern the responsibility for a certain success or performance or for the non-occurrence of a certain disadvantage or damage.
- A documentary letter of credit is a promise given by a bank to make payment on presentation of specific documents.

This does not include financial guarantees.

In the event of objective indications of impairment, any loss is to be calculated using probability-weighted scenarios. The amount of the provision is determined by the present-value amount at which the Bank expects the beneficiary under a guarantee to make a claim against it, minus expected inflows e.g. from rights (rights of recourse, securities etc.). It is recognized under "Provisions for lending business".

In addition to (legal) risks, other contingent liabilities also include payment obligations towards the restructuring fund (bank levy) payable in part or in full on first demand in the event of resolution measures and for which cash collateral has been provided.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which became effective on 3 July 2015, governs the future financial resources of statutory and bank-related guarantee systems, including the bank-related guarantee system of the Sparkassen-Finanzgruppe. LBBW makes an irrevocable commitment to the owner of the bank-related guarantee system, German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV), to make further payments on first demand e. g. in the compensation case pursuant to Section 10 EinSiG, in addition to the annual contribution. Other contingent liabilities include collateral provided in this context.

39. Related party disclosures

The LBBW Group performs related party transactions in the ordinary course of business. The extent of these transactions is shown in the table below:

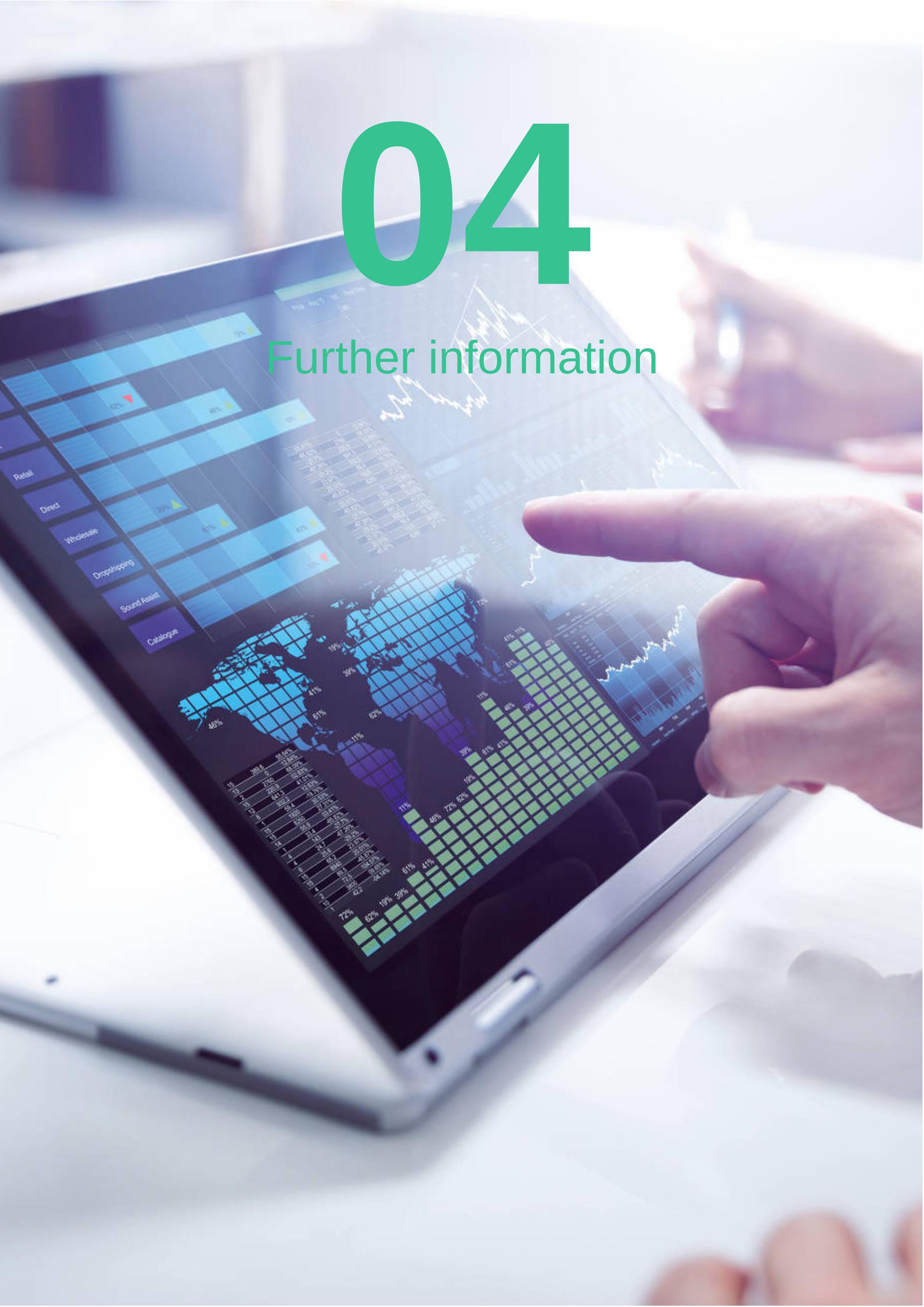
30/06/2023 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	603	4	0	58	2	835
Financial assets measured at fair value through other comprehensive income	382	0	23	157	0	0
Financial assets designated at fair value	19	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	589	0	23	185	0	237
Total assets	*1,593*	*4*	*46*	*400*	*2*	*1,072*
Financial liabilities measured at amortized cost	2,633	10	30	175	3	13,769
Financial liabilities mandatorily measured at fair value through profit or loss	117	0	0	33	0	148
Provisions	0	0	0	0	3	0
Other liabilities	0	0	0	28	0	0
Total equity and liabilities	*2,750*	*10*	*31*	*236*	*5*	*13,917*
Off-balance-sheet transactions	316	0	4	78	3	1,519

31/12/2022 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	529	4	1	60	1	847
Financial assets measured at fair value through other comprehensive income	517	0	23	175	0	0
Financial assets designated at fair value	18	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	469	0	23	186	0	226
Total assets	*1,532*	*4*	*46*	*422*	*1*	*1,074*
Financial liabilities measured at amortized cost	522	7	32	161	6	14,246
Financial liabilities mandatorily measured at fair value through profit or loss	119	0	0	37	0	212
Provisions	0	0	0	0	3	0
Other liabilities	0	0	0	33	0	0
Total equity and liabilities	*641*	*7*	*33*	*230*	*9*	*14,459*
Off-balance-sheet transactions	330	1	10	72	3	1,355

Related party transactions resulted in material income and expenses in net interest income of EUR – 150 million (previous year: EUR 158 million)

04

Further information



Responsibility statement

To the best of our knowledge, and in accordance with the applicable framework for half-yearly financial reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected future development of the Group in the remainder of the financial year.

Stuttgart, Karlsruhe, Mannheim and Mainz, 9 August 2023

The Board of Managing Directors

RAINER NESKE

Chairman

ANASTASIOS AGATHAGELIDIS

ANDREAS GÖTZ

KARL MANFRED LOCHNER

STEFANIE MÜNZ

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

Review report

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany

We have reviewed the condensed interim consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, which comprise the statement of financial position as at 30 June 2023, the income statement and the statement of comprehensive income, the condensed cash flow statement, the statement of changes in equity as well as selected explanatory notes to the consolidated interim financial statements, and the interim group management report for the period from 1 January to 30 June 2023, that are part of the half-year financial report under Section 115 German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the executive directors of the Company. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and of the interim group management report in compliance with the German Generally Accepted Standards for Reviews of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance to preclude through critical evaluation that the interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and to analytical procedures applied to financial data and thus provides less assurance than an audit. Since, in accordance with our engagement, we have not performed an audit, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart/Germany, 11 August 2023

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

Signed:	Signed:
Herbert Apweiler Wirtschaftsprüfer	Stefan Trenzinger Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Note regarding forward-looking statements

This half-yearly financial report contains forward-looking statements. Forward-looking statements are identified by the use of words such as “expect”, “intend”, “anticipate”, “plan”, “believe”, “assume”, “aim”, “estimate”, “will”, “shall”, “forecast” and similar expressions. These statements are based on the current estimates and forecasts by the Board of Managing Directors and on currently available information. Forward-looking statements are not deemed to be guarantees of the future developments and results set out therein and involve a number of risks and uncertainties. If any of these or other risks or uncertainties occur, or if the assumptions underlying any of these statements prove incorrect, the actual results may differ materially from those expressed or implied by such statements.

LBBW assumes no obligation to continuously update any forward-looking statements, as these are based solely on the circumstances valid on the day of publication.

Breaking new ground

Landesbank Baden-Württemberg
www.LBBW.de
kontakt@LBBW.de

Headquarters

Stuttgart
Am Hauptbahnhof 2
70173 Stuttgart, Germany
Phone + 49 (0) 711 127-0

Karlsruhe
Ludwig-Erhard-Allee 4
76131 Karlsruhe, Germany
Phone + 49 (0) 721 142-0

Mannheim
Augustaanlage 33
68165 Mannheim, Germany
Phone + 49 (0) 621 428-0

Mainz
Rheinallee 86
55120 Mainz, Germany
Phone + 49 (0) 6131 64-0