The oak. Its slow growth leads to the particular density and strength of its wood.

Grown stability.
Half-yearly financial report 2017.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[1]
Net interest income	797	814
Allowances for losses on loans and advances	– 40	– 1
Net fee and commission income	270	259
Net gains/losses from financial instruments measured at fair value through profit or loss	130	– 41
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	101	191
Other operating income/expenses	56	51
Total operating income/expenses (after allowances for losses on loans and advances)	**1 313**	**1 273**
Administrative expenses	– 897	– 882
Guarantee commission for the State of Baden-Württemberg	– 38	– 51
Expenses for bank levy and deposit guarantee system	– 69	– 77
Net income/expenses from restructuring	– 30	– 5
Consolidated profit/loss before tax	**279**	**258**
Income taxes	– 77	– 70
Net consolidated profit/loss	**201**	**188**
Key figures in %	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Return on equity (RoE)	4.4	4.0
Cost/income ratio (CIR)	71.6	81.5
Balance sheet figures (EUR billion)	30 June 2017	31 Dec. 2016
Total assets	255.0	243.6
Equity	13.2	13.1
Ratios in accordance with CRR/CRD IV (with transitional rules)	30 June 2017	31 Dec. 2016
Risk weighted assets (EUR billion)	75.9	77.4
Common equity Tier 1 (CET 1) capital ratio (in %)	15.9	15.5
Total capital ratio (in %)	22.8	21.7
Ratios in accordance with CRR/CRD IV (after full implementation)	30 June 2017	31 Dec. 2016
Risk weighted assets (EUR billion)	75.9	77.4
Common equity Tier 1 (CET 1) capital ratio (in %)	15.8	15.2
Total capital ratio (in %)	22.6	21.5
Employees	30 June 2017	31 Dec. 2016
Group	10 548	10 839

Rating (4 August 2017).

Rating	Moody's Investors Service
Long-term rating (non-guaranteed obligations)	
Long-term bank deposits	Aa3, stable
Senior unsecured and long-term issuer ratings	A1, stable
Short-term rating	P–1
Financial strength	baa3
Public-sector covered bonds	Aaa
Mortgage-backed covered bonds	Aaa

Rating	Fitch Ratings
Long-term rating (non-guaranteed obligations)	A–, stable
Short-term rating	F1
Financial strength	bbb+
Public-sector covered bonds	-
Mortgage-backed covered bonds	-

1) After taking into account adjustments in accordance with IAS 8.
Differences are due to rounding.

2017

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Foreword by the Board of Managing Directors.

Dear Readers,

The first half of 2017 was a success for LBBW. At EUR 279 million, consolidated profit before tax was up EUR 21 million over the same period of the previous year. Our positive business development reflects the trust our customers place in the stability and performance capacity of LBBW. Profit before tax in the three operating segments combined came to EUR 463 million (EUR 66 million above the previous year). The Corporates and Retail/Savings Banks segments recorded solid results against the backdrop of the challenging market environment. The performance of the customer-oriented Capital Markets Business was highly gratifying.

Besides further developing our customer business, we are pushing ahead with the modernization of our technical platform. An important step here was the introduction of the new core banking system OSPlus over the Easter weekend. As part of this operation, we successfully migrated large quantities of data and updated BW-Bank's website. At the same time, the system change allowed us to create the prerequisites for further digitalization of our processes.

An example of our innovative strength is the successful placement of a promissory note loan (Schuldschein) using blockchain technology, which we carried out jointly with Daimler in June. LBBW, which has been the leader in the market for promissory note loans for quite some time now, is thus playing a pioneering role in the industry. We will continue to drive the issue of blockchain vigorously forward, as we recognize the considerable potential it offers our customers in the area of financial services.

We also strengthened our capital base, which is already very comfortable. We placed subordinated issues denominated in SGD and AUD for the first time in the past few months, both of which were heavily oversubscribed, therefore proving LBBW's strong international reputation.

To address the opportunities and challenges we face in the coming years, we laid down four main strategic thrusts: business focus, digitalization, sustainability and agility. Business focus, because we want to achieve profitable growth in our core business areas. Digitalization, because one of the Bank's core tasks is to modernize customer interfaces and speed up internal processes using new technologies. Sustainability, because we want to create long-term value for our customers and shareholders, while at the same time living up to our social responsibilities in all of our business activities. And finally, agility, because we have to become faster, more willing to adapt and more flexible, especially in our dealings with our customers.

We can build on the existing strengths of the Bank in relation to all of these topics. Our role is that of a »medium-sized universal bank«: we offer a broad product portfolio and a very compact structure that allows us to make decisions flexibly, quickly and in a very customer-oriented manner, compared with many of our competitors. At the same time, we have the advantages of a big bank with regard to our total assets and ability to create economies of scale.

Our excellent capital base provides us not least with sufficient scope for profitable growth – in our traditional markets and beyond. Our measured risk policy is and remains a key component of our business strategy and is fundamental to all our ambitious goals.

We would like to take this opportunity to express our thanks to all our customers and business partners for a partnership that is based on trust, and look forward to continuing to work with you in the future.

Yours sincerely,

The Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Interim Group Management Report.

Business report for the Group.

Economic performance in the first half of 2017.

Economic development in Germany was on an upward trajectory in the first half of 2017. First quarter GDP increased by 0.6 % compared with the previous quarter, while economic output rose by 1.7 % over the same period of the previous year. This positive development continued throughout the rest of the first half-year. The ifo Institute's business climate index, for example, climbed to 116.0 points up to July, thus reaching its highest level since its first computation for the whole of Germany. A similar development was recorded in the euro area, where GDP increased by 0.5 % in the first quarter and by 0.6 % quarter-on-quarter in the second. Inflation eased in the period under review. Consumer prices in Germany, which had increased by 2.2 % in February, had fallen to 1.5 % in June. The respective values in the euro area were 0.2 percentage points lower. Economic output in the US recorded a quarter-on-quarter increase of 0.3 % in the first quarter. The growth rate in the second quarter was 0.6 %.

Political risks hardly impacted on economic development in the euro area and the US during the period under review. The political measures planned by the new US administration under President Trump, who took up office on 20 January, have not led to any negative repercussions to date. The forthcoming Brexit has not had any widespread effects yet either. The UK notified the Council of the European Union on 29 March of its intention to leave the EU under Article 50 of the Treaty on European Union. The final exit will happen two years after this date. Until then, the UK and the EU will continue to negotiate the terms. There is no evidence in the UK or in the EU of the economic collapse that was previously feared.

The European Central Bank's (ECB) monetary policy accounted only marginally for the improved overall conditions. Key rates remained unchanged in the first half-year. The ECB only removed the interest rate easing bias from the central bank's statement made at the Governing Council's meeting in June. The main refinancing rate is 0.0 %, while the deposit rate at which commercial banks are able to invest liquidity with the ECB stands at – 0.40 %. The ECB reduced the volume of its monthly purchase program from EUR 80 billion to EUR 60 billion as of April. However, with maturities from the program that has been in operation since March 2015 being invested elsewhere, the ECB continues to buy a similar volume of securities as before. The US Federal Reserve raised its key rates twice by 25 basis points each time in the first half of the year, most recently from 1.0 % to 1.25 %. It also announced a gradual trimming of its balance sheet. Its total assets at the end of June 2017 amounted to USD 4 510 billion, of which USD 2 465 billion were US treasuries and USD 1 770 billion mortgage-backed securities.

10-year Bund yields ranged between 0.17 % and 0.50 %. 2-year remaining terms to maturity featured negative yields throughout. 10-year Bunds yielded 0.47 % at the end of June 2017, while 2-year Bund yields were – 0.61 %.

Records were achieved on the equity markets. The DAX closed out the end of 2016 at 11 481 points. Supported by good company reports, corresponding economic figures and an enduring expansionary monetary policy, the German equity index DAX traded at a record high (daily closing price) of 12 889 points on 19 June, before drifting down to 12 325 points in the trading days that followed up to the end of the quarter. The Dow Jones Industrials, the benchmark index for the US stock markets, started the year at 19 762 points and closed the first half at 21 349 points, only marginally lower than the interim high of 21 528 points.

On the foreign exchange market, the euro gained ground against the US dollar. One EUR cost USD 1.05 at the start of the year and USD 1.14 at mid-year. Among other things, the euro benefited from political risks for the euro area being averted when the pro-European candidates succeeded in asserting themselves against the euro-sceptic representatives in the general election in the Netherlands and the presidential election in France.

Business performance of the LBBW Group in the first half of 2017. Results of operations, net assets and financial position.

Successful first half-year with improved profit before tax, accompanied by better capital ratios and a moderate growth in volume.

The underlying conditions for the German banking industry remain difficult. Low key rates remained unchanged in the first half-year, therefore putting greater pressure on the banks' results of operations. Consistently intense competition accompanied by even greater regulatory challenges and high pressure to invest in digitalization are the hallmarks of a major upheaval in the industry. It is still impossible to reliably assess the impact that Brexit may have on economic development in Europe and on the banking landscape. Nonetheless, on the basis of a robust economic situation, particularly in the core markets, LBBW is looking to the future with confidence. As part of a strategic initiative, LBBW defined four main thrusts in early 2017: business focus, digitalization, sustainability and agility, which are currently the focal points of the change within the Group. These have already been implemented through, among other things, investment in a modern IT infrastructure, for example by extending the range of digital offerings and with the successful implementation of a new core banking system in April. At the same time, efforts were stepped up to grow in a risk-oriented manner following years of reducing the balance sheet, as well as enhancing cost discipline and the customer and solution-based approach. All activities are aimed at following a long-term strategy and making a sustained contribution to value.

Consolidated profit before tax improved slightly by EUR 21 million to EUR 279 million after the first six month of the year under review (previous year: EUR 258 million). This significantly exceeded the forecast with nearly all income items contributing to the result. Net gains/losses from financial investments were considerably higher, benefiting from the sale of securities and equity investments, even though these were down significantly from the previous year's level. Net fee and commission income, in which nearly all commission types were increased, was moderately better than planned. Net interest income was marginally higher than the budgeted figure. However, adjusted for a change in reporting, it fell only slightly short of expectations. On the other hand, the change in reporting represented an encumbrance to net trading gains/losses. Without taking this effect into account, net gains/losses from financial instruments measured at fair value would have been fully in line with the budget. Allowances for losses on loans and advances were substantially lower than planned, thanks to the good quality of LBBW's loan portfolio together with continued stable economic conditions in Germany. Administrative expenses also undershot expectations across nearly all types of expenses in the first half of the year. IT expenses were the only area to exceed the pro rata budget, due to the modernization of the technical platform. Net income/expenses from restructuring, however, was higher than expected due to conversion measures that commenced ahead of schedule.

Because of profit before tax that was up on the previous year and due to largely unchanged administrative expenses, the **cost/income ratio (CIR)** improved by 9.9 percentage points as at 30 June 2017 to 71.6% (previous year: 81.5%).The ratio was therefore slightly higher than forecast, mainly due to lower than forecast administrative expenses. LBBW calculates the cost/income ratio (CIR) on the basis of the ratio of administrative expenses to total net interest income, net fee and commission income, net gains/losses from financial instruments measured at fair value through profit or loss and other operating income/ expenses. The **return on equity (RoE)** improved to 4.4% (previous year: 4.0%) and was therefore well up on the forecast. RoE as a performance indicator is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet. Adjusted for the effects on earnings reported directly in equity.

Total assets increased slightly by EUR 11.4 billion over year-end 2016 to EUR 255.0 billion, thus exceeding the forecast by an insignificant amount. The increase in total assets was primarily due to a higher volume of cash held with central banks and banks. As well as this, there was a moderate increase in loans and advances to customers.

LBBW's **leverage ratio** of 4.3% (fully loaded in accordance with CRR/CRD IV) fell marginally by 0.3 percentage points as at the reporting date, thus remaining well above the current regulatory minimum of 3.0%.

As at the reporting date of 30 June 2017, LBBW's **minimum liquidity coverage ratio (LCR)** under the Commission Delegated Regulation (EU) 2015/61 pertaining to liquidity coverage ratios stood at 152.9%, which represents an improvement of 42.5 percentage points over the end of 2016 (previous year 110.4%). Accordingly, the statutory minimum for 2017 of 80% was significantly exceeded.

Risk weighted assets fell slightly by EUR 1.5 billion in the period under review to EUR 75.9 billion (previous year: EUR 77.4 billion). This is primarily due to changes within »Other assets«.

The LBBW Group's **capital ratios** as at the reporting date remained well in excess of the regulatory capital requirements (CRR/CRD IV fully loaded). Specifically, the **common equity Tier 1 capital ratio** came to 15.8% (31 December 2016: 15.2%) and the **total capital ratio** to 22.6% (31 December 2016: 21.5%). The ECB informed LBBW in November 2016 that it is required to maintain a common equity Tier 1 capital ratio of 8.09% as of 1 January 2017. The common equity Tier 1 capital to be held as a capital conservation buffer in accordance with Section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with Section 10g KWG for other systemically important financial institutions, as well as the common equity Tier 1 capital to be held as a countercyclical capital buffer for a marginal amount of foreign credit exposure in accordance with Section 10d KWG, is included in this ratio. The ECB has also declared a capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital. The ratio is reviewed regularly by the ECB, the next time being the second half of 2017.

The LBBW Group's risk-bearing capacity is likewise at a comfortable level. Utilization of **aggregate risk cover (ARC)** stood at 40.5% as at the reporting date and was thus down slightly from the figure at the end of 2016.

All in all, the LBBW Group's central performance indicators improved in the first half of the year.

Results of operations.

With profit before tax of EUR 279 million in the first half of the 2017 financial year, LBBW exceeded the previous year's figure by EUR 21 million. The LBBW Group's income statement is shown in condensed form below (reference should be made to the notes for details of the figures for the individual segments):

	1 Jan. 2017 – 30 June 2017 EUR million	1 Jan. 2016 – 30 June 2016[1] EUR million	Change EUR million	Change in %
Net interest income	797	814	– 17	– 2.1
Allowances for losses on loans and advances	– 40	– 1	– 39	> 100
Net fee and commission income	270	259	10	3.9
Net gains/losses from financial instruments measured at fair value through profit or loss[2]	130	– 41	171	-
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	101	191	– 90	– 47.2
Other operating income/expenses[3]	56	51	5	9.5
Total operating income/expenses (after allowances for losses on loans and advances)	**1 313**	**1 273**	**40**	**3.2**
Administrative expenses	– 897	– 882	– 15	1.7
Guarantee commission for the State of Baden-Württemberg	– 38	– 51	13	– 25.4
Expenses for bank levy and deposit guarantee system	– 69	– 77	7	– 9.6
Net income/expenses from restructuring	– 30	– 5	– 25	> 100
Consolidated profit/loss before tax	**279**	**258**	**21**	**8.0**
Income taxes	– 77	– 70	– 8	11.0
Net consolidated profit/loss	**201**	**188**	**13**	**6.9**

Rounding differences may occur.
1) Restatement of prior year amounts (see Note 2).
2) In addition to net trading gains/losses in the narrow sense, this item also includes net gains/losses from financial instruments designated at fair value and net gains/losses from hedge accounting.
3) Net income/expenses from investment property is shown as part of other operating income/expenses.

At EUR 797 million, **net interest income** was roughly in line with the previous year's figure (EUR 814 million), despite interest rates remaining at a historical low. Although the ECB's enduring expansive monetary policy with sometimes negative interest rates had an adverse effect on the contribution to earnings in the deposit-taking business with customers and LBBW's own funds investments, better results were achieved in the business with real estate and wealth management customers, in particular. Accounting effects, e.g. in connection with the mapping of hedge accounting, hardly impacted on net interest income in the first half of 2017. The high level of competition within the banking industry continued to have a burdening effect, which LBBW addressed as part of a measured risk policy.

Compared to the previous year net expenses from **allowances for losses on loans and advances** were up to EUR – 40 million. Compared with the extremely low figure of EUR – 1 million in the same period of the previous year. Notwithstanding the higher net expense, allowances for losses on loans and advances remained below the long-term average, therefore reflecting the good portfolio quality and the good economic situation in LBBW's core markets.

Net fee and commission income in the first half of 2017 improved moderately by EUR 10 million to EUR 270 million (previous year: EUR 259 million), with increases reported in almost all commission types. Commission from the brokerage and the payments business in particular performed well. Only the commission from the securities business declined marginally.

Net gains/losses from financial instruments measured at fair value through profit or loss posted an exceptional increase of EUR 171 million to EUR 130 million. This was primarily attributable in particular to lower charges from derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting. After charges in the previous year, the actual result from hedge accounting also made a positive contribution to earnings. Lower measurement discounts for counterparty risks also led to higher earnings in the trading book.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method declined by EUR 90 million to EUR 101 million. Net gains/losses from securities also fell considerably to EUR 52 million. At EUR 38 million, net income/expenses from equity investments were also down significantly from the previous year's figure, which benefited from inter alia the completion of the sale of cellent AG at the start of 2016. Furthermore, there was no repeat of the positive contributions from subsequent purchase price adjustments. Net income/expenses from investments accounted for using the equity method declined only moderately to EUR 10 million.

Other operating income rose slightly by EUR 5 million to EUR 56 million. Opposing effects were observed here. Whereby net income/expenses from the disposal of investment property increased by EUR 8 million to EUR 17 million, additions totaling EUR 13 million net had to be made to provisions after additions of EUR 3 million net the year before. Net gains/losses from investment property performed well, which improved to EUR 23 million particularly as a result of slight adjustments of EUR 2 million to the fair value.

Despite extensive investments to ensure LBBW's continued viability, **administrative expenses** climbed by a marginal EUR – 15 million only over the same period of the previous year to EUR – 897 million (previous year: EUR – 882 million). Reflecting the reduction in the number of employees, staff costs fell by EUR 10 million to EUR – 507 million (previous year: EUR – 517 million) despite opposing effects from pay-scale adjustments. In contrast, activities surrounding the upgrading of the IT architecture with the rollout of the new core banking system in April and further investment in greater digitalization resulted in a EUR – 21 million increase on other administrative expenses. Depreciation of property and equipment and intangible assets came to EUR – 48 million (previous year: EUR – 45 million). The slight increase was attributable to higher depreciation of intangible assets, which were offset by lower depreciation of property and equipment.

Expenses for the bank levy and deposit guarantee system fell by EUR 7 million to EUR – 69 million compared with the previous year. Reported expenses for the bank levy refer to the full calendar year and are based on the notification already received from the FMSA. As no notification has yet been received for the DSGV deposit guarantee system, the expected amount based on the full-year figure for 2016 was recognized in full through profit and loss.

Net income/expenses from restructuring amounted to EUR – 30 million arose in the first half of 2017 (previous year: EUR – 5 million) in connection with the planned restructuring undertakings. The amount was accounted for almost entirely by the creation of provisions for measures planned as a consequence of streamlining the business processes and product range.

Under the guarantee shield of the State of Baden-Württemberg, LBBW continues to finance the special purpose entity Sealink, which is not required to be consolidated within the Group. The State of Baden-Württemberg still offers a guarantee for certain loans to this special-purpose entity, for which a **guarantee commission** of EUR – 38 million was paid in the first half of 2017. The commission fell by EUR 13 million year on year in line with the continuing drop in the volume of lending to Sealink in 2017.

At EUR 279 million, **consolidated profit before tax** exceeded the previous year's figure by EUR 21 million. The **income tax expense** rose to EUR – 77 million (previous year: EUR – 70 million), so that on balance, **net consolidated profit** for the first half of 2017 came to EUR 201 million (previous year: EUR 188 million).

Net assets and financial position.

Assets	30 June 2017 EUR million	31 Dec. 2016[1] EUR million	Change EUR million	in %
Cash and cash equivalents	25 449	13 532	11 918	88.1
Loans and advances to banks	50 301	39 288	11 014	28.0
Loans and advances to customers	115 109	111 232	3 878	3.5
Allowances for losses on loans and advances	– 812	– 828	15	– 1.8
Financial assets measured at fair value through profit or loss	34 136	50 175	– 16 038	– 32.0
Financial investments and shares in investments accounted for using the equity method	26 674	25 926	749	2.9
Portfolio hedge adjustment attributable to assets	484	764	– 280	– 36.7
Non-current assets or disposal groups held for sale	186	191	– 5	– 2.5
Intangible assets	266	249	17	6.7
Investment property	581	574	7	1.3
Property and equipment	489	507	– 18	– 3.6
Current income tax assets	141	116	24	20.9
Deferred income tax assets	980	1 040	– 61	– 5.8
Other assets	1 065	861	204	23.7
Total assets	**255 050**	**243 627**	**11 423**	**4.7**

1) Restatement of prior year amounts (see Note 2).

Equity and liabilities	30 June 2017 EUR million	31 Dec. 2016[1] EUR million	Change EUR million	in %
Deposits from banks	70 273	44 568	25 705	57.7
Deposits from customers	84 786	70 641	14 145	20.0
Securitized liabilities	45 393	34 355	11 038	32.1
Financial liabilities measured at fair value through profit or loss	30 650	69 846	– 39 196	– 56.1
Portfolio hedge adjustment attributable to liabilities	134	485	– 350	– 72.3
Provisions	3 656	3 734	– 78	– 2.1
Current income tax liabilities	57	57	0	– 0.5
Deferred income tax liabilities	29	31	– 2	– 6.7
Other liabilities	1 063	889	174	19.6
Subordinated capital	5 844	5 895	– 50	– 0.9
Equity	13 165	13 126	39	0.3
Share capital	3 484	3 484	0	0.0
Capital reserve	8 240	8 240	0	0.0
Retained earnings	871	1 006	– 135	– 13.4
Other income	326	348	– 22	– 6.2
Unappropriated profit/loss	200	10	190	> 100.0
Equity attributable to non-controlling interests	43	38	5	14.2
Total equity and liabilities	**255 050**	**243 627**	**11 423**	**4.7**
Guarantee and surety obligations	6 239	5 971	268	4.5
Irrevocable loan commitments	23 632	22 784	848	3.7
Business volume	**284 920**	**272 382**	**12 538**	**4.6**

1) Restatement of prior year amounts (see Note 2).

Further increase in consolidated total assets.

The Group's total assets rose slightly by EUR 11.4 billion or 4.7% in the first half of 2017 to EUR 255.0 billion, largely as a result of an increase in cash deposits. Besides an increase in balances with central banks, this impacted in particular on short-term deposits with banks, while short-term trading assets, especially from money market transactions, were reduced.

At the same time, **business volume** of EUR 284.9 million as at the reporting date of 30 June 2017 rose moderately by EUR 12.5 billion compared with 31 December 2016. The increase in the period under review relates to the change in total assets and a EUR 0.8 billion increase in the volume of irrevocable loan commitments.

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes in Germany has been reported in the non-trading portfolio since the second half of 2016. This strategy continued to be implemented in the first half of 2017, and is now applied in the foreign subsidiaries too, which continued to lead to shifts between individual balance-sheet items.

In this context, there was an increase in the volume of loans and advances to customers and banks and deposits from customers and banks. On the other hand, the volume of the financial assets or liabilities measured at fair value through profit or loss declined.

Lending.

The **cash reserve** amounted to EUR 25.4 billion as at 30 June 2017 and was therefore EUR 11.9 billion higher than the previous year's figure. The growth was mainly due to a rise in cash deposits held with central banks.

Loans and advances to banks increased by EUR 11.0 billion, therefore reaching a closing balance of EUR 50.3 billion. In connection with the ongoing realignment of the liquidity management, overnight and term money rose by EUR 6.9 billion to EUR 8.1 billion. Public-sector loans were up EUR 1.0 billion to EUR 26.9 billion, while current account receivables increased by EUR 1.4 billion to EUR 2.0 billion. The volume of the securities repurchasing business expanded by EUR 1.6 billion to EUR 9.2 billion.

Similarly, the volume of **loans and advances to customers** climbed by EUR 3.9 billion to EUR 115.1 billion as at the current reporting date, driven specifically by the increase of EUR 1.7 billion in the volume of securities repurchasing business, of EUR 1.0 billion in overnight and term money and of EUR 0.9 billion in borrower's note loans. Transactions with key customers as well as with regional corporate customers were extended once again.

The volume of **financial assets measured at fair value through profit or loss** fell by EUR – 16.0 billion to EUR 34.1 billion, chiefly as a result in lower trading assets. Maturing overnight money, term money and call money with domestic and international banks led to a EUR – 8.7 billion decline in other money market transactions in the course of the realignment of liquidity management. Maturities were largely responsible for the EUR – 1.4 billion reduction in the volume of bonds and debentures in net trading assets to EUR 6.7 billion. In addition, the positive fair values from trading derivatives fell by EUR – 4.3 billion to EUR 19.6 billion, mainly as a result of effects driven by interest rates.

Financial investments and shares in investments accounted for using the equity method increased marginally by EUR 0.7 billion to EUR 26.7 billion, chiefly because of the expansion of holdings in money market instruments. The volume of bonds and debentures belonging to the available-for-sale category remained almost unchanged, as did loans and receivables.

Funding.

Compared to 31 December 2016, the portfolio of **deposits from banks** increased in the first half of 2017 by EUR 25.7 billion to EUR 70.3 billion. This was mainly as a result of the increase in overnight and term money, which was attributable to the realignment of the liquidity management at the international branches, among other things. Consequently, the volume of deposits from overnight and term money from banks rose sharply by EUR 22.6 billion to EUR 30.0 billion. The volume of securities repurchasing business also increased by EUR 0.5 billion.

Deposits from customers were up EUR 14.1 billion from year-end 2016 to EUR 84.8 billion. Current account liabilities in particular increased by EUR 8.3 billion, while overnight and term money rose by EUR 8.1 billion. This effect also is largely due to the changes in the branches' liquidity management. On the other hand, funding with securities repurchase transactions eased to EUR – 1.4 billion.

The balance sheet item **securitized liabilities** climbed by EUR 11.0 billion in the first half of 2017 to EUR 45.4 billion. Short-term funding via securitized money market transactions was also increased by EUR 7.3 billion in the course of realigning the liquidity management. New issued caused the volume of other debentures to rise by EUR 1.7 billion to EUR 17.1 billion. New issues at the start of the year led to a EUR 1.4 billion increase in mortgage-backed covered bonds and to a EUR 0.6 billion rise in public-sector covered bonds.

In line with the development of the item on the assets side, **financial liabilities measured at fair value through profit or loss** decreased by EUR – 39.2 billion to EUR 30.7 billion. This was due to the lower volume of trading liabilities as a consequence of the aforementioned changes to liquidity management. This led to in particular in the sharp decline of EUR – 27.8 billion in money market transactions to EUR 1.1 billion, which was chiefly attributable to maturities. The volume of securitized liabilities was reduced at the same time by EUR – 7.1 billion. Negative fair values from trading derivatives declined by EUR – 4.3 billion, mainly as a result of effects driven by interest rates.

Equity.

At EUR 13.2 billion, LBBW's **equity** as at 30 June 2017 remained almost unchanged from 31 December 2016 (previous year: EUR 13.1 billion). The increase in the discount rate for provisions for pensions from 1/82% to 1.94% resulted in actuarial gains. In addition, some of the profit carried forward was reclassified in other retained earnings, resulting in a EUR 0.1 billion increase overall in retained earnings. After the non-recurring effect from the full impairment of goodwill of EUR 379 million at year-end 2016 reduced unappropriated profit to EUR 10 million, net gains rose substantially as at 30 June 2017 and increased unappropriated profit to EUR 0.2 billion.

Financial position.

LBBW's funding strategy is determined by the Asset Liability Committee (ALCo). Here the Group focuses on ensuring a balanced structure in terms of the groups of products and investors used. The Group's financial position throughout the entire reporting year was in good order on account of the good liquidity situation. LBBW was at all times able to obtain funding on the market on the requisite scale. The LiqV liquidity indicator, which is only determined at the Bank level, improved to 1.80 as at the reporting date of 30 June 2017 (previous year: 1.50).

Risk and opportunity report.

Risk management systems.

As a matter of principle, the LBBW Group continued to apply the risk management methods and processes described in the Combined Management Report as at 31 December 2016. These were applied as at the reporting date of 30 June 2017. Material changes are described below.

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 2016. The following table provides a brief overview:

Risk category	Describes possible ...
Counterparty default risks	...Losses arising from the default or deterioration in the credit rating of business partners. ...Defaults by sovereign borrowers or restrictions on payments. ...Losses arising from shortfall in proceeds from the liquidation of collateral.
Market price risks	...Losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility. ...Problem of not being able to quickly close out larger positions at market value.
Liquidity risks	...Problems meeting payment obligations in the short term.
Operational risks	...Losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
Investment risks	...Losses in the value of Group companies and equity investments not included in the above risk categories.
Reputation risks	...Losses caused by damage to the Bank's reputation.
Business risks	...Losses due to less favorable business performance than expected or from strategic errors, provided that they do not relate to the aforementioned characteristic banking risks.
Pension risks	...Increase in provisions for pensions.
Real estate risks	...Losses in the value of the Group's real estate holdings.
Development risks	...Losses resulting especially from potential plan variances in the project development business of LBBW Immobilien Management GmbH.
Model risks	...Losses that can arise as a result of decisions that are based on the result of models. Triggering factors could include errors in the concept, application and validation of models.

Further developments.

The new core banking system (OSPlus) was introduced in April 2017, therefore creating the requirements for more standardization and optimization of the business processes. This includes in particular the productive aggregation of the data from the portfolio management systems in a platform (PosI) designed for the purpose of integrated bank management. This was planned over several stages and the first steps have already been implemented.

Supervisory framework.

On 4th of November 2014 the ECB took over the supervision of LBBW within the framework of the Single Supervisory Mechanism (SSM). LBBW is assigned to Directorate General I within the ECB's banking supervision, which monitors approx. 30 of the most important banks.

One of the core tasks of the ECB is to carry out an independent evaluation and review of the banks' capital and liquidity resources. The central tool used here is the so-called Supervisory Review and Evaluation Process (SREP). In addition to workshops, data queries and requests for information on various focus areas, stress tests are also an important supervisory tool.

In the first half of 2017, the ECB conducted a stress test on the sensitivity analysis for interest rate risk in the banking book (ECB Sensitivity Analysis for IRRBB), in which LBBW participated. The ECB's attention was drawn to these risks in the current low interest rate environment, because of the potential impact they could have on the earnings and capital base.

In addition to the impact on net interest income (periodic view) to be simulated, which is already a well-known principle from regular regulatory queries, and LBBW's present value (economic view), qualitative information was also collected for the regulatory evaluation.

The supervisory authority takes the results into account in the SREP process. The stress test results are not published for each individual bank.

Another comprehensive EBA/ECB stress test will be conducted in 2018. For this purpose, the EBA already published the initial information on the methodology and templates on 7th of June 2017. The same topics and types of risk will be reviewed as in 2016. Legal standards that have already been passed but will not take effect until the stress test period must be taken into account in the stress test. IFRS 9 in particular must be taken into consideration, with a material impact on the data bases and data analysis collections.

The actual stress tests are scheduled to begin at the start of 2018 with the results being published mid-year. LBBW is currently taking appropriate measures to prepare for the stress test.

The stress test results will be used within the scope of determining the SREP ratio for 2019 (bank-specific capital requirements or capital guidances). As in the 2016 stress tests, compliance with minimum ratios is not required so that tests cannot be »failed«. The results will subsequently be published for each individual bank.

On 15th of December 2016, the ECB also stated its supervisory priorities for all banks in 2017. The key issues remain largely unchanged; these are risks in connection with a bank's business model, profitability, credit risk (non-performing loans and concentration risks) and risk management. However, they will be enhanced by new partial aspects such as the preparations for “Brexit”, competition with non-banks/fintechs and outsourcing.

Risk situation of the LBBW Group.

Internal monitoring of risk-bearing capacity within the internal capital adequacy assessment process (ICAAP) together with the regular reconciliation of aggregate risk cover with material risks ensures that the LBBW Group has adequate economic capital resources.

The total volume of economic capital committed has fallen by EUR 0.4 billion since the end of 2016. The decline in counterparty risks is primarily due to rating upgrades of some important key customers and to market data effects. This is offset in part by mounting market price risks, resulting mainly from position changes.

Aggregate risk cover (ARC) at the end of the first half of 2017 was up by EUR 0.4 billion compared to the end of 2016. The increase is particularly due to the strengthening of the capital base through the procurement of subordinated capital.

In summary, the LBBW Group's risk-bearing capacity and stress resistance were safeguarded at all times throughout the first half of 2017 and had improved even further compared with year-end 2016.

The economic capital limit was maintained at all times at the Group level. Utilization of aggregate risk cover stood at 40% as at 30 June 2017.

LBBW Group – risk-bearing capacity.

	30 June 2017		31 Dec. 2016	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	16 601	40%	16 206	44%
Economic capital limit[2]	12 800	52%	12 800	56%
Correlated total economic capital	6 715		7 111	
of which:				
diversification effects	– 423		– 422	
counterparty risks	3 438		3 899	
market price risks	1 794		1 659	
investment risks	40		47	
operational risks	702		716	
development risks	60		61	
real estate risks	170		186	
other risks[3]	933		965	

1) Confidence level of 99.93%/1-year holding period.
2) The individual risk types are capped by means of economic capital limits.
3) Other risks (in particular reputation, business, pension and model risks).

Opportunities.

The relevant aggregate risk cover (ARC) for calculating risk-bearing capacity is defined as the lowest ARC of the following twelve months. Opportunities therefore occur when the actual ARC outstrips the projected development or when the ARC forecast improves in the wake of a positive trend. This is particularly the case for market trends (particularly credit spreads) with a positive effect on earnings and capital figures with lower allowances for losses on loans and advances due to economic trends or with a better-than-expected business performance. Apart from market- and business-driven improvements, the ARC can be proactively strengthened by measures such as the issuance of subordinated capital.

In addition to the aggregate risk cover, risk-bearing capacity is influenced by economic capital. The development of economic capital depends on a large number of factors. An upbeat market for credit spreads, interest rates and volatilities may likewise bring about a reduction of economic capital as may, for example, a further economy-driven improvement in the portfolio quality.

In addition, the very low utilization of aggregate risk cover creates capacity for potential new business from an economic perspective.

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 2016.

The primary parameter in the following comments is gross and/or net exposure. Gross exposure is defined here as the fair value or utilization plus open external loan commitments. Net exposure also takes account of risk-mitigating effects. 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.

Development of exposure.

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

Development of exposure.

EUR million	30 June 2017	31 Dec. 2016
Gross exposure	**328 145**	**324 667**
Netting/collateral	91 001	86 808
Credit derivatives (protection buy)	8 860	11 111
Classic credit collateral	43 200	44 252
Net exposure	**185 085**	**182 496**

Gross exposure amounts to around EUR 328 billion as at the reporting date, and is therefore around EUR 3 billion or 1 % higher than at the end of 2016. Net exposure rose by a similar amount to EUR 185 billion. The simultaneous increase in the risk-mitigating effects from netting and collateral agreements, especially through securities lending/repurchasing business, and a decline in credit derivatives (protection buy) and classic loan collateral, means that this higher figure does not fully feed through to net exposure.

The details given below on portfolio quality, sectors, regions and size classes provide an overview of the aspects which are relevant for the LBBW Group's risk situation. Net exposure forms the principal basis.

1) Information on economic capital committed for the individual risk types can be found in the section on the risk management system/risk situation of the LBBW Group.
2) Statements on the risk situation are based on the management approach. Differences over the valuation methods applied for accounting purposes are due to factors described in the 2016 risk and opportunity report.

Portfolio quality.

The breakdown by internal rating class shows how the portfolio quality has developed compared to the previous six-month period.

Portfolio quality.

Net exposure	EUR million 30 June 2017	in % 30 June 2017	EUR million 31 Dec. 2016	in % 31 Dec. 2016
1(AAAA)	38683	20.9%	41196	22.6%
1(AAA) – 1(A–)	88856	48.0%	80517	44.1%
2 – 5	41385	22.4%	43443	23.8%
6 – 8	9678	5.2%	10244	5.6%
9 – 10	2265	1.2%	2702	1.5%
11 – 15	1105	0.6%	1202	0.7%
16 – 18 (Default)[1]	988	0.5%	1181	0.6%
Other	2125	1.1%	2011	1.1%
Total	**185085**	**100.0%**	**182496**	**100.0%**

1) »Default« refers to exposure for which a default event as defined in Art. 148 CRR has occurred, e.g. improbability of repayment or 90-day default. Net exposure is shown before allowances for losses on loans and advances/impairments.

The quality of LBBW Group's portfolio has improved marginally from 31 December 2016. The investment grade portion (ratings 1(AAAA) to 5) widened slightly to 91.3% (31 December 2016: 90.5%) as a result of increased net exposure to rating cluster 1(AAA) – 1(A–). The increase is based on new business and migrations, especially from rating cluster 2 – 5. The top rating class 1(AAAA) particularly includes German non-central public-sector entities. Net exposure in rating classes 6 – 15 (non-investment grade) fell slightly compared with 31 December 2016. The portfolio share is 7.1% (previous year: 7.8%). The non-performing exposure was also slightly reduced further to 0.5% of the entire portfolio, in line with the trend of the previous years.

Sectors.

The presentation of the sectors by the dimensions of net exposure, credit value-at-risk (CVaR) and default portfolio likewise 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 sector key that corresponds with the organizational back office responsibilities regarding the corporates portfolio.

Sectors.

EUR million	Net exposure 30 June 2017	CVaR 30 June 2017	Default 30 June 2017	Net exposure 31 Dec. 2016	CVaR 31 Dec. 2016	Default 31 Dec. 2016
Financials	**76 219**	**947**	**23**	**73 769**	**1 045**	**34**
of which transactions under specific state liability[1]	11 342	22	0	13 445	17	0
Corporates	**65 907**	**1 517**	**757**	**61 711**	**1 670**	**830**
Automotive	12 548	371	96	11 411	411	88
Chemicals and pharmaceuticals	5 697	97	14	5 627	114	28
Retail and consumer	9 801	198	128	9 095	218	114
Industry and construction	16 780	355	232	15 311	377	261
of which construction	6 009	146	90	5 809	165	117
Telecommunications and media	3 992	67	58	3 187	69	63
Transport and logistics	4 080	112	26	4 252	112	40
Utilities and energy	8 704	220	139	8 888	278	167
of which utilities and disposal companies	3 464	84	3	3 632	115	5
of which renewables	2 725	84	94	2 681	89	108
Other	4 304	97	64	3 941	92	68
Real estate	**9 079**	**328**	**142**	**9 677**	**406**	**247**
Commercial real estate (CRE)	6 309	273	116	6 354	304	216
Housing industry	2 770	55	26	3 323	102	31
Public sector	29 137	340	0	32 477	366	0
Private individuals	**4 743**	**108**	**65**	**4 862**	**127**	**69**
Total	**185 085**	**3 239**	**988**	**182 496**	**3 614**	**1 181**

1) This figure shows transaction with statutory guarantee (»Gewährträgerhaftung«) and transactions covered by a guarantee provided by the State of Baden-Württemberg under the risk shield. It also includes business with central banks and banks with a public-sector background.

With a net exposure of EUR 76 billion as at the reporting date, financials were the largest of the five main sectors. The increase of around EUR 2 billion over the end of 2016 is chiefly due to the increased exposure to private banks. At the same time, lower net exposure to central banks as at the reporting date led to a decline in transactions under specific state liability. The decline in the CVaR is mainly as a result of rating upgrades of some important counterparties.

In the corporates portfolio, the industry and construction, automotive and telecommunications and media sectors in particular contributed to the EUR 4 billion increase in exposure to EUR 66 billion in the first half of 2017. As in the previous year, the automotive sector is the most important individual corporates sector from a portfolio perspective and will therefore continue to be monitored closely in the interests of managing sector concentrations. In addition to observing market development, current technology trends such as electromobility or autonomous driving and their impact on the manufacturers and suppliers are analyzed and evaluated. The decline in the CVaR despite the higher exposure is due to market data effects (e.g. from changes in interest rates and exchange rates) as well as rating upgrades of some major customers.

Besides the automotive sector, commercial real estate was one of the most important sectors from a portfolio perspective. The disproportionate decline here in the CVaR is also due to market data effects. Given the diversification in our strategic locations, we do not see any excessive concentration risk in this portfolio. At EUR 9 billion, net exposure in the real estate sector is down slightly on the previous year. The default share in this portfolio, which is already low, was reduced significantly especially through the sale of receivables.

The net exposure to the public sector with a corresponding lower CVaR compared with year-end 2016 declined by EUR 3 billion to EUR 29 billion. Exposure to foreign public sector entities in particular was down.

In the case of private individuals, net exposure and CVaR declined slightly too. This portfolio has a particularly high level of granularity.

Regions.

The share of German business in net exposure amounted to 71.1 %. The basic breakdown by region is largely constant, even though the decline in exposure to the public sector and the central banks in North America as at the reporting date resulted in smaller regional shifts. The focus on the stable and low-risk core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will continue to secure a dominant German share in the future.

Foreign exposure is particularly spread across Western Europe and North America. Exposure to Eastern Europe, Latin America and Africa results primarily from export finance. Their share of net exposure is of subordinate importance.

Regions.

Net exposure in %	Share 30 June 2017	Share 31 Dec. 2016
Germany	71.1 %	69.1 %
Western Europe (excluding Germany)	19.9 %	19.0 %
North America	4.3 %	7.4 %
Asia/Pacific	1.9 %	1.4 %
Eastern Europe	0.7 %	0.8 %
Latin America	0.6 %	0.7 %
Africa	0.0 %	0.0 %
Other[1]	1.4 %	1.5 %
Total	**100.0 %**	**100.0 %**

1) »Other« includes transactions with no country assignment (e.g. transactions with supranational institutions).

Given last year's political uncertainties in particular, the first half of 2017 provided growing transparency. The UK conveyed its intention to withdraw from the EU to the European Council on 29 May 2017, the presidential and general elections in April/May and June in France secured the majorities the pro-European political center ground needed for the reforms and the US system of »checks and balances« restricted the overly severely reform projects of the new US president Donald Trump. The political détente was accompanied by the recovery of the national economies that are important to LBBW.

In light of the UK's exit from the EU, potential weak points were and will be identified and alternative courses of action drawn up. LBBW has analyzed the potential effects of the exit and, based on today's evaluation and findings, concludes they will be manageable.

Although the key emerging markets are also enjoying an economic recovery on the whole, Turkey as well as the economies of some BRICS states, Brazil in particular, remain vulnerable to internal and external shocks, so that product and limit restrictions as well as very close monitoring of the most important benchmark data for international solvency continue to apply.

Size classes.

The following breakdown by size class is based on the counterparty level or, if the borrower is part of the Group, on the group level.

Size classes.

Net exposure	Number 30 June 2017	Net exposure in % 30 June 2017	Number 31 Dec. 2016	Net exposure in % 31 Dec. 2016
up to EUR 10 million	742 630	11.9 %	761 364	12.0 %
up to EUR 50 million	1 109	13.6 %	1 140	13.9 %
up to EUR 100 million	228	8.9 %	219	8.8 %
up to EUR 500 million	279	33.3 %	268	33.1 %
up to EUR 1 billion	46	17.9 %	36	14.2 %
over EUR 1 billion	13	14.4 %	14	18.0 %
Total	**744 305**	**100.0 %**	**763 041**	**100.0 %**

The size classes with a net exposure of up to EUR 100 million account for 34 % of the net exposure (previous year: 35 %). The large number of customers is due in particular to the retail portfolio.

With shares of 97 % and 99 % respectively, very good to good credit ratings (1 (AAAA) to 5) dominate the two size classes of net exposure totaling EUR 100 million to EUR 500 million and EUR 500 million to EUR 1 billion.

The number of commitments with a net exposure of over EUR 1 billion decreased on balance from 14 to 13 names compared with the previous year, causing the share in the portfolio to fall by around four percentage points to 14 %. The decline affects the public sector and financials in particular. Nonetheless, as at the reporting date of 30 June 2017, public-sector entities continued to dominate this size class (especially German public-sector entities), accounting for a share of 46 %. Financials account for a share of 29 %, while the remaining 25 % is spread across companies with very good to good ratings only (minimum rating class 1(A–)). The large exposures will continue to be monitored closely in the interest of managing cluster risks.

Opportunities.

LBBW's core business activity involves assuming counterparty risks. These risks are adequately considered in the pricing. Selecting transactions with a favorable risk/return ratio offers special opportunities for profit. Furthermore, a positive trend above expectations in the economic situation in the core markets may offer an opportunity to improve the quality of the portfolio, therefore resulting in persistently low write-down requirements. Business potential can be tapped and margins widened by optimizing the business model and if the intense competition in the German banking market subsides, as well as in a more attractive interest rate setting.

Market price risks.

Risk situation of the LBBW Group.

In the first half of 2017, the LBBW Group's exposure to market price risk increased moderately.

The following table shows the composition of the value-at-risk (99%/10 days) by risk type at the LBBW Group level:

VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	30 June 2017	31 Dec. 2016
LBBW Group	**126**	**140**	**104**	**138**	**131**
Swap risk	56	71	23	70	53
Credit spread risk	113	124	90	114	120
Equity risks	4	7	3	3	6
Currency risks	3	5	1	4	3

There was a slight increase in the Bank's trading book due to position changes, while the banking book was nearly unchanged.

In order to take account of volatile market occasions, LBBW calculates economic capital from the maximum of VaR (covariance matrix from a 250-day history) and the long-term VaR (covariance matrix from a 5-year history).

The internal risk model for calculating LBBW's exposure to market price risks has been approved by the regulatory authorities for equity risks as well as for general interest rate risks in the trading book without funds (CRR portfolio). The risks identified in this way are weighted and applied towards capital backing requirements. Backtesting of the internal risk model for the previous 250 trading days produced no exceptions for the LBBW Group and one for the CRR portfolio. This exception was caused by strong market reaction after the first round of the presidential election in France. Additional backtesting on the basis of Dirty P/L[1)] is conducted due to regulatory requirements. On this basis, there was no exception at the level of the LBBW Group as at the reporting date. One exception was registered for the CRR portfolio, which was attributable to a significant change in the credit valuation adjustments because of a remarkable change in LBBW's credit spread.

Portfolios exhibit different development of value changes in stress scenarios in the first half of 2017. The changes are due to a variety of reasons: e.g. changes in position, changes in the maturity structure, changes in market data etc. The stress test scenarios are monitored constantly and adjusted to current market conditions if necessary. The scenarios are also reviewed annually for adequacy, especially in the light of current portfolio and market developments.

1) Dirty P/L is the actual change in value, net of commissions and fees.

The market price risk for the trading book held by LBBW is illustrated in the following table:

VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	30 June 2017	31 Dec. 2016
Trading book	**17**	**30**	**14**	**22**	**17**
Swap risk	12	27	8	15	10
Credit spread risk	13	17	10	16	13
Equity risks	4	7	3	4	6
Currency risks	3	5	1	4	3

Opportunities.

The portfolios of the LBBW Group depend to a considerable extent on market development of credit spreads. A narrowing of the relevant credit spreads from today's perspective has a positive effect on the LBBW Group result. The extent of this effect depends on the performance of the LBBW Group's inventory of risk positions. Moreover, the interest rate development has an impact on various portfolios. Different performances can arise, depending on the portfolio risk positioning as well as and interest rate development.

Liquidity risks.

Risk situation of the LBBW Group.

The LBBW Group continued to have ample liquidity at all times in the first half of 2017. Customer deposit business showed the desired steady performance and capital market placements – both covered and uncovered – attracted lively interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and degree of diversification.

Funding needs and funding potential broke down as follows as at the reporting date of 30 June 2017:

Overview of funding needs and counterbalancing capacity.

EUR billion as at 30 June 2017	3 months	12 months
Funding needs from the business portfolio (deterministic cash flow)[1]	– 3.3	– 1.9
Material call risks (stochastic cash flow)	15.8	36.6
Liquidity buffer	19.1	22.6
Funding potential in the market	43.6	60.3

1) Values are negative as liquidity flows from the business portfolio currently exceed the funding needs over a period of three to twelve months.

Over the year as a whole, the surplus cover from cover registers not required to preserve the covered bond rating is applied towards the free liquidity reserves. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

All limits defined by the Board of Managing Directors for maximum funding needs based on maturities from the business portfolio were adhered to during first half of 2017. The targeted stress resistance was also fulfilled. The liquidity risk stress scenarios - rating downgrade, financial market crisis, and market crisis with downgrade - structured in accordance with the guidelines of MaRisk (BTR 3.2) showed that the remaining funding potential via the market, plus the free liquidity reserves, always exceeded the potential funding needs under stress scenarios for this period. The counterbalancing capacity was consistently large enough to absorb any short-term high liquidity outflows.

Results of the economic stress scenarios.

Scenario EUR billion as at 30 June 2017	Funding needs	Funding potential (central banks and market)
Rating downgrade	15.8	38.0
Financial market crisis	15.8	49.6
Market crisis with downgrade	15.7	45.2

The prescribed current minimum of 80% for the new European liquidity coverage ratio (LCR) was observed. As at 30 June 2017 the LCR for the Group was 152.9% (31 December 2016: 110.4%). However, the requirements of the standard approach of the Liquidity Regulation (Liquiditätsverordnung) were exceeded significantly at all times in the period under review. As at 30 June 2017, the liquidity ratio for LBBW (Bank) was 1.80 (31 December 2016: 1.50).

Opportunities.

The LBBW Group's liquidity situation is comfortable. LBBW is offered more funds on the money and capital markets than currently required to fund the Group. The broad and well-diversified funding basis would make it possible for LBBW to raise much more in terms of funding resources at any time. In particular, there is no indication of any worsening of the liquidity situation as a result of the low interest-rate phase. Investors are currently still very interested in the LBBW Group's funding products. At the moment, there are thus still no discernible restrictions on the funding side of the balance sheet for the future performance of the LBBW Group.

Operational risks.

Risk situation of the LBBW Group.

The explanations on the risk situation provided at the end of 2016, particularly in connection with the legal risks arising from customer transactions in complex derivatives and developments in consumer protection law, continue to apply. Due to the ongoing development of banking supervision jurisprudence, the banking landscape will be still faced with legal risks. LBBW takes this into account continuously observing legal developments. On the basis of current knowledge, adequate provision has been made to cover the resulting legal risks.

As at the end of 2016, further legal risks exist in fiscal law terms concerning the requirements for deducting capital gains tax. The Federal Ministry of Finance recently passed an administrative order on these issues. An updated legal opinion with retrospective effects on the basis of new jurisprudence or new announcements and comprehensive investigation of the financial management cannot be ruled out here.

The LBBW Group's processes and instruments for identifying, recording and managing operational risks undergo regular review in the light of new regulatory requirements and are modified where necessary. Appropriate resources are used to take account of new requirements and to collect the necessary data. In addition, various committees are engaged in a regular exchange of ideas.

IT risk management continues to focus on risks arising in particular from threats from cyberspace. These risks are addressed with a comprehensive package of measures aimed at prevention, detection and reaction.

Opportunities.

There are no changes in LBBW's assessment of the opportunities compared with the end of 2016.

Other material risks.

The model risk is the risk of potential losses that can arise as a result of decisions that are based on the result of models. Triggering factors could include errors in the concept, application and validation of models. Models are used in LBBW to identify and manage capital and liquidity risks or for calculating the equity requirements (risk models), for the income statement (valuation models) and for decisions on business transactions (decision models). Appropriate precautions are currently proposed for significant model risks (risk premiums, buffers, problem-specific set limits).

Based on a model inventory carried out at the start of 2017, a comprehensive, integrated process for identifying, assessing, controlling, monitoring and communicating model risks that is being developed at present was enhanced further in the first half of 2017.

With respect to the other material risks, namely

- investment risks
- real estate risks
- development risks
- reputation risks
- business risks
- pension risks

the statements made in the risk report in the LBBW Group's Combined Management Report 2016 continue to hold true. There were no material changes in the first half of 2017.

Outlook.

Anticipated economic performance.

The economic outlook is good for the second half of the year. The Economic Sentiment Index in the euro area is its highest level since 2007 and the ifo business climate in Germany has even reached an all-time high. The underlying conditions for the German economy are also favorable, with a moderate oil price of around USD 50/barrel, low interest rates and inflation of only 1.5%. The political risks that were frequently a cause for concern in the past – from the debt crisis in the euro area, through Brexit to the rise of anti-European parties – eased significantly towards the middle of the year. Only the possibility of early elections in Italy might lead to greater uncertainty. The global outlook is also satisfactory to good. In the US, the Federal Reserve is likely to continue raising key rates in response to growing inflation risks and robust growth. However, despite all the warnings that were sounded in the past, the Chinese economy has not collapsed; in fact, GDP growth there is expected to remain above 6%. All told, the global economy should grow by a total of 3.3% in 2017 after 3.1% the year before. Calendar-adjusted GDP growth in Germany is likely to be 1.8%. The rate of inflation should tend to fall somewhat towards the end of the year, due to baseline effects and assuming the price of oil is unlikely to change much from current levels. LBBW expects euro area inflation to average at 1.5% for the year. With the core rate (inflation excluding the price of energy and unprocessed food) recently at 1.2% in the euro area, deflation risks do not appear to be on the cards.

In this environment, the ECB is likely to maintain its monetary policy course for now. However, the Governing Council of the ECB will gradually scale back its bond purchase program. The ECB itself has stated that it will make net monthly bond purchases of EUR 60 billion up to the end of the year. LBBW believes this sum will be reduced gradually thereafter up to the end of 2018. The capital market is likely to pre-empt such a monetary policy maneuver in the current year through rising yields. LBBW expects 10-year Bunds to yield 0.60% by the end of 2017. The US Federal Reserve will probably raise key rates once more by 25 basis points in the second half of 2017, with the prospect of further key rate increases thereafter. The USD is expected to appreciate against the EUR as a result of the US interest rate advantage and LBBW predicts that one EUR will cost USD 1.10 at the end of the year.

Investors will no doubt continue to monitor the geopolitical risks, the focus of which will remain East Asia (North Korea), the Middle East and the Gulf region. It remains to be seen how significant US trade policy will be for economic development and therefore for the situation on the financial markets. LBBW generally expects the protectionist tendencies in the US to persist. By contrast, there are signs that the EU will take a flexible and more unified approach than before to the upcoming challenges. This should strengthen the EU's bargaining position, a statement that also applies to the ongoing negotiations on the UK's exit from the EU. Initial soundings suggest the negotiations will be difficult. However, since no significant agreements are expected in 2017, Brexit is unlikely to impact much on the economy in Germany and the euro area during the current year.

Industry and competitive situation.

There has not been any material change in LBBW's expectations for the development of the industry and competitive situation since the end of 2016.

The stable economic framework in Germany should continue to be a positive factor for the German banking sector in the further course of the year. On the other hand, the high competitive and margin pressure on the domestic market, as well as the low and negative interest rates in the euro area, will probably continue to exert pressure on the banks. Ongoing changes to regulatory and supervisory requirements will continue to burden the banks and cause uncertainty. Together with the technological change, they will call for a continued high level of adaptability from the industry.

Improving the cost/income ratio and availing of the opportunities that digitalization offers the banking business will likely continue to be a matter of high priority for the banks in this environment. Similarly, cost-cutting and restructuring measures are expected to remain on the agenda for many banks, as well as investing in the technological infrastructure and in the development of digital competencies and products.

Company forecast.

General conditions.

The statements made by LBBW as part of the company forecast in the 2016 Group Management Report were based on the budget prepared at the end of 2016. It assumed that interest rates in the euro area will remain low and, in some cases, even negative during 2017. Stable, albeit slightly weaker, economic development was assumed for Germany and the eurozone. In the regulatory environment, mounting requirements vis-à-vis capital and liquidity aside, the regulation of business activities, e.g. for enhancing market transparency and consumer protection (conduct regulation), was expected to exert even greater influence over the business model. Furthermore, progressive digitalization will likely require additional flexibility with regard to changes in the underlying conditions.

The statements on the company forecast for LBBW contained in the Group Management Report 2016 were reviewed at the middle of 2017 in light of the LBBW's current forecasts for the remaining months of the year. This resulted in a number of changes to the views expressed. LBBW is expected to benefit over the rest of the year from the good portfolio quality and a continuing improved economic performance in the core markets. This should be reflected in allowances for losses on loans and advances that are lower than planned.

The main changes are set out below.

Outlook for LBBW.

LBBW's main financial performance indicators at the Group level are expected to be as follows compared with the budget for the period at the end of the 2017 financial year:

LBBW does not expect any notable deviation in total assets from the budget for the rest of the 2017 financial year. Risk weighted assets in accordance with CRR/CRD IV at year-end should be only slightly lower than the budget, which assumes further growth in the customer business. With respect to the capital ratios, LBBW expects both the total capital ratio and the common equity Tier 1 ratio (both fully loaded) to come in slightly above the budgeted figures at the end of the year. This is mainly due to the expected performance of the risk weighted assets. Accordingly, it should continue to exceed considerably the CRR/CRD IV minimum requirements. The bank-specific requirement of 8.09% stipulated by the European Central Bank for 2017 as part of the SREP (Supervisory Review and Evaluation Process) should also be exceeded markedly again. Included in this ratio are the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with Section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with Section 10g KWG for systemically relevant financial institutions elsewhere, as well as the common equity Tier 1 capital to be held as a countercyclical capital buffer in accordance with Section 10d KWG. Significant excess capital should also be held in line with ECB Banking Supervision expectations concerning the maintenance of supplementary CET1 capital within the scope of a capital recommendation (pillar 2 guidance). LBBW expects the non-risk based regulatory leverage ratio indicator to substantially exceed the minimum level of 3% set by the Basel Committee and to be far above the internally defined tolerance level. However, it should be noticeably below the budget. The current liquidity coverage ratio of 153% should be at year-end significantly higher than the budget and the current minimum ratio of 80%.

As regards the management of its economic capital, LBBW assumes the utilization of the aggregate risk cover will be slightly lower than planned at the end of the 2017 financial year. In this way, LBBW will be able to additionally improve its ample risk-bearing capacity and achieve its goal of maintaining solid capitalization at all times.

In a market environment that remains highly competitive with low and negative interest rates, LBBW once again expects clearly positive consolidated profit before tax for the current year, which should come in significantly above the budget. Income is expected to remain within the budget, despite the challenging underlying conditions. Additionally, LBBW should benefit during the forecasting period from the good quality of its loan portfolio in a stable economic environment, which should result in substantially lower-than-expected allowances for losses on loans and advances. Net gains/losses from financial investments should exceed the budget significantly thanks to realized net income from the sale of securities and equity investments. Despite the steady rise in regulatory requirements and ongoing investments in the Group's continued viability, LBBW does not expect administrative expenses to differ notably from the budget. The cost/income ratio at year-end should be in line with expectations, while the return on equity is expected to be sharply higher than the budgeted figure, due to earnings-related effects.

The material opportunities and risks for LBBW's earnings forecast described at the end of 2016 continue to apply in principle. According to current estimates, possible risks from the UK's exit from the EU are not likely to impact in 2017. The impact of the protectionist stance of the US government on the economy and on LBBW's customers should be less relevant in the current year. The same goes for the possible rise of anti-European parties. Given the opportunities that were exploited by the end of the year, the forecast economic growth that exceeded initial expectations could have positive implications for LBBW's customers and therefore impact on allowances for losses on loans and advances.

LBBW expects disparate performance by the individual segments over the remainder of the 2017 financial year. All told, however, the operating segments will once again post substantial profits, which should perceptibly exceed the budget. LBBW expects profit in the Credit Investment segment to be down slightly on the budget. The following section describes the material changes for the individual segments compared with the forecasts contained in the Group Management Report 2016.

LBBW assumes that profit before tax in the Corporates segment will be perceptibly higher than the budget at the end of the 2017 financial year. While net interest income and net fee and commission income should be marginally above the budget at year-end, the segment also benefits from income from the commercial investment business. Thanks to the good economic situation in the core markets together with the already good portfolio quality, allowances for losses on loans and advances, which are considerably below the forecast, provide relief. Both total income and administrative expenses and therefore the cost/income ratio should be in line with the budget at the end of the year. The return on equity is expected to be far above the budgeted figure at the end of the year due to income-related effects. Reported and risk weighted assets in accordance with CRR/CRD IV increased, as the financing volume continued to grow over the previous year. However, they should remain slightly below the budgeted figure because the planned expansion of the financing volume was not realized in full, despite the greater demand for loans.

In the Retail/Savings Banks segment, LBBW expects profit before tax at the end of 2017 to be negative but slightly higher than budgeted. Although administrative expenses are expected to exceed the budget marginally, due to non-recurring effects from the change in the core banking system, the cost/income ratio at the end of 2017 should almost match the budget thanks to positive growth momentum in the deposit-taking business. Reported and risk weighted assets in accordance with CRR/CRD IV should match the forecast too at the end of the year.

Profit before tax in the Capital Markets Business segment at the end of 2017 is expected to significantly exceed the budget. Total operating income and administrative expenses are both likely to meet expectations. Securities sales within the scope of the treasury activities allocated since this year made a substantial contribution to the result. Accordingly, the cost/income ratio should not notably deviate from the budget at the end of the year. LBBW projects that the return on equity will considerably exceed the budget at the end of 2017 due to earnings-related effects. As expected, risk weighted assets in accordance with CRR/CRD IV should fall slightly short of the budget because of lower market price risks, while reported assets are unlikely to deviate notably from the budgeted figure.

LBBW expects profit before tax in the Credit Investment segment to be negative and slightly below the budget at the end of the year. This is due to the portfolio wind-down that has progressed at a faster pace than planned and the resulting fall off in income. While this means the risk weighted assets in accordance with CRR/CRD IV should be considerably below the budget at the end of 2017, total assets are expected to be perceptibly lower than the budget too.

As a medium-sized universal bank, LBBW is well-positioned with its customer-oriented business model, its solid capital base and its measured risk structure to operate in an industry environment that will remain extremely challenging going forward. The emphasis is on the continuous development of the business model. Important developmental steps have been realized already in the first half-year with the introduction of the new core banking system and also the first-time application of the blockchain technology. Furthermore, LBBW is concentrating on its four main strategic thrusts: business focus, digitalization, sustainability and agility, as well as on optimizing its cost structures.

Condensed interim consolidated financial statements.

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Condensed income statement

for the period 1 January to 30 June 2017.

EUR million	Notes	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[1]
Net interest income	4	797	814
Allowances for losses on loans and advances	5	– 40	– 1
Net fee and commission income	6	270	259
Net gains/losses from financial instruments measured at fair value through profit or loss	7	130	– 41
Net gains/losses from financial investments	8	90	180
Net income/expenses from investments accounted for using the equity method	9	10	11
Other operating income/expenses	10	56	51
Administrative expenses	11	– 897	– 882
Guarantee commission for the State of Baden-Württemberg		– 38	– 51
Expenses for bank levy and deposit guarantee system		– 69	– 77
Net income/expenses from restructuring	12	– 30	– 5
Consolidated profit/loss before tax		**279**	**258**
Income taxes	13	– 77	– 70
Net consolidated profit/loss		**201**	**188**
of which attributable to non-controlling interests after tax		2	1
of which attributable to shareholders after tax		200	187

1) Restatement of prior year amounts (see Note 2).

Total comprehensive income

for the period 1 January to 30 June 2017.

EUR million	Notes	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Net consolidated profit/loss		**201**	**188**
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax		108	– 424
Income taxes	13	– 32	129
Measurement result from LBBW's own credit rating			
Measurement gains/losses from LBBW's own credit rating before tax		– 13	0
Income taxes	13	4	0
Items that will be transferred subsequently to the income statement when specific conditions are met			
Revaluation reserve			
Gains/losses on financial assets AfS before tax		72	25
Transferred to income statement		– 90	– 179
Income taxes	13	12	– 3
Currency translation differences			
Changes before tax		– 6	3
Transferred to income statement		0	– 1
Total net consolidated profit/loss in equity		**54**	**– 449**
of which from non-current assets and disposal groups held for sale		– 1	– 74
Net consolidated total comprehensive income		**256**	**– 261**
of which attributable to non-controlling interests after tax		2	1
of which attributable to shareholders after tax		254	– 262

Balance sheet

as at 30 June 2017.

Assets

EUR million	Notes	30 June 2017	31 Dec. 2016[1)]	1 Jan. 2016[1)]
Cash and cash equivalents	14	25 449	13 532	1 167
Loans and advances to banks	15	50 301	39 288	30 245
Loans and advances to customers	16	115 109	111 232	108 785
Allowances for losses on loans and advances	17	– 812	– 828	– 1 128
Financial assets at fair value through profit or loss	18	34 136	50 175	64 765
Financial investments	19	26 435	25 693	25 230
Shares in investments accounted for using the equity method	20	240	233	239
Portfolio hedge adjustment attributable to assets		484	764	569
Non-current assets and disposal groups held for sale	21	186	191	153
Intangible assets	22	266	249	541
Investment property	23	581	574	663
Property and equipment	24	489	507	664
Current income tax assets		141	116	114
Deferred income tax assets		980	1 040	1 027
Other assets	25	1 065	861	989
Total assets		**255 050**	**243 627**	**234 022**

1) Restatement of prior year amounts (see Note 2).

Equity and liabilities.

EUR million	Notes	30 June 2017	31 Dec. 2016[1)]	1 Jan. 2016[1)]
Deposits from banks	26	70 273	44 568	44 248
Deposits from customers	27	84 786	70 641	62 540
Securitized liabilities	28	45 393	34 355	29 424
Financial liabilities measured at fair value through profit or loss	29	30 650	69 846	74 063
Portfolio hedge adjustment attributable to liabilities		134	485	569
Provisions	30	3 656	3 734	3 401
Current income tax liabilities		57	57	62
Deferred income tax liabilities		29	31	27
Other liabilities	31	1 063	889	709
Subordinated capital	32	5 844	5 895	5 329
Equity	**33**	**13 165**	**13 126**	**13 650**
Share capital		3 484	3 484	3 484
Capital reserve		8 240	8 240	8 240
Retained earnings		871	1 006	1 069
Other income		326	348	413
Unappropriated profit/loss		200	10	425
Shareholders' equity		13 121	13 088	13 631
Equity attributable to non-controlling interest		43	38	19
Total equity and liabilities		**255 050**	**243 627**	**234 022**

1) Restatement of prior year amounts (see Note 2).

Statement of changes in equity

for the period 1 January to 30 June 2017.

EUR million	Share capital	Capital reserve	Retained earnings[1]
Equity as at 31 December 2015	3 484	8 240	1 062
Restatement of prior year amounts	0	0	7
Adjusted equity as at 1 January 2016	**3 484**	**8 240**	**1 069**
Allocation to retained earnings	0	0	425
Distribution to shareholders	0	0	– 290
Actuarial gains/losses	0	0	– 294
Changes in AfS financial instruments	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**– 294**
Net consolidated profit/loss	**0**	**0**	**0**
Net consolidated total comprehensive income	**0**	**0**	**– 294**
Other changes in equity	0	0	0
Adjusted equity as at 30 June 2016	**3 484**	**8 240**	**910**
Transfer of historical measurement effects from LBBW's own credit rating (early adoption of IFRS 9)	0	0	– 46
Changes in the scope of consolidation	0	0	5
Actuarial gains/losses	0	0	140
Measurement gains/losses from LBBW's own credit rating	0	0	0
Changes in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**140**
Net consolidated profit/loss	**0**	**0**	**0**
Net consolidated total comprehensive income	**0**	**0**	**140**
Other changes in equity	0	0	– 3
Adjusted equity as at 31 December 2016	**3 484**	**8 240**	**1 006**
Allocation to retained earnings	0	0	10
Distribution to shareholders	0	0	– 219
Capital increase/capital decrease	0	0	0
Changes in the scope of consolidation	0	0	0
Actuarial gains/losses	0	0	76
Measurement gains/losses from LBBW's own credit rating	0	0	0
Changes in AfS financial instruments	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**76**
Net consolidated profit/loss	**0**	**0**	**0**
Net consolidated total comprehensive income	**0**	**0**	**76**
Other changes in equity	0	0	– 1
Equity as at 30 June 2017	**3 484**	**8 240**	**871**

1) Restatement of prior year amounts (see Note 2).

The composition of equity is presented in Note 33.

Remeasurement reserve	Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from own credit rating	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity[1]	Equity attributable to non-controlling interests	Total[1]
344	**38**	**0**	**31**	**425**	**13 624**	**19**	**13 643**
0	0	0	0	0	7	0	7
344	**38**	**0**	**31**	**425**	**13 631**	**19**	**13 650**
0	0	0	0	– 425	0	0	0
0	0	0	0	0	– 290	0	– 290
0	0	0	0	0	– 294	0	– 294
– 157	0	0	0	0	– 157	0	– 157
0	0	0	2	0	2	0	2
– 157	**0**	**0**	**2**	**0**	**– 449**	**0**	**– 449**
0	**0**	**0**	**0**	**187**	**187**	**1**	**188**
– 157	**0**	**0**	**2**	**187**	**– 262**	**1**	**– 261**
0	0	0	0	0	0	1	1
187	**38**	**0**	**32**	**187**	**13 080**	**20**	**13 100**
0	0	46	0	0	0	0	0
0	0	0	0	0	5	17	22
0	0	0	0	0	140	0	140
0	0	– 22	0	0	– 22	0	– 22
60	0	0	0	0	60	0	60
0	3	0	0	0	3	0	3
0	0	0	3	0	3	0	3
60	**3**	**– 22**	**3**	**0**	**184**	**0**	**184**
0	**0**	**0**	**0**	**– 178**	**– 178**	**0**	**– 177**
60	**3**	**– 22**	**3**	**– 178**	**6**	**0**	**6**
0	0	0	0	0	– 3	0	– 3
247	**42**	**24**	**35**	**10**	**13 088**	**38**	**13 126**
0	0	0	0	– 10	0	0	0
0	0	0	0	0	– 219	0	– 219
0	0	0	0	0	0	2	2
0	0	0	0	0	0	1	1
0	0	0	0	0	76	0	76
0	0	– 9	0	0	– 9	0	– 9
– 6	0	0	0	0	– 6	0	– 6
0	0	0	– 6	0	– 6	0	– 6
– 6	**0**	**– 9**	**– 6**	**0**	**54**	**0**	**54**
0	**0**	**0**	**0**	**200**	**200**	**2**	**201**
– 6	**0**	**– 9**	**– 6**	**200**	**254**	**2**	**256**
0	0	0	0	0	– 1	1	0
241	**42**	**15**	**29**	**200**	**13 121**	**43**	**13 165**

Condensed cash flow statement

for the period 1 January to 30 June 2017.

EUR million	Notes	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[1]
Cash and cash equivalents at the beginning of the period	**14**	**13 532**	**1 167**
Cash flow from operating activities		12 028	8 498
Cash flow from investing activities		87	34
Cash flow from financing activities		– 266	– 380
Changes in cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		69	– 7
Cash and cash equivalents at the end of the period	**14**	**25 449**	**9 313**

1) Restatement of prior year amounts (see Note 2).

In addition to equity, the cash flow from financing activities also includes the cash flows from silent partners and additional subordinated capital. During the period under review, the volume of subordinated capital held fell by EUR 50 million from the previous year. The change in the holdings stemmed from the cash-effective change of EUR 43 million, as well as the measurement effects of EUR – 10 million and the change of EUR 17 million in the interest deferral.

Selected notes to the consolidated interim financial statements

for the first half of the 2017 financial year.

Basis of group accounting.

Landesbank Baden-Baden-Württemberg (LBBW (Bank)), as the parent company of the Group, is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The commercial register numbers at the responsible district court 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 consolidated interim financial statements of LBBW as at 30 June 2017 were prepared in accordance with section 37w of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in conjunction with section 37y no. 2 of the Securities Trading Act pursuant to the International Financial Reporting Standards (IFRS) and their interpretations (SIC, IFRIC) as they are applied 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 binding for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

Accounting policies.

1. Accounting principles.

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2017 do not contain all the information and disclosures which are required for the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2016.

As a matter of principle, the same group-wide accounting and valuation methods are applied as those used in the consolidated financial statements as at 31 December 2016. Further main accounting and valuation principles as well as the key areas in which discretion has been exercised by management and applied in the preparation of these consolidated interim financial statements, are explained in general in Notes 1 to 2. Notes on the scope of consolidation, segment reporting, and the individual items of the income statement and the balance sheet can be found in Notes 3 to 33, and notes on financial instruments and other disclosures are presented in Notes 34 to 45.

The accounting and valuation methods described were applied uniformly and consistently to the reporting periods shown, unless stated otherwise. All fully consolidated companies and investments accounted for using the equity method have prepared their interim financial statements as at the reporting date of 30 June 2017.

The reporting currency is the euro (EUR). The amounts reported in the balance sheet and the income statement are generally rounded commercially to EUR millions. This may result in minor aggregation differences; however, these do not have any adverse effect on the reporting quality.

2. Changes.

IFRS applied for the first time as at 1 January 2017.

The following IFRS were not yet recognized in European law on the date of the release of this annual report for publication. However, this is expected by the end of the year.

Annual Improvements to IFRS 2014 – 2016 Cycle – Amendments to IFRS 12.

This collective standard that was approved within the scope of the annual improvement projects is an IASB tool for implementing necessary but not otherwise urgent amendments to the existing IFRS framework. The changes may be of a purely editorial nature but they may also have an impact on the recognition, measurement and reporting of assets and liabilities as well as on the extent of the reporting obligations.

The first-time application would not have any material impact on the consolidated financial statements.

Disclosure Initiative – Amendments to IAS 7.

This standard supplements the existing disclosure requirements concerning the cash flow statement in order to present the change in borrowing from a company's funding activities in a more transparent manner.

The first-time application would not have any material impact on the consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12.

This standard clarifies that deferred tax assets relating to deductible temporary differences arising from unrealized losses on debt instruments measured at fair value must also be capitalized. Clarifications are also provided with regard to the taking into account of likely proceeds from the realization of assets exceeding the IFRS carrying amount of these assets at the reporting date and on the other hand with regard to the assessment of deferred tax assets arising from deductible temporary differences for impairment by means of a tax planning calculation.

The first-time application would not have any effect as LBBW already applies these principles.

IFRS to be applied in future.

The following IFRS had not yet taken effect by the date of release for publication of these financial statements. Unless otherwise stated, these IFRS are already recognized in European law and LBBW does not intend to apply them earlier on a voluntary basis:

IFRS 14 Regulatory Deferral Accounts.

This standard allows companies subject to price regulation to maintain national (local) accounting rules on regulatory deferral account balances when transferring to IFRS.

The European Commission has decided against adopting this standard in European law.

Annual Improvements to IFRS 2014 – 2016 Cycle – Amendments to IAS 28 and IFRS 1.

This collective standard that was approved within the scope of the annual improvement projects is an IASB tool for implementing necessary but not otherwise urgent amendments to the existing IFRS framework. The changes may be of a purely editorial nature but they may also have an impact on the recognition, measurement and reporting of assets and liabilities as well as on the extent of the reporting obligations.

The changes are expected to be effective for the first time in the 2018 financial year. The first-time application of this standard is not expected to have any material effect on the consolidated interim financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 9 Financial Instruments.

With the publication of IFRS 9 »Financial instruments« on 24 July 2014 the IASB completed the reform of its accounting provisions for financial instruments for the time being. The endorsement was finalized on 29 November 2016 with the publication of IFRS 9 in the Official Journal of the European Union. LBBW already availed itself in the 2016 financial year of the option for the voluntary early application of the provisions on the presentation of gains and losses of financial liabilities designated at fair value through profit or loss. Aside from the new regulations on the accounting of hedging relationships, LBBW will apply the remaining requirements of IFRS 9 for the first time in the 2018 financial year.

Implementation project.

IFRS 9 will be applied within the scope of an independent project. The priority of the project activities changed in the first half of this year. While the focus in the previous financial year was primarily on the implementation of the technical innovations in processes and IT systems, it has now shifted increasingly to the technical and IT tests for validating the adjustments in the LBBW Group that were brought about within the scope of the IFRS 9 project. In addition, the assessment of the individual business models and the portfolio analyses of the cash flow properties of the financial assets will be concluded in the second half of the year, as planned.

The description of the new provisions that were described in the LBBW Group annual report 2016 and the statements made there concerning the impact on the LBBW Group of IFRS 9, continue to apply even after the insights gained in the first half of 2017. The application of IFRS 9 – taking into account deferred taxes and the current economic environment – is not expected to have any material effect on equity or regulatory equity. The reforms in terms of content are mainly accounted for by the following topics regarding the recognition of financial instruments:

Classification – financial assets.

IFRS 9 includes a new classification and measurement approach for financial assets reflecting the business model as part of which the assets are held and the individual characteristics of their cash flows. All told, the new standard includes three classification categories for financial assets: carried at amortized cost (AC), measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). Based on today's project progress, significant volumes of financial instruments measured at amortized cost under IFRS 9 are not currently expected to be recognized at fair value through profit or loss.

Impairment – financial assets.

LBBW expects the biggest impact on the presentation of net assets and results of operations to result from the revised requirements with respect to allowances for losses on loans and advances. In future, the size of allowances for losses on loans and advances that represent debt instruments and are not to be measured at fair value through profit or loss will be calculated on the basis of uniform rules rather than according to separate requirements depending on the category, as is the case at present. In tandem with this, starting from the 2018 financial year LBBW needs to report not only the incurred loss but also the expected loss. In connection with this, in the event of a material increase in the default risk of the individual financial asset since its addition to the balance sheet, all expected losses over the entire term of the financial asset must in future be recognized directly. As a consequence of this paradigm shift, allowances for losses on loans and advances will in the overall analysis in future tend to be set aside earlier and will, all told, be higher than they would be pursuant to the impairment provisions of IAS 39. This requires major discretionary decisions with respect to the question as to the extent to which the expected loan defaults are influenced by changes in economic factors.

Accounting of hedging transactions.

The IASB has also revised the provisions on the accounting of hedging relationships. But these changes do not relate to the requirements for the accounting of measures to hedge portfolios against interest rate risks. LBBW will avail itself of the option to continue accounting for these hedging strategies in accordance with the requirements of IAS 39.

Transition.

IFRS 9 includes the option not to adjust comparative information for previous periods with regard to classification and measurement (including impairment). The LBBW Group avails itself of this option in that no voluntary restatement of prior year amounts is intended.

IFRS 15 Revenue from Contracts with Customers, Effective Date of IFRS 15.

This standard contains the new guidance on the realization of revenue and supersedes IAS 18 »Revenue« and IAS 11 »Construction Contracts« and some related interpretations. It comprises contracts with customers on the sale of goods or provision of services. Exceptions apply to financial instruments and leases, among other things.

The changes will be applied retrospectively for the first time in the 2018 financial year. The scope of application and the impact of the first-time application of IFRS 15 was examined as part of a preliminary study for the Group. No circumstances were identified which would result in different accounting when compared with IAS 18. Moreover, no application cases were identified in the Group for IAS 11 that would need to be accounted for differently pursuant to IFRS 15. With the exception of additional information in the Notes pursuant to IFRS 15 no impact is expected on the consolidated financial statements of LBBW.

Clarifications to IFRS 15.

The changes include clarifications to various provisions of IFRS 15 and simplifications of the transition to the new standard. Furthermore, two simplifications for first-time application have been introduced. They concern the presentation of contracts amended prior to the start of the earliest presented period or concluded before this period.

These changes have been taken into account as part of the preliminary study for IFRS 15 and are expected to be effective for the first time in the 2018 financial year. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2.

This standard comprises various clarifications in connection with share-based payments.

These changes are expected to be effective for the first time in the 2018 financial year. Given that LBBW's remuneration models do not fall within the scope of IFRS 2 »Share-based Payments«, it does not have any impact on the consolidated financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4.

This standard sets out the terms for the first-time application of IFRS 9 for companies that apply IFRS 4 to existing insurance contracts.

These changes are expected to be effective for the first time in the 2018 financial year. Given that LBBW's remuneration models do not fall within the scope of IFRS 4 »Insurance Contracts«, it does not have any impact on the consolidated financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

The IFRS Interpretations Committee's interpretation sets out the conversion of foreign currency transactions in the case of advance consideration paid or received and clarifies the exchange rate to be applied.

The changes are expected to be effective for the first time in the 2018 financial year. The impact of first-time application of these standards is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Transfers of Investment Property – Amendments to IAS 40.

This standard comprises clarifications in connection with changes in use for the classification of properties as »Owner-occupied« or as »Investment property«.

The changes are expected to be effective for the first time in the 2018 financial year. The impact of first-time application of these standards is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 16 Leases.

This standard contains the new parameters for the recognition of leases and replaces the previous IAS 17 and the associated interpretations IFRIC 4, SIC 15 and SIC 27. While the rules for the lessors are still strongly aligned to IAS 17, the parameters for the lessees follow a completely new approach, which provides for the capitalization of the right to use and the present value recognition of future lease payments as a leasing liability.

These changes are expected to be effective for the first time in the 2019 financial year. Impacts from the first-time application of this standard were analyzed as part of a technical preliminary study. Procedural and technical implementations will subsequently be examined. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRIC 23 Uncertainty over Income Tax Treatments.

This interpretation of the IFRS IC supplements the regulations of IAS 12 with respect to the consideration of uncertainties in the recognition of income tax.

These changes are expected to be effective for the first time in the 2019 financial year. The impact of first-time application of these standards is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 17 Insurance Contracts.

This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4.

These changes are expected to be effective for the first time in the 2021 financial year. Given that LBBW's transactions do not fall within the scope of IFRS 17 »Insurance Contracts«, it does not have any impact on the consolidated financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28, Effective Date of Amendments to IFRS 10 and IAS 28.

This standard determines that the amount of recognition of gains or losses resulting from a transaction with an associate or joint venture depends on whether the assets disposed of or acquired constitute a business. However, after publication of this amended standard, it emerged that it was not completely consistent with the existing IFRS framework. For this reason the IASB deferred the date of initial application indefinitely, to enable it to concern itself again with these types of transactions within the scope of a research project on the equity method. The process for adopting this standard into European law was also deferred until further notice.

Therefore no statement on the date of initial application or on the effects of the first-time application of the future standard can be made at present. However, on the basis of the current standards, this would have had no material impact on the consolidated financial statements.

Changes.

The following situation was corrected retrospectively in accordance with IAS 8.42 in the first half of the financial year:

- In the course of the gradual rental to third parties of an office building owned to date by the Group, the building was not classified as »Investment property« in 2015 but continued to be recognized under property and equipment. The retrospective correction of the cumulative effects on earnings from previous years was reported as at 1 January 2016 and led to a EUR 7 million increase in equity as a result of the EUR 6 million reduction in property and equipment and a EUR 13 million increase in the balance sheet item »Investment property«. These include immaterial valuation effects that arose in the 2016 financial year.

The following changes in presentation were also undertaken:

- As part of a further development of analysis and recognition, net interest expense and income from derivatives were netted in the consolidated financial statements in the interests of improved economic presentation, as was the case as at 31 December 2016. To enhance transparency and clarity, the previous year's figures were adjusted accordingly and an amount of EUR 2 billion reclassified.
- As was already the case as at 31 December 2016, direct incidental acquisition costs from trading transactions were recognized in »Net trading gains/losses« instead of in »Net fee and commission income« as before. For the purpose of restating the prior year amounts EUR 8 million was reclassified from »Net fee and commission income« to »Net trading gains/losses«.
- In addition, effects from close-out fees for derivatives were recognized to date in »Net interest income«, while the opposing valuation effects were reported in »Net trading gains/losses«. To ensure a more appropriate presentation of this matter over several reporting periods, close-out fees will also be reported in »Net trading gains/losses« in the future. To enhance transparency and clarity the previous year's figures were adjusted accordingly and an amount of EUR 44 million reclassified from »Net interest income« into »Net trading gains/losses«.

The said adjustments do not have an impact on profit or loss for the year or on the balance sheet.

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 114 subsidiaries, including 9 structured entities (previous year: 110 subsidiaries including 10 structured entities), were included in the consolidated interim financial statements.

A subsidiary is an entity that is controlled by another entity (known as the parent). Control is assumed to exist if the company (I) has direct or indirect power over the relevant activities of a company, (II) obtains variable returns from a company or has rights to variable returns, (III) can use its power over a company to influence the amount of its variable returns. In assessing whether LBBW exercises a controlling influence, the purpose and structure as well as the company's relevant activities must be taken into consideration.

If the voting rights are material for the management of the relevant activities, control by LBBW is assumed if it holds more than half of the voting rights in the company, either directly or indirectly, unless there are signs that at least one other investor (for example, due to statutory provisions or agreements) has the practical capability to unilaterally determine the relevant activities.

In cases in which LBBW does not hold a majority of the voting rights but has the practical capability to unilaterally control the relevant activities, power of control is also assumed. This is particularly relevant in relation to structured entities (includes securitization platforms initiated by LBBW or funds launched by LBBW), where voting or comparable rights are not the dominant factor when determining control. The following additional factors are therefore also taken into consideration when assessing the possibility of control:

- The voting rights relate solely to administrative duties; the relevant activities, on the other hand, are governed by contractual agreements.
- By performing various functions and given the rights it is granted from these, together with the rights of other parties, LBBW is given power of control.
- LBBW also carries a burden of risk or rights to variable benefits from liquidity lines provided and from interest and fees paid, among other things.

With the securitization platforms controlled by LBBW, the voting rights relate solely to administrative duties; the relevant activities, on the other hand, are governed by contractual agreements By performing various functions and given the rights it is granted from these, together with the rights of other parties, LBBW is given power of control. It also carries a burden of risk or rights to variable returns from liquidity lines provided and from collection of fees. It was concluded in an overall view that LBBW controls these securitization vehicles.

With regard to some project companies in which LBBW does not hold a majority of the voting rights, LBBW is given power of control together with the rights of other parties because of the financing structure. It also bears a burden of risk or has rights to variable returns from financing these companies. It was concluded in an overall view that LBBW controls these companies.

Other factors such as a principal-agent relationship can also lead to the assumption of control. If another party with decision-making rights operates as an agent for LBBW, it does not control the company, as it merely exercises decision-making rights that were delegated by LBBW as the principal and are therefore allocated to LBBW. If LBBW operates merely as an agent for another party, LBBW does not assume control over the company.

Subsidiaries are consolidated from the time when the Group acquires a controlling influence and the subsidiary meets quantitative or qualitative materiality criteria. The consolidation ends at the time when there is no longer any possibility for exercising a controlling influence or the scheduled dissolution of the subsidiary has started.

The appropriateness of the consolidation decisions met previously is reviewed regularly or on a case-by-case basis. Changes to the shareholder and capital structure, as well as changes to contractual agreements in relation to influencing rights result in a reappraisal of the possibility of control. Other motives for a reappraisal are events that lead to a change in the control factors.

The following subsidiaries were included in the scope of consolidation for the first time in 2017:

- NEIF Signaris S.à r.l.
- Lyoner Quartier GmbH & Co. KG
- Berlin Lützowstraße GmbH & Co. KG
- Löwentor Stuttgart Komplementär GmbH

The consolidated subsidiary Grundstücksgesellschaft Einkaufszentrum Haerder-Center Lübeck mbH & Co. KG was renamed Pasing Projekt GmbH & Co. KG.

The consolidated subsidiary aiP Gärtnerplatz GmbH & Co. KG was no longer classified as a structured entity in the first half of the year.

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

Joint ventures are joint agreements whereby LBBW and other parties exercise joint control over the agreement and have rights to the net assets of the agreement.

A joint agreement is an agreement where two or more contractual parties (I) are linked by means of a contractual agreement and (II) exercise joint control over the participating interest. A joint agreement can be a joint venture or a jointly controlled operation. The LBBW Group only has joint ventures.

Joints ventures are included in the consolidated interim financial statements using the equity method from the time when the Group obtains joint control with at least one other party and the joint venture satisfies quantitative or qualitative materiality criteria. The inclusion using the equity method ends at the time when there is no longer any possibility for exercising a controlling influence.

The following joint venture was included using the equity method in the scope of consolidation for the first time in 2017:

- OVG MK6 Komplementär GmbH

The included joint venture OVG MK6 GmbH was renamed OVG MK6 GmbH & Co. KG within the scope of a change in the legal form.

An associate is a company over which LBBW Group exercises significant influence but no controlling influence over the financial and operating policy decisions. Associates are companies in which LBBW holds a voting interest of between 20% and 50% (rebuttable presumption of association) or an unambiguous proof of association and an LBBW voting interest of less than 20%. The presumption of association of a minimum 20% voting right held by LBBW may be rebutted by limitations of the influence.

Existing exercisable or convertible potential voting rights, representation in managerial or supervisory bodies, participation in decision-making processes, including participation in decisions about dividends or other distributions as well as material business transactions with the (potential) associate are taken into consideration as proof of association or to rebut the presumption of association.

Associates are included in the consolidated interim financial statements using the equity method from the time when the Group exercises a material influence and the associate satisfies quantitative or qualitative materiality criteria. The inclusion using the equity method ends at the time when there is longer any possibility for exercising a controlling influence.

A total of 80 subsidiaries (previous year: 100 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 comprise mainly real estate and shelf companies, as well as start-up financing in the area of equity investments. The interests in these entities are either measured at fair value or carried at amortized cost.

Segment reporting.

The segment reporting of the LBBW Group for the first half of 2017 is drawn up in accordance with the provisions of IFRS 8. Following 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 about the allocation of resources and the assessment of the performance of the segments on this basis.

Classification of segments.

The business segments presented below are defined as product and customer groups in accordance with the Group's internal organizational structures, in accordance with the internal management report. Subsidiaries and equity investments are assigned to the individual segments according to their business orientation.

The following material adjustment was made to the segment structure in the 2017 financial year:

- In conjunction with the reorientation of the capital markets business, the former product-oriented approach was developed into a holistic customer advisory approach. In a first step, the international business activities were already transferred from the Corporates segment to the Financial Markets segment in 2016. In 2017, the treasury activities from the Corporates and the Financial Markets segments were reclassified to become the new Capital Markets Business segment. Extended management responsibilities were also determined for Treasury.

For reasons of comparability, the previous year's amounts were adjusted to the new reporting.

Segment reporting at the LBBW Group is divided into the following segments:

- The **Corporates** segment comprises business with SMEs, with a focus on the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate, key accounts and business with the public sector. On the financing side, the solutions offered range from classic through structured to off-balance-sheet financing. Services are also offered in the areas of cash management, interest rate, currency and commodities management, asset and pension management. Products relating to the primary capital markets business and for international business for our customers in the Corporates segment and commercial real estate financing are also included here. The segment includes the following material subsidiaries: LBBW Immobilien Management GmbH, Süd Beteiligungen, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH.
- The **Capital Markets Business** segment offers products for the management of interest rate, currency and credit risk and liquidity management for the institutional, banks and savings banks customer groups. In addition, the segment includes products and services for the international business. Financing solutions are also offered on the primary market in the field of equity and debt, along with asset management services and custodian bank services. Besides all sales activities with banks, sovereigns, insurance companies and pension funds, the segment also includes trading activities in connection with the customer business. The Corporates segment includes all results from financial market transactions with corporate customers. All treasury activities are also allocated to the segment. This comprises mainly the central investment of own funds, lending/deposit-taking operations, IFRS specifics in relation to the refinancing and hedge accounting, and the management of strategic investments and cover funds. As a significant subsidiary, LBBW Asset Management Investmentgesellschaft mbH is allocated to the Financial Markets segment.
- The **Retail/Savings Banks** segment includes all activities in the private customer business involving retail, private banking and wealth management customers. The product range covers classic checking accounts, real estate financing, investment advice, and specialized services – particularly for wealth management customers – such as financial planning, asset management, securities account management and foundation management. Business activities connected with the Bank's function as the central bank for savings banks are also included in this segment.
- The **Credit Investment** segment essentially pools the Group's credit substitute business. This comprises in particular the funding of the special-purpose vehicle Sealink Funding and the guarantee provided by the State of Baden Württemberg.
- The **Corporate Items** segment comprises all business activities not included in the segments mentioned above. These notably consist of equity investments not included in the consolidated financial statements, the management of the Bank's building portfolio and costs incurred in connection with the regulatory requirements and strategic projects for the Bank as a whole.
- The **Reconciliation/Consolidation** column includes matters related solely to consolidation. In addition, this segment reconciles internal financial control data with external financial reporting.

Valuation methods.

Segment information is based on the internal financial control data documented by Financial Controlling, which combine external financial reporting methods and economic valuation methods. The resulting differences in valuation and reporting compared with the IFRS Group figures are presented in the reconciliation statement.

As a rule, the income and expenses of the LBBW Group 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 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 equity.

Allowances for losses on loans and advances correspond to the carrying amounts in the income statement and are allocated to the segments in which they arise.

Net gains/losses from financial instruments measured at fair value through profit or loss include net trading gains/losses, net gains/losses from hedge accounting, and net gains/losses from financial instruments designated at fair value.

Net gains/losses from financial investments are reported in a single item along with net income/expenses from investments accounted for using the equity method, and allocated to the segments in which they arise.

Net income/expenses from investment property are recognized as part of other operating income/expense.

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

The expenses for the bank levy and deposit guarantee are recognized in a separate income item and therefore allocated to the segments in which they arise.

The assets on the balance sheet are reported as segment assets. They are allocated to the segments on the basis of internal management reporting.

The average tied-up capital in the segments is calculated on the basis of the risk weighted assets calculated and imputed Tier 1 capital backing.

A segment's return on equity (RoE) is calculated according to the ratio of annualized consolidated profit/loss before tax to the maximum planned average equity tied up or to average equity tied up in the current reporting period. For the Group, RoE is calculated from the ratio of annualized consolidated profit/loss before tax to average equity on the balance sheet adjusted for the effects on earnings reported directly in equity.

The cost/income ratio (CIR) is calculated based on the ratio of administrative expenses to total net interest income, net fee and commission income, net gains/losses from financial instruments measured at fair value through profit or loss and other operating income/ expenses.

Methodological enhancements led to a refined allocation of costs to the segments in the first half of 2017. The previous year's amounts were adjusted to the new reporting to preserve comparability.

The segment reporting also took into account the retroactive adjustments of the income statement (see Note 2).

Segment results by business area.

1 Jan. – 30 June 2017 EUR million	Corporates	Capital Markets Business	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	536	150	149	– 19	– 20	797
Allowances for losses on loans and advances	– 38	1	5	0	– 7	– 40
Net fee and commission income	100	70	115	0	– 16	270
Net gains/losses from financial instruments measured at fair value through profit or loss	37	157	0	0	– 63	130
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	48	52	0	0	1	101
Other operating income/expenses	24	7	2	0	23	56
Total operating income/expenses (after allowances for losses on loans & advances)	**706**	**437**	**271**	**– 18**	**– 82**	**1 313**
Administrative expenses	– 379	– 232	– 279	– 4	– 4	– 897
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 38	0	– 38
Expenses for bank levy and deposit guarantee system	– 13	– 15	– 3	– 2	– 36	– 69
Net income/expenses from restructuring	– 21	– 7	– 3	0	0	– 30
Consolidated profit/loss before tax	**294**	**184**	**– 15**	**– 62**	**– 122**	**279**
Income taxes						– 77
Net consolidated profit/loss						**201**
Segment assets (EUR billion)	77.8	148.9	12.3	9.5	6.5	255.0
Risk weighted assets[1] (EUR billion)	42.0	18.7	7.4	0.0	7.8	75.9
Tied-up equity[1] (EUR billion)	3.8	1.8	0.7	0.0	6.4	12.6
RoE[1] (in %)	13.9	16.7	< 0			4.4
CIR (in %)	54.4	60.3	> 100			71.6

1) Information in accordance with CRR/CRD IV following full implementation.

1 Jan. – 30 June 2016 EUR million	Corporates	Capital Markets Business[2]	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation[2]	LBBW Group[2]
Net interest income	535	175	143	– 17	– 22	814
Allowances for losses on loans and advances	7	– 1	6	0	– 13	– 1
Net fee and commission income	115	54	104	0	– 14	259
Net gains/losses from financial instruments measured at fair value through profit or loss	3	– 7	0	4	– 41	– 41
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	14	77	31	0	70	191
Other operating income/expenses	51	3	0	0	– 3	51
Total operating income/expenses (after allowances for losses on loans & advances)	**725**	**300**	**285**	**– 13**	**– 24**	**1 273**
Administrative expenses	– 362	– 239	– 257	– 5	– 20	– 882
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 51	0	– 51
Expenses for bank levy and deposit guarantee system	– 15	– 17	– 3	– 2	– 39	– 77
Net income/expenses from restructuring	– 5	– 14	0	0	13	– 5
Consolidated profit/loss before tax	**343**	**30**	**24**	**– 71**	**– 69**	**258**
Income taxes						– 70
Net consolidated profit/loss						**188**
Segment assets (EUR billion)	76.6	137.6	12.6	10.1	6.8	243.6
Risk weighted assets[1] (EUR billion)	42.9	18.9	7.7	0.0	7.9	77.4
Tied-up equity[1] (EUR billion)	3.8	1.8	0.7	0.1	6.5	12.8
RoE[1] (in %)	16.2	2.8	6.7			4.0
CIR (in %)	51.5	> 100	> 100			81.5

1) Information in accordance with CRR/CRD IV following full implementation.
2) Restatement of prior year amounts (see Note 2).

Details on Corporate Items, Reconciliation and Consolidation.

	Corporate Items		Reconciliation/Consolidation		Corporate Items/ Reconciliation/Consolidation	
EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[2]	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[2]	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016[2]
Net interest income	12	9	– 32	– 32	– 20	– 22
Allowances for losses on loans and advances	– 7	– 13	0	0	– 7	– 13
Net fee and commission income	1	1	– 16	– 14	– 16	– 14
Net gains/losses from financial instruments measured at fair value through profit or loss	3	– 2	– 66	– 39	– 63	– 41
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	1	72	0	– 2	1	70
Other operating income/expenses	23	– 3	0	0	23	– 3
Total operating income/expenses (after allowances for losses on loans and advances)	**32**	**63**	**– 115**	**– 87**	**– 82**	**– 24**
Administrative expenses	– 4	– 20	0	0	– 4	– 20
Expenses for bank levy and deposit guarantee system	– 36	– 39	0	0	– 36	– 39
Net income/expenses from restructuring	0	13	0	0	0	13
Consolidated profit/loss before tax	**– 8**	**18**	**– 115**	**– 87**	**– 122**	**– 69**
Segment assets (EUR billion)	6.3	3.9	0.2	2.9	6.5	6.8
Risk weighted assets[1] (EUR billion)	9.4	9.4	– 1.6	– 1.5	7.8	7.9
Tied-up equity[1] (EUR billion)	6.5	6.6	– 0.2	– 0.1	6.4	6.5

1) Information in accordance with CRR/CRD IV following full implementation.
2) Restatement of prior year amounts (see Note 2).

Reconciliation of segment results to the consolidated income statement.

In the 2017 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax increased to EUR – 115 million (previous year: EUR – 87 million) and is essentially due to the following factors:

- In internal management reporting, the net interest income is calculated on the basis of the market interest method. Differences compared with the income statement are therefore the result of net interest income for prior periods and IFRS-specific measurements not included in internal management reporting (e.g. net result from the repurchase of own issues and effects from the purchase price allocation in connection with the takeover of Sachsen LB).
- Effects from close-out fees and associated derivatives premiums.
- Effects arise resulting from IFRS-specific matters connected with the fair value option.

Notes to the income statement.

4. Net interest income.

The items »Interest income« and »Interest expense« also include the interest and dividend income and the associated refinancing expenses of financial instruments held for trading and designated at fair value. In addition, the payments to typical silent partners are reported under »Interest expense« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Trading derivatives	3 707	3 404
Lending and money market transactions	1 266	1 361
Hedging derivatives	668	616
Fixed-income securities and debentures	89	141
Early termination fees	33	44
Other	180	201
Interest income	**5 943**	**5 766**
Leasing business	153	156
Equity investments and affiliates	20	20
Equities and other non-fixed-income securities	1	8
Profit transfer agreements	1	0
Current income	**175**	**184**
Interest and current income	**6 118**	**5 950**
Trading derivatives	– 3 556	– 3 376
Hedging derivatives	– 645	– 594
Deposits	– 506	– 570
Securitized liabilities	– 287	– 280
Leasing business	– 27	– 23
Subordinated capital	– 114	– 111
Other	– 187	– 183
Interest expense	**– 5 321**	**– 5 137**
Total	**797**	**814**

Net interest income, which declined once again, was burdened by the ECB's enduring expansive monetary policy. The sometimes negative interest rates impacted on the contribution to earnings in the deposit-taking business with customers and the investment of LBBW's own funds. This was offset in part by the business with real estate and wealth management customers. The high level of competition within the banking industry continued to have a burdening effect, which LBBW addressed with a measured risk policy.

For financial assets in the LaR category for which valuation allowances were recognized, interest income of EUR 6 million (previous year: EUR 11 million) was calculated in the period under review from the increase in the net present value of the receivables (unwinding in accordance with IAS 39.AG93).

The netting of treasury or intragroup debentures in accordance with IAS 39.39 et seq. had no significant effect (previous year: EUR 1 million) during the period under review.

Against the background of negative interest rates, capital commitment also led to contrary effects, which impacted on interest income in the amount of EUR - 93 million (previous year: EUR - 30 million) in the first half of the financial year under review and on interest expense in the amount of EUR 74 million (previous year: EUR 24 million).

5. Allowances for losses on loans and advances.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Additions to allowances for losses on loans and advances	– 149	– 145
Direct loan write-offs	– 7	– 28
Net gains/losses from provisions for lending business	3	5
Recoveries on loans and advances previously written off	7	9
Reversal of allowances for losses on loans and advances	108	159
Other expenses for the lending business	– 2	– 2
Total	**– 40**	**– 1**

6. Net fee and commission income.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Securities and custody business	126	126
Payment business	61	50
Brokerage business	44	38
Loans and guarantees[1)]	60	57
Other	38	41
Fee and commission income	**328**	**312**
Securities and custody business	– 31	– 27
Payment business	– 13	– 11
Brokerage business	– 3	– 4
Loans and guarantees[1)]	– 6	– 4
Leasing business	– 1	– 1
Other	– 4	– 6
Fee and commission expense	**– 59**	**– 53**
Total	**270**	**259**

1) Includes lending, trustee, guarantee and credit business.

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

Net gains/losses from financial instruments measured at fair value through profit or loss are comprised of the following:

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Net trading gains/losses	55	79
Net gains/losses from financial instruments designated at fair value	64	– 95
Net gains/losses from hedge accounting	11	– 26
Total	**130**	**– 41**

Net trading gains/losses.

All net gains/losses on the disposal and remeasurement of financial instruments in the held-for-trading category are reported under »Net trading gains/losses«. In addition, the income/loss from the foreign currency translation of items denominated in foreign currency and the remeasurement gains/losses from economic hedging derivatives are presented under this item. The interest and dividend income and the associated refinancing expenses of financial instruments are reported under »Net interest income«.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Credit transactions	59	– 111
Interest rate transactions	44	329
Equity transactions	95	– 115
Gains/losses from foreign exchange/commodity products	19	30
Currency gains/losses	– 21	18
Economic hedging derivatives	– 140	– 71
Total	**55**	**79**

Capital-guaranteed products generated greater effects on earnings, which had a positive effect in the credit business and a negative effect on interest rate transactions. Taken in relation to the entire earnings position, these effects virtually canceled each other out.

Adjusted for these shifts in earnings, the decrease in net trading gains/losses was generated primarily from a lower valuation result in interest rate transactions. The interest and credit spread development, which led to lower haircuts on counterparty credit risks (CVA) impacted positively on the result.

Net gains/losses from financial instruments designated at fair value.

Net gains/losses from financial instruments designated at fair value include all realized and unrealized gains and losses from assets and liabilities designated at fair value. Dividends and the interest income/interest expense from assets designated at fair value are reported under »Net interest income«. The fee and commission payments associated with purchases and sales are reported under »Net fee and commission income«.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Realized gains/losses	– 11	1
Unrealized gains/losses	75	– 95
Total	**64**	**– 95**

The sharp increase in unrealized gains and losses is mainly attributable to positive measurement effects that were particularly sensitive to the slight increase in interest rates. Economic hedging derivatives in net trading gains/losses had the opposite effect.

Last year, unrealized gains/losses still included a valuation effect of EUR – 1 million in connection with taking into account the bank's own credit rating. Due to the voluntary early partial application of IFRS 9 as at 31 December 2016, this effect was included at the current reporting date under »Equity«.

Net gains/losses from hedge accounting.

The net gains/losses from hedge accounting include the remeasurement gains/losses from effective hedging transactions as part of hedge accounting. The effect on profit or loss of hedging transactions not satisfying the effectiveness requirements of IAS 39 is reported under »Net trading gains/losses«.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Portfolio fair value hedge	12	– 22
of which hedged items	– 74	528
of which hedging instruments	86	– 550
Micro fair value hedge	– 1	– 3
of which hedged items	– 68	150
of which hedging instruments	67	– 153
Total	**11**	**– 26**

8. Net gains/losses from financial investments.

Net gains/losses from financial investments include disposal and remeasurement (including impairments) results on securities from the loans and receivables (LaR) and available for sale (AfS) categories, as well as on equity investments (AfS) and shares in non-consolidated companies (AfS). This item also includes net gains/losses on the disposal of investments accounted for using the equity method. As well as this, it includes reversals of impairment losses on debt instruments following rating-based write-downs to amortized cost.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Net gains/losses on disposal	92	182
of which securities	52	98
of which equity investments	40	84
Impairment	– 2	– 2
Net gains/losses from financial investments (AfS)	**90**	**180**
Total	**90**	**180**

Net gains/losses from the disposal of securities and equity investments declined in comparison with the previous year. The volume of positive contributions from bond sales for liquidity management purposes were unable to match the previous year's amounts. The sale of cellent AG and subsequent purchase price adjustments in connection with the sale of equity instruments the year before contributed to the very good performance.

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

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Current income	9	1
Impairment	– 4	0
Reversals of impairment losses	0	9
Net gains/losses from investments in associates	**4**	**10**
Current expenses	0	– 1
Current income	6	2
Net gains/losses from shares in joint ventures	**6**	**1**
Total	**10**	**11**

10. Other operating income/expenses.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Disposal of inventories	114	80
Reversal of other provisions	22	25
Revenues from property services	7	8
Income from cost refunds by third parties	15	19
Management of other property portfolios	1	1
Operating leases	13	13
Fixed assets and intangible assets	0	1
Rental income from investment property	25	24
Income from the fair value measurement of investment property	10	3
Income from foreign currency translation on investment property	0	3
Miscellaneous operating income	37	33
Other operating income	**243**	**209**
Disposal of inventories	– 97	– 70
Additions to other provisions	– 34	– 28
Operating leases	– 3	– 2
Operating expenses for leased properties	– 6	– 6
Expenses from the fair value measurement of investment property	0	– 4
Expenses from foreign currency translation on investment property	– 6	0
Miscellaneous operating expenses	– 40	– 47
Other operating expenses	**– 188**	**– 158**
Total	**56**	**51**

The income and expenses from the disposal of inventories primarily resulted from various successfully concluded project developments. This significantly drove up the profit contributions over the previous year.

The released provisions and provisions added to in the year under review related mainly to legal risks.

11. Administrative expenses.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Staff expenses	– 507	– 517
Other administrative expenses	– 342	– 321
Depreciation and write-downs of property and equipment[1)]	– 18	– 26
Amortization and write-downs of intangible assets[1)]	– 29	– 19
Total	**– 897**	**– 882**

1) This includes scheduled and unscheduled write-downs.

The reduction in the number of employees resulted in lower staff expenses, despite opposing effects from pay-scale adjustments. In contrast, activities surrounding the upgrading of the IT architecture with the rollout of the new core banking system in April and further investment in greater digitalization resulted on higher other administrative expenses.

12. Net income/expenses from restructuring.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Reversal of provisions for restructuring measures	0	13
Additions of restructuring provisions	– 30	– 19
Total	**– 30**	**– 5**

The restructuring amount was accounted for almost entirely by the creation of provisions for measures planned as a consequence of streamlining the business processes and product range.

13. Income taxes.

EUR million	1 Jan. – 30 June 2017	1 Jan. – 30 June 2016
Income taxes from previous years	– 10	7
Income taxes from the reporting period	– 26	– 72
Deferred income taxes	– 42	– 4
Total	**– 77**	**– 70**

The income tax expense came to EUR - 77 million (previous year: EUR - 70 million). The notional effective group tax rate calculated for the reporting period is 28 % (previous year: 27 %).

Notes to the balance sheet.

14. Cash and cash equivalents.

EUR million	30 June 2017	31 Dec. 2016
Balances with central banks	25 334	13 346
Cash	116	186
Total	**25 449**	**13 532**

The increase in balances with central banks is largely attributable to an increase in balances held with Deutsche Bundesbank of EUR 24 001 million (previous year: EUR 9 767 million).

15. Loans and advances to banks.

Breakdown by business type.

EUR million	30 June 2017	31 Dec. 2016
Public-sector loans	26 873	25 795
Current account claims	2 191	985
Securities repurchase transactions	9 220	7 676
Other loans	1 766	2 043
Borrower's note loans	6	50
Overnight and term money	8 075	1 209
Mortgage loans	252	199
Other receivables	1 918	1 331
Total	**50 301**	**39 288**
of which to central counterparties	5 308	5 042

Breakdown by region.

EUR million	30 June 2017	31 Dec. 2016
Banks within Germany	38 817	32 438
Banks outside Germany	11 484	6 849
Total	**50 301**	**39 288**

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes has been reported in the non-trading portfolio since the second half of 2016. We continued to implement this strategy in the first half of 2017, which continued to lead to shifts between individual balance-sheet items. In this context, there was an increase in the volume of loans and advances to customers and banks and deposits from customers and banks, chiefly overnight and term money. On the other hand, the volume of the financial assets or liabilities measured at fair value through profit or loss declined.

16. Loans and advances to customers.

Breakdown by business type.

EUR million	30 June 2017	31 Dec. 2016
Other loans	28 502	26 982
Mortgage loans	27 740	30 322
Public-sector loans	18 508	17 888
Receivables from finance leases	5 052	4 941
Transmitted loans	2 899	3 117
Securities repurchase transactions	14 070	12 336
Current account claims	3 790	3 359
Overnight and term money	5 853	4 892
Borrower's note loans	4 604	3 712
Other receivables	4 092	3 683
Total	**115 109**	**111 232**
of which to central counterparties	4 784	5 597

Breakdown by region.

EUR million	30 June 2017	31 Dec. 2016
Customers within Germany	76 472	74 317
Customers outside Germany	38 637	36 915
Total	**115 109**	**111 232**

The rise in securities repurchase transactions made a significant contributed to the increase in the position. Transactions with key customers as well as with regional corporate customers was extended again slightly.

The item »Other loans« contains mainly syndicated loans in the amount of EUR 7 961 million (previous year: EUR 7 768 million) and corporate finance not secured by mortgages.

17. Allowances for losses on loans and advances.

The allowances for losses on loans and advances deducted from assets changed as follows in the first half of the financial year:

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which finance leases	Loans and advances to banks	Loans and advances to customers	of which finance leases
Balance as at 31 December 2016	**1**	**718**	**65**	**10**	**99**	**10**
Utilization	0	– 50	– 8	0	0	0
Additions	0	107	10	5	37	5
Reversals	0	– 64	– 9	– 5	– 38	– 5
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 6	0	0	0	0
Balance as at 30 June 2017	**1**	**704**	**57**	**9**	**98**	**10**

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which finance leases	Loans and advances to banks	Loans and advances to customers	of which finance leases
Balance as at 31 December 2015	**2**	**1 013**	**91**	**6**	**108**	**13**
Utilization	0	– 284	– 27	0	0	0
Additions	0	173	20	6	43	3
Reversals	– 1	– 166	– 16	– 3	– 49	– 5
Changes in the scope of consolidation	0	– 1	0	0	– 2	0
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 19	0	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	3	– 3	0	– 1	– 1
Balance as at 31 December 2016	**1**	**718**	**65**	**10**	**99**	**10**

18. Financial assets at fair value through profit or loss.

EUR million	30 June 2017	31 Dec. 2016
Trading assets	31 474	46 648
Financial assets designated at fair value	714	750
Positive fair values from hedging derivatives	1 949	2 777
Total	**34 136**	**50 175**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Debentures and other fixed-income securities	7 559	9 014	93	97
Money market instruments	877	944	0	0
Bonds and debentures	6 682	8 070	93	97
Equities and other non-fixed-income securities	920	689	207	203
Equities	303	402	0	0
Investment units	618	286	205	201
Other securities	0	0	2	2
Other	3 409	13 020	415	450
Borrower's note loans	3 128	3 007	415	425
Other money market transactions	152	8 879	0	0
Other loans and receivables			0	24
Miscellaneous	130	1 135	0	0
Positive fair values from derivative financial instruments	19 584	23 925		
Total	**31 474**	**46 648**	**714**	**750**

The decline in trading assets was mainly due to maturing overnight and term money with national and international banks in the course of the realignment of the liquidity management (see Note 15), which are shown in Other money market transactions. Maturities were largely responsible for the reduction in the volume of bonds and debentures in net trading assets. The positive fair values from trading derivatives were also reduced as a result of effects driven by interest rates.

Positive fair values from hedging derivatives.

The positive fair values from derivatives which are essentially used to secure hedged items against the interest rate risk and meet the requirements of IFRS hedge accounting are included in this item. Interest rate swaps and cross-currency interest rate swaps were designated as hedging instruments.

EUR million	30 June 2017	31 Dec. 2016
Positive fair values from portfolio fair value hedges	1 518	2 263
Positive fair values from micro fair value hedges	431	514
Total	**1 949**	**2 777**

19. Financial investments.

EUR million	30 June 2017	31 Dec. 2016
Debentures and other fixed-income securities	25 651	24 788
Bonds and debentures	24 208	24 422
Money market instruments	1 443	366
Equities and other non-fixed-income securities	13	14
Other securities	13	14
Equity investments	684	785
Shares in affiliates	86	106
Total	**26 435**	**25 693**

20. Shares in investments accounted for using the equity method.

EUR million	30 June 2017	31 Dec. 2016
Associates	227	226
Joint ventures	13	7
Total	**240**	**233**

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

In the course of the constant optimization of its portfolio, LBBW held or concluded negotiations during the period under review about the sale of non-current assets.

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

- Sales negotiations for some real estate properties allocated to the Corporates and Corporate Items reporting segments were opened in the second half of 2016. Some of these properties were sold in the first half of 2017. One property was sold after the reporting date of 30 June 2017. The rest of the properties are expected to be sold in the third quarter of 2017.
- In addition, sales negotiations for a non-consolidated equity investment started in the second half of 2016. The sale of this equity investment took place after the reporting date of 30 June 2017. This affects the Corporate Items reporting segment.
- Sales negotiations for an investment property started in the first half of 2017. The sale of this property is expected to take place in the first half of 2017 This affects the Corporate Items segment.

The reclassification of non-current assets in accordance with IFRS 5 did not result in any impairments in the period under review.

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

EUR million	30 June 2017	31 Dec. 2016
Assets		
Financial investments	27	28
Investment property	89	52
Property and equipment	71	111
Total	**186**	**191**

22. Intangible assets.

EUR million	30 June 2017	31 Dec. 2016
Software	152	125
Advance payments and acquisition costs for development and preparation	61	69
Other intangible assets	53	55
Total	**266**	**249**

Amortization and write-downs of intangible assets, both scheduled and unscheduled – with the exception of goodwill (separate item in the income statement) – are recognized in the »Amortization and write-downs of intangible assets« item under »Administrative expenses«.

23. Investment property.

Fair value is calculated using the discounted cash flow method based on the following approach. The respective building serves as a 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.

In the case of commercial real estate, future income during the planning period is forecast based on the contractually agreed target rent or, after the contract period has expired, the property-specific market rent. The calculation is made on the basis of a valuation tool that is based on the discounted cash flow method.

Future expenditure is determined by means of a differentiated system, with administrative expenses based on standard market rates. Costs associated with loss of rental income are calculated at a flat rate on the basis of the target rents, depending on the sales cost and the credit standing of the tenant. Costs associated with vacancies and new rental costs, maintenance costs and maintenance backlogs are calculated for each specific property, supplemented by the Group's own experience if applicable. If ground rent (Erbbauzins) is to be taken into account, this is calculated individually on the basis of existing contracts.

The cash surpluses generated in each period are discounted to the valuation date by applying a property-specific market discount rate. The discount rate is derived from the capitalization rate plus a percentage-based risk premium. The capitalization rate takes into account facts including the quality of the property, the type of property and the macro- and micro-location.

The carrying amounts of the investment property measured at fair value developed as follows in the first half-year.

EUR million	2017	2016
Balance as at 31 December	**574**	**649**
Restatement of prior year amounts	0	13
Balance as at 1 January	**574**	**663**
Additions	0	6
Disposals	0	– 47
Changes in the scope of consolidation	76	0
Transfer to non-current assets or disposal groups held for sale	– 63	– 72
Currency translation differences	– 9	4
Changes in fair value from assets (through profit or loss)	3	10
Transfers out of/into inventories and property and equipment	0	10
Balance as at 30 June/31 December	**581**	**574**

See Note 36 et seq. for additional quantitative information.

24. Property and equipment.

EUR million	30 June 2017	31 Dec. 2016
Land and buildings	303	311
Leased assets under operating leases	93	96
Operating and office equipment	77	82
Technical equipment and machinery	14	15
Leased assets under finance leases	2	2
Total	**489**	**507**

Scheduled and unscheduled depreciation and write-downs are included in the »Depreciation and write-downs of property and equipment« item in »Administrative expenses«.

25. Other assets.

EUR million	30 June 2017	31 Dec. 2016
Inventories	309	333
Receivables from tax authorities	28	31
Other miscellaneous assets	728	497
Total	**1 065**	**861**

Other miscellaneous assets rose mainly due to an increase in the margin holding because of the rise in the volume of client clearing. This effect also impacted on »Other liabilities« (see Note 31).

26. Deposits from banks.

Breakdown by business type.

EUR million	30 June 2017	31 Dec. 2016
Transmitted loans	24 370	23 880
Securities repurchase transactions	3 763	3 298
Borrower's note loans	3 980	4 125
Overnight and term money	29 968	7 359
Public-sector registered covered bonds issued	727	697
Current account liabilities	2 609	2 655
Mortgage-backed registered covered bonds issued	265	268
Other liabilities	4 590	2 287
Total	**70 273**	**44 568**
of which to central counterparties	1 092	1 393

Breakdown by region.

EUR million	30 June 2017	31 Dec. 2016
Banks within Germany	45 922	39 031
Banks outside Germany	24 350	5 537
Total	**70 273**	**44 568**

The increase in overnight and term money was mainly associated with the realignment of the liquidity management (see Note 15).

27. Deposits from customers.

Breakdown by business type.

EUR million	30 June 2017	31 Dec. 2016
Current account liabilities	42 770	34 422
Overnight and term money	23 351	15 226
Borrower's note loans	1 887	2 026
Securities repurchase transactions	3 652	5 038
Public-sector registered covered bonds issued	3 385	3 646
Savings deposits	6 363	6 979
Mortgage-backed registered covered bonds issued	761	783
Other liabilities	2 618	2 521
Total	**84 786**	**70 641**
of which to central counterparties	1 902	3 677

Breakdown by region.

EUR million	30 June 2017	31 Dec. 2016
Customers within Germany	71 569	60 748
Customers outside Germany	13 217	9 893
Total	**84 786**	**70 641**

The changes in the liquidity management (see Note 15) led to an increase in particular in current account liabilities and overnight and term money.

28. Securitized liabilities.

Securitized liabilities primarily comprise issued debentures and other liabilities securitized in the form of transferable instruments.

EUR million	30 June 2017	31 Dec. 2016
Issued debentures	32 349	28 612
Mortgage-backed covered bonds	10 566	9 129
Public-sector covered bonds	4 635	4 042
Other bonds	17 148	15 441
Other securitized liabilities	13 044	5 743
Total	**45 393**	**34 355**

With regard to other debentures, the new issuance of bonds and debentures significantly exceeded repayments and maturities, so that the portfolio volume increased in the first six months of the year. New issues at the start of the year also led to an increase in the volume of mortgage-backed covered bonds and public-sector covered bonds.

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 299 778 million (previous year: EUR 508 852 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 10 412 million (previous year: EUR 5 585 million) and the volume of repayments to a nominal of EUR 179 241 million (previous year: EUR 225 621 million).

29. Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are comprised of the following:

EUR million	30 June 2017	31 Dec. 2016
Trading liabilities	24 466	63 090
Financial liabilities designated at fair value	2 803	2 768
Negative fair values from hedging derivatives	3 382	3 989
Total	**30 650**	**69 846**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Negative fair values from trading derivatives and economic hedging derivatives	17 136	21 394		
Money market transactions	1 066	28 856	90	94
Securitized liabilities	4 335	11 464	992	1 114
Delivery obligations from short sales of securities	1 903	1 349		
Borrower's note loans	24	25	687	697
Subordinated liabilities			474	278
Other	1	2	560	585
Total	**24 466**	**63 090**	**2 803**	**2 768**

The key reason for the decline in trading liabilities were the changes in the liquidity management (see Note 15). This led to in particular in the sharp decline in money market transactions, which was chiefly attributable to maturities. The volume of securitized liabilities was reduced at the same time. The decline in negative fair values from trading derivatives was interest rate induced.

Negative fair values from hedging derivatives.

The negative fair values from derivatives that are used to secure hedged items against interest rate risks are reported in this item and meet the requirements of the IFRS hedge accounting. Interest rate swaps and cross-currency interest rate swaps were designated as hedging instruments.

EUR million	30 June 2017	31 Dec. 2016
Negative fair values from portfolio fair value hedges	2 428	2 908
Negative fair values from micro fair value hedges	953	1 081
Total	**3 382**	**3 989**

30. Provisions.

EUR million	30 June 2017	31 Dec. 2016
Provisions for pensions	3 066	3 160
Provisions for litigation and recourse risks	184	182
Provisions for lending business	56	59
Other personnel-related provisions	98	112
Other provisions	252	222
Total	**3 656**	**3 734**

The decline in the provisions for pensions is connected with the rise in the discount rate for pension provisions from 1.72 % to 1.94 %.

31. Other liabilities.

EUR million	30 June 2017	31 Dec. 2016
Liabilities from		
Other taxes	83	42
Employment	15	34
Deliveries and services	73	156
Finance leases	3	3
Advances received	45	101
Other miscellaneous liabilities	844	553
Total	**1 063**	**889**

The increase in other miscellaneous liabilities was mainly due to higher margin holdings from the increase in client clearing. This effect also impacted on »Other assets« (see Note 25).

32. Subordinated capital.

In the event of insolvency proceedings or liquidation, the reported subordinated capital may not be repaid until all non-subordinated creditors have been satisfied. Subordinated capital is broken down as follows:

EUR million	30 June 2017	31 Dec. 2016
Subordinated liabilities	4 658	4 532
Typical silent partners' contributions	1 083	1 246
Capital generated from profit-participation rights	103	117
Total	**5 844**	**5 895**

33. Equity.

EUR million	30 June 2017	31 Dec. 2016
Share capital	3 484	3 484
Capital reserve	8 240	8 240
Retained earnings	871	1 006
Other income	326	348
Unappropriated profit/loss	200	10
Shareholders' equity	**13 121**	**13 088**
Equity attributable to non-controlling interest	43	38
Total	**13 165**	**13 126**

The following entities are holders of the share capital of LBBW:

- Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) with 40.53 %,
- State of Baden-Württemberg (state) with 24.99 %,
- State Capital of Stuttgart (city) with 18.93 %,
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW) with 15.55 %.

Cumulative actuarial gains and losses amounting to EUR - 761 million (previous year: EUR - 836 million) were reported in retained earnings.

At the current reporting date, a valuation effect after deferred taxes of EUR 15 million (previous year: EUR 24 million) in connection with the measurement result from LBBW's own credit rating was included in other income.

Having being lowered to EUR 10 million by the non-recurring effect from the full impairment of goodwill of EUR 379 million at year-end 2016, unappropriated profit/loss recovered as at the current reporting date.

Taxes recognized directly in equity totaling EUR 336 million (previous year: EUR 353 million).

A detailed breakdown of the performance of equity can be found in the statement of changes in equity.

Notes on financial instruments.

The disclosures in the following Notes largely meet the requirements in accordance with IFRS 13 and IFRS 7. Further IFRS 7 disclosures can be found in the risk and opportunity report.

34. Fair value measurement.

The fair value is defined in accordance with IFRS 13 as the price at which an asset or liability could be exchanged 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, the LBBW Group 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 no prices quoted in active markets are available, measurement methods, prices for similar assets, prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for valuation procedures relate to parameters 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 especially if no parameters observable on the markets are available.

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

The fair values of holdings measured at fair value are subject to LBBW Group's internal controls and processes, in which the standards for the independent reviewing or validation of fair values are established. These controls and procedures are monitored by the Independent Price Verification (IPV) organizational unit within the Risk Controlling division. The models, inputs and resulting fair values are regularly checked by the Risk Methodology department.

The following table contains an overview of the valuation models applied for financial instruments:

Financial instruments	Valuation models	Material parameters
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 reversion
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 options, equity index/dividend futures	Black-Scholes, local volatility model	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, volatility
Credit derivatives	Intensity model, Copula model, credit correlation model	Credit spreads, yield curves and index tranche prices for the Copula models, correlation
Money market transactions	Net present value method	Credit spreads, yield curves
Securities repurchase transactions	Net present value method	Yield curves
Borrower's note 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 bonds and borrower's note 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
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and failure rates, losses

The valuation and the use of material parameters for non-current assets and disposal groups held for sale, as well as liabilities from disposal groups, is performed in line with the original balance sheet items.

The financial instruments stated above are allocated to the following main classes:

Class	Financial instruments
Assets carried at fair value	
Trading assets	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options, forward rate agreements, securities, forward security agreements, money market transactions, borrower’s note loans
Financial assets designated at fair value	Securities, forward security agreements, money market transactions, borrower’s note loans, loans
Positive fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Financial investments (AfS)	Securitizations, securities, forward security transactions, money market transactions
Assets carried at amortized cost	
Loans and advances to banks	Loans, borrower's note loans, forward security transactions, term money, money market transactions
Loans and advances to customers	Loans, borrower's note loans, forward security transactions, term money, money market transactions
Loans and advances to customers – of which finance leases	Finance lease agreements
Financial investments (LaR)	Securities
Non-current assets and disposal groups held for sale	According to the respective balance-sheet item
Liabilities measured at fair value	
Net trading gains/losses	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options, money market transactions, forward rate agreements, borrower’s note loans
Financial liabilities designated at fair value	Own bearer bonds and borrower's note loans issued
Negative fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Liabilities carried at amortized cost	
Deposits from banks	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from banks – of which finance leases	Finance lease agreements
Deposits from customers	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from customers – of which finance leases	Finance lease agreements
Securitized liabilities	Issued debentures, money market transactions
Other liabilities – of which finance leases	Finance lease agreements
Subordinated capital	Bonds, participation certificates
Liabilities from disposal groups	According to the respective balance-sheet item
Irrevocable loan commitments	Credit line agreements

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

Exchange-traded derivatives are always valued using market prices. The fair values of equity-based derivatives are calculated uniformly on the basis of model assessments on account of the portfolio approach.

The fair value of OTC derivatives is calculated using valuation models. A distinction is drawn 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 market price-derived correlations. 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 makes use of the portfolio exception in accordance with IFRS 13.48 for the fair value measurement of derivatives in the following:

- The adjustment amount is calculated on the basis of the net risk positions for some fair value adjustments (e.g. close-out costs).
- When measuring counterparty risks in relation to OTC derivatives, for which netting agreements were concluded 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 to hand is measured on the basis of these prices and the classification in Level II (see fair value hierarchy). The fair values of securitizations for which current market prices are not sufficiently available (Level III) are calculated using valuation models. They are prevailing models which are based on the discounted cash flow method.

If the fair value of a financial instrument that is calculated using valuation methods does not take sufficient account of factors such as bid-offer spreads or close-out costs, liquidity, model, credit and/or counterparty risk, the Bank calculates valuation adjustments. The methods used do not always take into account parameters observed on the market. Valuation adjustments are currently made within the LBBW Group, particularly for the following issues:

- Recognition of credit risks in relation to receivables and counterparty default risks from OTC derivatives (CVA).
- 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 and/or parameters used, for example, so-called model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day One profit or loss on specific complex derivatives and loans that are measured at fair value.

When calculating the fair value of listed equity investments that are allocated to the available-for-sale category, prices traded on an active market are used, if available. For non-listed companies or if no prices traded on an active market are available, the fair value is measured via a valuation method. The LBBW Group measures fair value in these cases mainly by means of 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 generally measured on the basis of the DCF method. The net income value approach is generally used for the measurements of all other major equity investments. If the application of the net income value approach is associated with considerable uncertainty or cannot be depended on to be reliable due to a lack of data, the net asset value method is used, provided the equity investment's business activities are stable.

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, classification is in Level II. Rating information obtained from internal sources requires classification in Level III. 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 short-term assets and liabilities (e.g. current account assets and liabilities).

35. Fair value of financial instruments.

The following table compares the carrying amounts and the fair values of financial instruments:

Assets

	30 June 2017		31 Dec. 2016	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**25 449**	**25 449**	**13 532**	**13 532**
Assets carried at fair value				
Trading assets	31 474	31 474	46 648	46 648
Derivatives	19 584	19 584	23 925	23 925
Currency-related derivatives	3 416	3 416	4 316	4 316
Interest rate-related derivatives	15 634	15 634	19 039	19 039
Credit derivatives	137	137	128	128
Share-/index-related derivatives	358	358	381	381
Commodity-related and other derivatives	40	40	60	60
Equity instruments	920	920	689	689
Securities	7 559	7 559	9 014	9 014
Receivables	3 409	3 409	13 020	13 020
Financial assets designated at fair value	714	714	750	750
Equity instruments	207	207	203	203
Securities	93	93	97	97
Loans and receivables	415	415	450	450
Positive fair values from hedging derivatives	1 949	1 949	2 777	2 777
Interest rate derivatives	1 943	1 943	2 769	2 769
Cross-currency interest rate swaps	6	6	7	7
Financial investments (AfS)	20 942	20 942	20 270	20 270
Equity instruments	779	779	899	899
Securities	20 163	20 163	19 371	19 371
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	50 291	51 027	39 277	40 316
Public-sector loans	26 872	27 817	25 793	26 869
Securities repurchase transactions	9 220	9 225	7 676	7 630
Other receivables	14 199	13 984	5 808	5 818
Loans and advances to customers after allowances for losses on loans and advances	114 307	119 517	110 415	116 231
Public-sector loans	18 497	20 777	17 879	20 493
Mortgage loans	27 648	29 180	30 236	32 697
Securities repurchase transactions	14 070	14 043	12 336	12 375
Other receivables	54 091	55 517	49 964	50 667
of which finance leases	4 985	5 228	4 866	5 147
Financial investments (LaR)	5 492	5 550	5 423	5 495
Equity instruments	5	5	5	5
Securitizations	292	295	297	300
Government bonds	4 313	4 363	4 301	4 365
Other securities	883	887	820	824
Non-current assets and disposal groups held for sale	**27**	**27**	**28**	**28**

Equity and liabilities.

	30 June 2017		31 Dec. 2016	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities measured at fair value				
Trading liabilities	24 466	24 466	63 090	63 090
Derivatives	17 136	17 136	21 394	21 394
Currency-related derivatives	3 578	3 578	4 528	4 528
Interest rate-related derivatives	12 402	12 402	15 624	15 624
Credit derivatives	333	333	346	346
Share-/index-related derivatives	797	797	858	858
Commodity-related and other derivatives	26	26	37	37
Delivery obligations from short sales of securities	1 903	1 903	1 349	1 349
Deposits	1 090	1 090	28 880	28 880
Securitized liabilities	4 335	4 335	11 464	11 464
Other financial liabilities	1	1	2	2
Financial liabilities designated at fair value	2 803	2 803	2 768	2 768
Deposits	1 503	1 503	1 537	1 537
Securitized liabilities	1 300	1 300	1 231	1 231
Negative fair values from hedging derivatives	3 382	3 382	3 989	3 989
Interest rate derivatives	3 316	3 316	3 916	3 916
Cross-currency interest rate swaps	66	66	73	73
Liabilities carried at amortized cost				
Deposits from banks	70 273	70 778	44 568	45 497
Securities repurchase transactions	3 763	3 777	3 298	3 304
Borrower's note loans	3 980	4 104	4 125	4 304
Other liabilities	62 529	62 898	37 145	37 888
Deposits from customers	84 786	85 779	70 641	71 803
Current account liabilities	42 770	42 768	34 422	34 419
Borrower's note loans	1 887	1 996	2 026	2 175
Registered covered bonds	4 145	4 745	4 429	5 249
Securities repurchase transactions	3 652	3 652	5 038	4 968
Other liabilities	32 332	32 619	24 726	24 991
Securitized liabilities	45 393	45 884	34 355	35 097
Other liabilities – of which finance leases	3	3	3	3
Subordinated capital	5 844	6 161	5 895	5 983
Subordinated liabilities	4 658	5 033	4 532	4 781
Capital generated from profit-participation rights	103	149	117	141
Silent partners' contributions	1 083	979	1 246	1 060

See Note 21 for the detailed breakdown and valuation of assets and disposal groups held for sale.

36. Fair value hierarchy.

The fair values used when measuring financial instruments are to be classified in a three-level fair value hierarchy, taking into consideration 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 parameter has a material effect on the 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 within the LBBW Group:

- All financial instruments with unadjusted prices quoted on active markets are assigned to the first group (Level I).
- OTC 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 which exert a more than immaterial effect on the fair value of an instrument. These include complex OTC derivatives, certain private equity investments, as well as certain high-grade structured bonds including illiquid asset-backed securities and structured securitizations.

The following table shows the breakdown of the valuation methods in relation to the balance sheet classes:

Assets.

	Prices traded on active markets (Level I)		Valuation method – on the basis of externally observable parameters (Level II)		Valuation method – on the basis of not externally observable parameters (Level III)	
EUR million	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Cash and cash equivalents	**111**	**181**	**25 338**	**13 351**	**0**	**0**
Assets carried at fair value						
Trading assets	3 205	3 862	27 867	41 915	402	871
Derivatives	28	38	19 297	23 553	260	333
Currency-related derivatives	0	0	3 325	4 200	91	116
Interest rate-related derivatives	0	0	15 467	18 826	166	213
Credit derivatives	0	0	137	128	0	0
Share-/index-related derivatives	0	0	355	377	3	4
Commodity-related and other derivatives	28	38	12	22	0	0
Equity instruments	299	397	622	292	0	0
Securities	2 877	3 427	4 683	5 587	0	0
Receivables	1	0	3 266	12 483	142	538
Financial assets designated at fair value	0	0	702	745	11	4
Equity instruments	0	0	203	199	4	4
Securities	0	0	85	97	7	0
Receivables	0	0	415	450	0	0
Positive fair values from hedging derivatives	0	0	1 949	2 777	0	0
Interest rate derivatives	0	0	1 943	2 769	0	0
Cross-currency interest rate swaps	0	0	6	7	0	0
Financial investments (AfS)	16 130	16 573	4 565	3 313	247	384
Equity instruments	540	524	0	0	239	376
Securities	15 590	16 049	4 565	3 313	8	8
Investment property	0	0	0	0	581	574
Non-current assets and disposal groups held for sale	**0**	**0**	**0**	**0**	**116**	**80**

Equity and liabilities.

EUR million	Prices traded on active markets (Level I)		Valuation method – on the basis of externally observable parameters (Level II)		Valuation method – on the basis of not externally observable parameters (Level III)	
	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Liabilities measured at fair value						
Trading liabilities	1 618	137	22 549	62 621	298	331
Derivatives	12	28	16 826	21 035	298	331
Currency-related derivatives	0	0	3 565	4 518	14	11
Interest rate-related derivatives	0	0	12 253	15 431	149	194
Credit derivatives	0	0	201	223	133	123
Share-/index-related derivatives	0	0	794	854	3	4
Commodity-related and other derivatives	12	28	14	9	0	0
Delivery obligations from short sales of securities	1 606	109	298	1 240	0	0
Deposits	0	0	1 090	28 880	0	0
Securitized liabilities	0	0	4 335	11 464	0	0
Other financial liabilities	1	0	0	2	0	0
Financial liabilities designated at fair value	0	0	2 232	2 143	571	626
Deposits	0	0	1 466	1 499	37	38
Securitized liabilities	0	0	766	644	534	587
Negative fair values from hedging derivatives	0	0	3 382	3 989	0	0
Interest rate derivatives	0	0	3 316	3 916	0	0
Cross-currency interest rate swaps	0	0	66	73	0	0

Transfers to levels.

If the main parameters used change in the course of the fair value measurement, the classification in the fair value hierarchy is also adjusted. At the end of the reporting period, the necessary reclassifications between Levels I-III is 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 parameters 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 have been made between Levels I and II in the fair value hierarchy since the last reporting date in accordance with IAS 34.15B:

Assets.

EUR million	Transfers from Level I to Level II 30 June 2017	Transfers from Level I to Level II 31 Dec. 2016	Transfers from Level II to Level I 30 June 2017	Transfers from Level II to Level I 31 Dec. 2016
Assets carried at fair value				
Trading assets	20	485	73	136
Derivatives	0	372	0	0
Share-/index-related derivatives	0	372	0	0
Securities	20	113	73	136
Financial investments (AfS)	0	0	16	115
Securities	0	0	16	115

Equity and liabilities.

EUR million	Transfers from Level I to Level II 30 June 2017	Transfers from Level I to Level II 31 Dec. 2016	Transfers from Level II to Level I 30 June 2017	Transfers from Level II to Level I 31 Dec. 2016
Liabilities measured at fair value				
Trading liabilities	0	1 073	401	2
Derivatives	0	801	0	0
Share/index-linked derivatives	0	801	0	0
Delivery obligations from short sales of securities	0	272	401	2

In the first half of 2017, LBBW carried out reclassifications from Level I to Level II, as there were no listed prices from active markets to hand for the corresponding financial instruments. Reclassifications in the opposite direction took place as listed prices from active markets became available for them again.

Development of Level III.

The development and profit and loss from the portfolios of financial instruments measured at fair value and investment property, which were calculated using valuation models which include material non-observable parameters (Level III), is shown in the tables below. The unrealized profit and loss on Level III financial instruments is based on both observable and non-observable 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.

30 June 2017

	Trading assets			
	Derivatives			Receivables
EUR million	Currency-related derivatives	Interest rate-related derivatives	Share-/index-related derivatives	
Carrying amount as at 31 December 2016	**116**	**213**	**4**	**538**
Gains and losses recognized in net consolidated profit/loss	– 25	– 37	0	– 1
of which net interest income	0	– 3	0	0
of which net trading gains/losses	– 25	– 34	0	– 1
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0
Income and expenses recognized in »Other income«[1]	0	0	0	0
Additions through acquisitions	0	2	0	134
Disposals through sales	0	0	0	– 359
Repayments/offsetting	– 1	– 12	– 1	– 171
Changes in the scope of consolidation	0	0	0	0
Changes from foreign currency translation	0	0	0	0
Transfers to Level III	0	0	0	1
Transfers in accordance with IFRS 5	0	0	0	0
Carrying amount as at 30 June 2017	**91**	**166**	**3**	**142**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 25	– 37	0	– 1
of which net interest income	0	– 3	0	0
of which net trading gains/losses	– 25	– 34	0	– 1
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0

1) The amounts are recognized in the »Revaluation reserve« item.

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
Equity instruments	Securities	Equity instruments	Securities			
4	**0**	**376**	**8**	**574**	**80**	**1 913**
0	0	– 40	0	– 4	7	– 99
0	0	0	0	0	0	– 3
0	0	0	0	0	0	– 60
0	0	– 40	0	0	0	– 40
0	0	0	0	– 4	7	3
0	0	23	0	0	– 1	22
0	0	2	0	0	0	138
– 1	0	– 36	0	0	– 34	– 429
0	0	– 86	0	0	0	– 270
0	0	0	0	76	0	76
0	0	0	0	– 2	0	– 2
0	7	0	0	0	0	8
0	0	0	0	– 63	63	0
4	**7**	**239**	**8**	**581**	**116**	**1 357**
0	0	– 1	0	– 5	7	– 62
0	0	0	0	0	0	– 3
0	0	0	0	0	0	– 60
0	0	– 1	0	0	0	– 1
0	0	0	0	– 5	7	1

31 Dec. 2016

EUR million	Trading assets			
	Derivatives			Receivables
	Currency-related derivatives	Interest rate-related derivatives	Share-/index-related derivatives	
Carrying amount as at 31 December 2015	**115**	**306**	**5**	**265**
Restatement of prior year amounts	0	0	0	0
Carrying amount as at 1 January 2016	**115**	**306**	**5**	**265**
Gains and losses recognized in net consolidated profit/loss	11	– 58	– 1	0
of which net interest income	0	15	0	0
of which net trading gains/losses	10	– 72	– 1	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0
Income and expenses recognized in »Other income«[1]	0	0	0	0
Additions through acquisitions	0	0	0	365
Disposals through sales	0	0	0	– 256
Repayments/offsetting	– 10	– 37	0	– 9
Changes in the scope of consolidation	0	0	0	0
Changes from foreign currency translation	0	0	0	0
Transfers	0	0	0	0
Transfers to Level III	0	2	0	172
Transfers in accordance with IFRS 5	0	0	0	0
Carrying amount as at 31 December 2016	**116**	**213**	**4**	**538**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	11	– 58	– 1	0
of which net interest income	0	15	0	0
of which net trading gains/losses	11	– 72	– 1	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0

1) The amounts are recognized in the »Revaluation reserve« item.

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
Equity instruments	Securities	Equity instruments	Securities			
12	**0**	**456**	**8**	**649**	**153**	**1 970**
0	0	0	0	13	0	13
12	**0**	**456**	**8**	**663**	**153**	**1 983**
– 1	0	– 11	0	7	– 80	– 132
0	0	0	0	0	0	15
0	0	0	0	0	0	– 63
– 1	0	0	0	0	0	– 1
0	0	– 11	0	0	– 80	– 91
0	0	0	0	7	0	7
0	0	7	0	0	33	40
0	0	16	0	6	0	388
– 1	0	– 63	0	– 47	– 98	– 465
– 6	0	– 27	0	0	0	– 89
0	0	– 1	0	0	0	– 1
0	0	0	0	6	0	7
0	0	0	0	10	0	10
0	0	0	0	0	0	174
0	0	0	0	– 72	72	0
4	**0**	**376**	**8**	**574**	**80**	**1 913**
– 1	0	8	0	7	0	– 33
0	0	0	0	0	0	15
0	0	0	0	0	0	– 63
– 1	0	0	0	0	0	– 1
0	0	7	0	0	0	7
0	0	0	0	7	0	7

Equity and liabilities.

30 June 2017	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-related derivatives	Interest rate-related derivatives	Credit derivatives	Share-/index-related derivatives			
Carrying amount as at 31 December 2016	**11**	**194**	**123**	**4**	**38**	**587**	**957**
Gains and losses recognized in net consolidated profit/loss	3	– 33	10	0	– 2	– 36	– 57
of which net interest income	1	0	0	0	– 1	– 1	– 1
of which net trading gains/losses	2	– 33	10	0	0	0	– 22
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 1	– 34	– 35
Income and expenses recognized in »Other income«[1]	0	0	0	0	0	– 1	– 1
Disposals through sales	0	0	0	0	0	– 8	– 8
Repayments/offsetting	0	– 12	0	– 1	0	– 8	– 21
Carrying amount as at 30 June 2017	**14**	**149**	**133**	**3**	**37**	**534**	**869**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	3	– 33	10	0	– 2	– 36	– 57
of which net interest income	1	0	0	0	– 1	– 1	– 1
of which net trading gains/losses	2	– 33	10	0	0	0	– 22
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 1	– 34	– 35

1) The amounts are recognized in the »Revaluation reserve« item.

31 Dec. 2016	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-related derivatives	Interest rate-related derivatives	Credit derivatives	Share-/index-related derivatives			
Carrying amount as at 31 December 2015	**11**	**304**	**1**	**5**	**38**	**654**	**1 013**
Gains and losses recognized in net consolidated profit/loss	1	– 78	0	– 1	0	22	– 57
of which net interest income	0	1	0	0	0	4	4
of which net trading gains/losses	1	– 79	0	– 1	0	0	– 79
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	18	18
Disposals through sales	0	0	0	0	0	– 72	– 72
Repayments/offsetting	– 1	– 34	0	0	0	– 17	– 52
Transfers to Level III	0	2	123	0	0	0	124
Carrying amount as at 31 December 2016	**11**	**194**	**123**	**4**	**38**	**587**	**957**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	– 78	0	– 1	0	22	– 57
of which net interest income	0	1	0	0	0	4	4
of which net trading gains/losses	1	– 79	0	– 1	0	0	– 80
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	18	18

Sensitivity analysis Level III.

If the model value of financial instruments is based on non-observable market parameters, alternative parameters are used to determine the potential estimation uncertainties. 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 the 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 the calculation of the sensitivities essentially takes place through an upshift/downshift of the individual beta factors. If no beta factors are used in the measurement, the sensitivities are calculated on the basis of the average percentage change in fair value. This is based on the upshift/downshift 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 non-observable input 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 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Assets carried at fair value				
Trading assets	2.4	3.0	– 1.8	– 2.3
Derivatives	2.2	2.8	– 1.7	– 2.1
Interest rate-related derivatives	2.0	2.5	– 1.5	– 1.8
Share-/index-related derivatives	0.0	0.0	0.0	– 0.1
Currency-related derivatives	0.3	0.3	– 0.2	– 0.3
Receivables	0.1	0.2	– 0.1	– 0.2
Financial investments (AfS)	7.3	14.0	– 4.2	– 10.8
Equity instruments	7.3	14.0	– 4.2	– 10.8
Total	**9.7**	**17.0**	**– 6.0**	**– 13.1**

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 June 2017	31 Dec. 2016	30 June 2017	31 Dec. 2016
Liabilities measured at fair value				
Trading liabilities	6.3	7.7	– 6.9	– 8.4
Derivatives	6.3	7.7	– 6.9	– 8.4
Interest rate-related derivatives	1.1	1.3	– 1.6	– 1.9
Credit derivatives	5.1	6.2	– 5.1	– 6.2
Share-/index-related derivatives	0.0	0.1	0.0	0.0
Currency-related derivatives	0.2	0.2	– 0.2	– 0.2
Financial liabilities designated at fair value	0.0	0.1	– 0.1	– 0.1
Securitized liabilities	0.0	0.1	– 0.1	– 0.1
Total	**6.4**	**7.8**	**– 7.0**	**– 8.5**

Significant non-observable Level III parameters.

The significant non-observable parameters of the financial instruments measured at fair value and classified as Level III and investment property 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 may be considerable.

The parameter shifts shown in the table depict the upwards and downwards changes in the non-observable parameters that are undertaken in the sensitivity analysis. They thus provide information about the range of alternative parameters selected by LBBW for the fair value calculation.

Assets.

30 June 2017 EUR million	Valuation techniques	Significant non observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	– 81 % – 99 %	rel. – 20 %/+ 10 %
Credit derivatives				
Share-/index-related derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 %/+ 15 %
Currency-related derivatives	Option price model	Currency correlation	55 %	abs. – 30 %/+ 30 %
Receivables	Net present value method	Credit spread (bp)	100 – 150	rel. – 30 %/+ 30 %
Financial investments (AfS)				
	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	2.66 % – 5.76 %	Individually per instrument
Equity instruments	Income value method	Beta factor	0.81 – 1.13	rel. + 5 %/– 5 %
	Discounted cash flow method	Rent dynamization	1.5 %	n/a
		Discounting interest rate	4.0 % – 9.0 %	
		Vacancy rate (»rental loss risk«)	1.0 % – 5.0 %	
		Basic maintenance costs	EUR 1 – 11/m²	
Investment property		Administrative costs (as a % of the target rent)	0.0 % – 6.5 %	

31 Dec. 2016 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Share-/index-related derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 %/+ 15 %
Currency-related derivatives	Option price model	Currency correlation	26 %	abs. – 30 %/+ 30 %
Receivables	Net present value method	Credit spread (bp)	130 – 200	rel. – 30 %/+ 30 %
Financial investments (AfS)				
	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	0.59 % – 8.51 %	Individually per instrument
Equity instruments	Income value method	Beta factor	0.81 – 1.23	rel. + 5 %/– 5 %
	Discounted cash flow method	Rent dynamization/ indexing	1.5 %	n/a
		Discounting interest rate	4.8 % – 10.0 %	
		Basic maintenance costs	EUR 0 – 25/m²	
Investment property		Administrative costs (as a % of the target rent)	0.0 % – 6.5 %	

Equity and liabilities.

30 June 2017 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 81% – 99%	rel. – 20%/+10%
Credit derivatives	TRS model	Discount curve (bp)	89 – 102	rel. – 30%/+30%
Share-/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25%/+15%
Currency-related derivatives	Option price model	Currency correlation	55%	abs. – 30%/+ 30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21% – 99%	rel. – 20%/+10%
	Option price model	Interest rate correlation	21% – 99%	rel. – 20%/+10%
Securitized liabilities		Currency correlation	55%	abs. – 30%/+ 30%

31 Dec. 2016 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 46% – 99%	rel. – 20%/+10%
Credit derivatives	TRS model	Discount curve (bp)	98 – 109	rel. – 30%/+ 30%
Share-/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25%/+15%
Currency-related derivatives	Option price model	Currency correlation	26%	abs. – 30%/+ 30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21% – 99%	rel. – 20%/+10%
	Option price model	Interest rate correlation	21% – 99%	rel. – 20%/+10%
Securitized liabilities		Currency correlation	26%	abs. – 30%/+ 30%

The valuation and the use of material parameters for non-current assets and disposal groups held for sale, as well as liabilities from disposal groups, is performed in line with the original balance sheet items.

Day One profit or loss.

The use of non-observable 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 observable throughout the market or cannot be derived from prices observed on the market. The market participants may have different opinions about the characteristics of the unobservable parameters used in these models. Hence, the transaction price may deviate from what is considered by LBBW to be the fair value.

LBBW recognizes so-called Day One profits for trading portfolios in the interest rate and credit derivative classes and receivables. At the current reporting date the portfolios were of minor importance.

The following table shows the performance of the day one profit for the first half of the 2017 financial year compared with year-end 2016, which was accrued to the use of major unobservable parameters for financial instruments recognized at fair value:

EUR million	2017	2016
Balance as at 1 January	**0**	**10**
Gains/losses recognized in the income statement during the reporting period (reversals)	0	– 10
Balance as at 30 June/31 December	**0**	**0**

37. Reconciliation of carrying amounts to categories.

The following table shows the breakdown of the financial instruments by category:

30 June 2017 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	50 291					50 291
Loans and advances to customers after allowances for losses on loans and advances	114 307					114 307
Financial assets at fair value through profit or loss[1]			31 474	714		32 187
Financial investments	5 492	20 942				26 435
Non-current assets and disposal groups held for sale[1]	0	27	0	0		27
Deposits from banks					70 273	70 273
Deposits from customers					84 786	84 786
Securitized liabilities					45 393	45 393
Financial liabilities measured at fair value through profit or loss[2]			24 466	2 803		27 269
Liabilities from disposal groups[2]			0	0	0	0
Subordinated capital					5 844	5 844

1) Excluding positive fair values from hedging derivatives.
2) Excluding negative fair values from hedging derivatives.

31 Dec. 2016 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	39 277					39 277
Loans and advances to customers after allowances for losses on loans and advances	110 415					110 415
Financial assets at fair value through profit or loss[1]			46 648	750		47 398
Financial investments	5 423	20 270				25 693
Non-current assets and disposal groups held for sale[1]	0	28	0	0		28
Deposits from banks					44 568	44 568
Deposits from customers					70 641	70 641
Securitized liabilities					34 355	34 355
Financial liabilities measured at fair value through profit or loss[2]			63 090	2 768		65 858
Liabilities from disposal groups[2]			0	0	0	0
Subordinated capital					5 895	5 895

1) Excluding positive fair values from hedging derivatives.
2) Excluding negative fair values from hedging derivatives.

38. Breakdown of derivatives volume.

30 June 2017	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	99 563	49 157	35 357	8 920	192 997	3 421	3 644
Interest rate-related derivatives	160 670	276 696	590 710	535 627	1 563 704	17 577	15 718
Credit derivatives	737	4 314	9 232	2 198	16 482	137	333
Share-/index-related derivatives	1 677	6 786	9 197	1 719	19 378	358	797
Commodity-related and other derivatives	1 334	714	45	0	2 093	40	26
Total	**263 981**	**337 667**	**644 540**	**548 465**	**1 794 653**	**21 533**	**20 518**

31 Dec. 2016	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	102 582	41 319	36 031	9 683	189 615	4 324	4 601
Interest rate-related derivatives	191 388	212 797	483 060	433 932	1 321 177	21 809	19 540
Credit derivatives	823	3 619	12 504	2 656	19 601	128	346
Share-/index-related derivatives	2 469	5 306	7 247	1 588	16 609	381	858
Commodity-related and other derivatives	1 148	548	35	0	1 732	60	37
Total	**298 410**	**263 589**	**538 876**	**447 859**	**1 548 734**	**26 702**	**25 383**

The treatment of the fair values of exchange-traded futures and of interest rate swaps that are cleared via a central counterparty follows the accounting methods. Accordingly, the variation margin received is offset by the fair values that have already been recognized through profit or loss.

39. Transfer of financial assets.

Financial assets that have been transferred but not fully derecognized.

The transferred assets comprise mainly own assets that LBBW Group transferred or lent in the development loan business, and in securities lending or repurchase transactions. The receivables transferred within the scope of the development loan business may not be resold by LBBW Group in the interim. With securities lending or repurchase transactions, the right to use the securities expires with the transfer. The counterparties of the associated liabilities do not have exclusive access to these assets.

The transferred assets continue to be fully recognized in the balance sheet. This can potentially lead to counterparty, default and/or market price risk.

As at the reporting date, there are no issues that would have led to continuing involvement despite the transfer.

30 June 2017	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the related liabilities
Assets carried at fair value		
Trading assets	881	542
Securities	464	125
Receivables	417	417
Financial assets designated at fair value	40	40
Receivables	40	40
Financial investments (AfS)	3 815	1 255
Securities	3 815	1 255
Assets carried at amortized cost		
Loans and advances to banks	18 821	1 819
Public-sector loans	18 808	1 805
Other receivables	14	14
Loans and advances to customers	9 113	9 112
Public-sector loans	1 506	1 506
Mortgage loans	1 764	1 763
Other receivables	5 843	5 843

31 Dec. 2016	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the related liabilities
Assets carried at fair value		
Trading assets	1 028	539
Securities	780	291
Receivables	248	248
Financial assets designated at fair value	19	19
Receivables	19	19
Financial investments (AfS)	2 147	1 206
Securities	2 147	1 206
Assets carried at amortized cost		
Loans and advances to banks	18 275	18 274
Public-sector loans	18 261	18 260
Other receivables	14	14
Loans and advances to customers	6 852	6 852
Public-sector loans	731	731
Mortgage loans	1 990	1 990
Other receivables	4 131	4 131

Other notes.

40. Related party disclosures.

Related party transactions are concluded by the LBBW Group at arm’s length terms in the ordinary course of business.

These include the shareholders of LBBW (see Note 33), controlled subsidiaries that are however not consolidated for reasons of materiality, structured entities, associates accounted for using the equity method, joint ventures, persons in key positions and their relatives, as well as companies controlled by these individuals. Persons in key positions include the members of the Board of Managing Directors and of the Supervisory Board, including members of LBBW (Bank) as parent company. Other related parties/companies also include equity investments by the shareholders and companies on which persons in key positions and their families can exert a dominant or material influence.

The related party transactions were concluded at arm’s length terms in the ordinary course of business. These included loans, overnight and term money, derivatives and securities transactions, among others.

The following table shows the scope of the related party transactions:

30 June 2017 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	0	0	0	79	0	465
Loans and advances to customers	1 616	2	76	50	67	691
Allowances for losses on loans and advances	0	0	– 35	0	– 22	0
Financial assets at fair value through profit or loss	1 656	0	94	56	0	512
Financial investments	0	0	87	52	6	4 313
Other assets	0	0	1	0	0	0
Total assets	**3 272**	**2**	**223**	**238**	**51**	**5 982**
Deposits from banks	0	0	2	0	0	8 804
Deposits from customers	909	8	117	170	18	11 212
Securitized liabilities	0	0	0	0	0	228
Financial liabilities measured at fair value through profit or loss	2	0	2	56	0	122
Subordinated capital	92	0	0	8	0	0
Total equity and liabilities	**1 003**	**8**	**121**	**235**	**18**	**20 367**
Contingent liabilities and loan commitments	**18**	**0**	**3**	**27**	**6**	**172**

31 Dec. 2016 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	0	0	0	91	0	343
Loans and advances to customers	1 471	1	137	55	67	704
Allowances for losses on loans and advances	0	0	– 38	0	– 9	0
Financial assets at fair value through profit or loss	1 855	0	437	76	1	707
Financial investments	0	0	244	77	6	4 339
Other assets	0	0	1	0	0	0
Total assets	**3 326**	**1**	**779**	**299**	**64**	**6 093**
Deposits from banks	0	0	2	1	0	8 280
Deposits from customers	703	9	144	193	17	6 292
Financial liabilities measured at fair value through profit or loss	1	0	4	78	0	642
Subordinated capital	92	0	0	8	0	0
Total equity and liabilities	**796**	**9**	**150**	**280**	**17**	**15 214**
Contingent liabilities and loan commitments	**8**	**0**	**3**	**31**	**6**	**160**

Related party transactions resulted in material effects in net interest income of EUR 34 million (previous year: EUR 147 million) and in allowances for losses on loans and advances of EUR 1 million (previous year: EUR 0 million).

LBBW did not exercise the exemption in accordance with IAS 24.25.

41. Off-balance-sheet transactions and other obligations.

Contingent liabilities.

EUR million	30 June 2017	31 Dec. 2016
Sureties and guarantee agreements	6 239	5 971
Contingent liabilities from joint ventures	4	4
Other contingent liabilities	73	55
Total	**6 316**	**6 031**

Contingent liabilities are dominated by sureties and guarantee agreements.

- According to Section 765 (1) of the German Civil Code (BGB), a surety is a contractual obligation by the surety to the creditor of a third party to be responsible for the third party's obligation.
- Guarantee agreements are all contractual commitments that cannot be qualified 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 (IAS 39.9).

If a guarantee is drawn on, there is a risk for the LBBW (Bank) that its claim (for recourse) against the guarantee holder less the collateral is not valuable. If there are valid reasons for an expected claim, LBBW (Bank) creates specific provisions at the level of individual transactions, provided that imminent loss is expected. A collective provision is set aside for deferred risks.

Other contingent liabilities include legal risks as well as 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 came into force 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. The other contingent liabilities include these irrevocable payment obligations for collateral provided by LBBW.

The following liability relationships exist in addition to the contingent liabilities shown in the above table:

- Pursuant to Section 5 (10) of the bylaws of the German Deposit Protection Fund, LBBW undertook to indemnify Bundesverband Deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as a result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.
- Letters of comfort issued for subsidiaries.
- Within the scope of necessary debt restructuring, a special-purpose vehicle ICON Brickell LLC (»ICON«) was established in the syndicate. LBBW is an indirect participant in ICON via Yankee Properties LLC (»Yankee«). ICON's business purpose of selling the financed apartments has meanwhile been fulfilled. LBBW and the other ICON partners have extended a guarantee (law of the federal state of Florida) for the obligations of ICON. This is based on payment obligations and on all other covenants and undertakings of Yankee towards ICON. As a result, unlimited claims could still (i.e. until the guarantee is surrendered) be referred to LBBW.
- Liabilities from the guarantee obligation: LBBW (Bank) is liable indefinitely for the liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main, and of former LBS Landesbausparkassen BadenWürttemberg, Stuttgart and Karlsruhe created up to 18 July 2001.
  This also applies externally to the liabilities of the following credit institutions, provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions: the former Landesbank Schleswig-Holstein Girozentrale, Kiel, and the former LRP Landesbank Rheinland-Pfalz, Mainz.

Other obligations.

EUR million	30 June 2017	31 Dec. 2016
Irrevocable loan commitments	23 632	22 784
Total	**23 632**	**22 784**

The item consists of the unutilized amount of the commitment granted that the Bank cannot revoke. If a guarantee is drawn on, there is a risk for LBBW that its claim (for recourse) against the guarantee holder or borrower less the collateral is not valuable. If there are valid reasons for an expected claim, LBBW creates specific provisions at the level of individual transactions, provided that imminent loss is expected. A collective provision is set aside for deferred risks.

Further transactions not included in the balance sheet and other financial obligations.

EUR million	30 June 2017	31 Dec. 2016
Payment obligations and joint liability	462	535
Obligations from investment projects started	137	60
Miscellaneous	163	28
Total	**762**	**623**

Payment obligations and joint liability consist of additional funding obligations to central counterparties in the amount of EUR 360 million (previous year: EUR 421 million). In addition to the items shown in the table, obligations of EUR 273 million (previous year: EUR 270 million) arise each year from rental and lease agreements.

Contingent claims.

EUR million	30 June 2017	31 Dec. 2016
Legal disputes	6	6
Total	**6**	**6**

42. PIIS exposure.

In addition to the breakdown by region shown in the risk and opportunity report, the details of exposure to PIIS states (Portugal, Italy, Ireland and Spain) on the basis of the IFRS balance sheet are shown below.

The exposure of the LBBW Group to the three sectors of financial institutions, companies and the public-sector entities with registered offices in Ireland, Italy, Portugal and Spain has increased to EUR 2.6 billion compared with the previous year (EUR 2.6 billion).

Exposure to Spain fell from EUR 0.7 billion to EUR 0.5 billion during the period under review. The decline in particular in the trading assets of banks (EUR – 154 million) contributed to this development. Nominals of CDS asset amounted to EUR 173 million and on CDS liabilities to EUR – 5 million.

On the other hand, the volume of exposure to Italy increased slightly during the period under review from EUR 1.6 billion to EUR 1.8 billion, most of which was attributable to securities issued by the public sector (EUR 1.3 billion). Nominals of CDS asset amounted to EUR 209 million and on CDS liabilities to EUR – 15 million.

43. Counterparty risk.

The quantitative information on credit risk is based on the management approach It is not restricted to financial instruments only.

Maximum counterparty risk together with risk-reducing measures.

30 June 2017 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**2 290**	**0**	**0**	**0**	**2 290**
Assets carried at fair value					
Trading assets	64 702	39 341	8 860	486	16 015
Financial assets designated at fair value	602	203	0	0	400
Positive fair values from hedging derivatives	4 114	3 849	0	13	253
Financial investments (AfS)	21 731	0	0	0	21 731
interest-bearing assets	19 456	0	0	0	19 456
non-interest-bearing assets	2 276	0	0	0	2 276
Assets carried at amortized cost					
Loans and advances to banks	63 852	27 943	0	922	34 988
Loans and advances to customers	113 810	19 666	0	37 997	56 147
of which finance leases	3 706	0	0	56	3 650
Financial investments (LaR)	5 494	0	0	0	5 494
interest-bearing assets	5 474	0	0	0	5 474
non-interest-bearing assets	20	0	0	0	20
Non-current assets and disposal groups held for sale	**28**	**0**	**0**	**0**	**28**
Total	**276 623**	**91 001**	**8 860**	**39 417**	**137 346**
Loan commitments and other agreements	51 522	0	0	3 783	47 739
Total exposure	**328 145**	**91 001**	**8 860**	**43 200**	**185 085**

31 Dec. 2016 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**4 451**	**0**	**0**	**0**	**4 451**
Assets carried at fair value					
Trading assets	79 699	47 543	11 111	642	20 402
Financial assets designated at fair value	626	200	0	24	402
Positive fair values from hedging derivatives	5 265	5 082	0	20	163
Financial investments (AfS)	20 816	0	0	0	20 816
interest-bearing assets	18 509	0	0	0	18 509
non-interest-bearing assets	2 307	0	0	0	2 307
Assets carried at amortized cost					
Loans and advances to banks	48 497	16 430	0	996	31 070
Loans and advances to customers	110 637	17 553	0	38 956	54 128
of which finance leases	3 603	0	0	78	3 525
Financial investments (LaR)	5 438	0	0	0	5 438
interest-bearing assets	5 417	0	0	0	5 417
non-interest-bearing assets	20	0	0	0	20
Total	**275 428**	**86 808**	**11 111**	**40 638**	**136 871**
Loan commitments and other agreements	49 239	0	0	3 614	45 625
Total exposure	**324 667**	**86 808**	**11 111**	**44 252**	**182 496**

As at the reporting date of 30 June 2017, 99.6 % (previous year: 99.5 %) of the assets of the total portfolio of EUR 328 billion are neither impaired nor overdue.

The risk and opportunity report contains further statements on the value of the portfolio.

Portfolio quality – exposure in arrears and not impaired.

Gross exposures to customers that are more than five days in arrears but which have not been impaired are defined as assets in arrears for which no impairment requirement is determined.

As at 30 June 2017 this applied to gross exposure of EUR 197 million (previous year: EUR 349 million). More than two thirds of these transactions are less than three months overdue.

The following tables illustrates the maturity structure of this sub-portfolio:

30 June 2017 EUR million	<=1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	2	2	0	0	0	0	4
Loans and advances to customers	79	54	7	5	5	40	191
of which finance leases	3	3	1	0	0	3	10
Total	**81**	**56**	**7**	**5**	**6**	**40**	**195**
Loan commitments and other agreements	2	0	0	0	0	0	2
Total exposure	**83**	**56**	**7**	**5**	**6**	**40**	**197**

31 Dec. 2016 EUR million	<=1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	1	0	0	0	0	0	1
Loans and advances to customers	42	142	81	24	1	56	347
of which finance leases	1	2	2	0	0	0	6
Total	**43**	**143**	**82**	**24**	**1**	**56**	**348**
Total exposure	**43**	**143**	**82**	**24**	**1**	**56**	**349**

Portfolio quality – impaired assets.

The gross exposure to customers for which impairments were recognized is shown below:

EUR million	30 June 2017	31 Dec. 2016
Assets carried at amortized cost		
Loans and advances to banks	1	3
Loans and advances to customers	1 088	1 214
of which finance leases	62	73
Total	**1 089**	**1 218**
Loan commitments and other agreements	82	93
Total exposure	**1 171**	**1 310**

Impaired assets decreased by EUR 0.1 billion compared with 31 December 2016. The change mainly related to loans and advances to customers.

The following table shows the impaired portfolio by default reason on the reporting date:

	30 June 2017		31 Dec. 2016	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	222	19.0	195	14.9
2) Arrears/infringement > 90 days [1]	116	9.9	133	10.1
3) Improbable repayment [2]	833	71.1	982	75.0
Total exposure	**1 171**	**100.0**	**1 310**	**100.0**

1) Without criteria from no. 1).
2) Without meeting the criteria of no. 1) or 2) (catch-all provision).

Forbearance.
As at 30 June 2017, the LBBW Group held assets with a net carrying amount of EUR 0.9 billion (previous year: EUR 1.4 billion) for which forbearance measures were adopted. Modifications in relation to the terms and conditions were mainly granted. A EUR 0.2 billion (previous year: EUR 0.2 billion) sub-portfolio of the assets for which forbearance measures have been adopted comprises impaired assets.

LBBW has received guarantees of EUR 0.3 billion (previous year: EUR 0.3 billion) for assets with forbearance measures.

44. Equity and total amount at risk.

EUR million	30 June 2017	31 Dec. 2016
Equity	**17 304**	**16 814**
Core capital (Tier 1)	13 042	12 822
of which common equity Tier 1 capital (CET 1)	12 101	12 033
of which additional Tier 1 capital (AT 1)	941	789
Supplementary capital (Tier 2)	4 262	3 992
Total amount at risk	**75 930**	**77 406**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	63 218	62 387
Total exposure amount for position, foreign exchange and commodity risk	6 354	8 425
Total risk exposure amount for operational risks	4 514	4 715
Total amount of risk due to CVA	1 845	1 879
Total capital ratio (in %)	**22.8**	**21.7**
Tier 1 capital ratio in %	**17.2**	**16.6**
Common equity Tier 1 capital ratio (in %)	**15.9**	**15.5**

The common equity Tier I (CET 1) of the LBBW Group increased slightly from the end of the previous year. This resulted mainly from the reversal of the deductible item »Goodwill«. Additional Tier I capital (AT 1) increased due to the changes in deductibles and the way in which they are included under the CRR transitional rules. Supplementary capital (T 2) was strengthened in the second quarter of 2017 through the new issue of two subordinated bonds (SGD 300 million and AUD 300 million). The amortization of Tier II capital components on the basis of the number of days that have passed had the opposite effect.

The total amount of risk declined compared with the end of the previous year. This resulted primarily from the reduction in the total exposure amount for position, foreign currency and commodity position risk due to a methodological improvement in the presentation of risks from equity positions. The positive business development had a counteracting effect.

Accordingly, the improvement in capital backing and lower total amount of risk had a positive effect on the capital ratios.

45. Events after the balance sheet date.

After the balance sheet date, LBBW disposed of a property from which it achieved a mid double-digit million total return.

Further information.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable framework for half-year 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, 8 August 2017

The Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Review report.

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz.

We have reviewed the condensed interim consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz – comprising the condensed income statement, statement of total comprehensive income, balance sheet, statement of changes in equity, condensed cash flow statement and the selected notes to the consolidated interim financial statements – together with the interim group management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz, for the period from 1 January to 30 June 2017 that are part of the semi annual financial report according to Section 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34, as is 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 Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34 as applicable to interim financial reporting as adopted by the EU, and 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 employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IAS 34 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, 11 August 2017

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Note regarding forward-looking statements.

This half-year 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 as well as 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.

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

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