Half-yearly financial report 2014.

Landesbank Baden-Württemberg

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013[1)]
Net interest income	954	922
Allowances for losses on loans and advances	– 45	– 139
Net fee and commission income	254	277
Net gains/losses from financial instruments measured at fair value through profit or loss	30	187
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	32	– 25
Other operating income/expenses[2)]	71	14
Total operating income/expenses (after allowances for losses on loans & advances)	**1,296**	**1,236**
Administrative expenses	– 902	– 816
Operating result	**394**	**420**
Guarantee commission for the State of Baden-Württemberg	– 119	– 154
Impairment of goodwill	– 16	– 2
Net income/expenses from restructuring	0	0
Net consolidated profit/loss before tax	**259**	**264**
Income tax	– 101	– 84
Net consolidated profit/loss	**158**	**180**

Key figures in %	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013[1)]
Return on equity (RoE)	3.9	4.1
Cost/income ratio (CIR)	68.9	58.3

Balance sheet figures (EUR billion)	30 June 2014	31 Dec. 2013[1)]
Total assets	292.4	274.7
Equity	13.4	13.4

Ratios in accordance with CRR/CRD IV (Basel III with transitional rules), previous year in accordance with SolvV (Basel 2.5)	30 June 2014	31 Dec. 2013
Risk weighted assets (EUR billion)	84.9	79.4
Common equity Tier 1 ratio (in %)	14.4	15.7
Total ratio (in %)	19.5	22.5

Ratios in accordance with CRR/CRD IV (Basel III after full implementation)	30 June 2014	31 Dec. 2013
Risk weighted assets (EUR billion)	84.9	89.8
Common equity Tier 1 ratio (in %)	13.2	12.6
Total ratio (in %)	18.6	18.7

Employees	30 June 2014	31 Dec. 2013
Group	11,290	11,308

Rating (1 August 2014)

Rating agency	Long-term rating	Long-term rating	Financial strength	Public-sector covered bonds	Mortgage-backed covered bonds
	guaranteed obligations	non-guaranteed obligations			
Moody's Investors Service	Aaa	A2[3)]	D+	Aaa	Aaa
Fitch Ratings	AAA	A+[3)]	bbb	AAA	–

1) Restatement of prior year amounts (see Note 2).
2) Net income/expenses from investment property is recognized as part of the other operating income/expenses.
3) Negative outlook.
Figures may be subject to rounding differences.

2014

Foreword by the Board of Managing Directors.

Dear customers, dear business partners of the LBBW Group,

In addition to the continued development of our customer business and the systematic run-off of non-core banking business, we have been particularly occupied by the requirements of the banking supervision in connection with the balance sheet assessment and the ensuing stress test over the past few months. Like more than 120 other major European banks, we will be subject to supervision by the ECB from November 2014. All told, challenges and burdens arising from continued regulatory and legal measures continue to be significant in the banking industry. The same thing applies to the persistently low interest rates. In the first half of 2014, the ECB retained its accommodative monetary policy with a further cut in its base rates and further exceptional monetary measures, including the first-time introduction of a negative interest rate on banks' deposits with the ECB against the backdrop of low inflation and muted economic conditions in the eurozone.

Despite the persistently difficult underlying conditions, our Bank continued to perform steadily in the first half of 2014. At the end of the first six months of the year, the LBBW Group achieved solid net consolidated profit before tax of EUR 259 million. This is virtually unchanged over the previous year. Net consolidated profit after tax fell short of the comparable period of the previous year due to increased tax expense.

The net consolidated profit recorded in the first half of 2014 was underpinned by all operating segments. The Corporates segment made the greatest contribution to earnings. However, segment earnings came under pressure from the persistent and very intensive competition in corporate customer business and muted borrowing demand in the corporate sector as well as the run-off of large exposures. Regardless of the current challenging environment, however, we consider our Bank to be well positioned in this segment and will be continuing to pursue our growth strategy in attractive regions adjacent to our core business areas.

Given the prevailing circumstances, we are yet satisfied with the earnings achieved in the Retail/Savings Banks segment. Here, we achieved encouraging growth in deposits. However, this was opposed by higher administrative expenses. These were largely due to non-recurring expense in connection with the consolidation of IT systems and therefore constitute an investment in the future. In this segment, we particularly see growth potential for our Bank in wealth management. Earnings in the Financial Markets segment came under significant pressure as a result of market conditions in the first half of 2014, falling short of the same period in the previous year.

As planned, we repaid silent partners' contributions of EUR 1 billion to our shareholders in the first half of 2014 upon approval by the banking supervision. This repayment did not have any impact on our common equity Tier 1 ratio under Basel III (fully loaded), which rose from 12.6% at the end of 2013 to 13.2% in the first half of 2014. Against this backdrop and in view of the massive reduction in risk weighted assets over the last few years, we are confident about the results of the balance sheet assessment and the stress test.

The successful run-off of risks, the substantial improvement in capital ratios and the recovery in and stabilization of our profitability prompted the rating agencies Fitch and Moody's to adopt a more positive stance towards our Bank in the first half of 2014. We interpret this as a sign that our extensive restructuring efforts have paid off. That said, we alongside other banks face a fundamentally more critical approach on the part of the agencies towards European banks in connection with the question of probability of support in the light of the bank restructuring and resolution regime and a Single Bank Resolution Mechanism passed by the European Parliament in April.

Aside from the rating agencies' views, we have also been registering increasingly more positive sentiment towards our Bank on the part of many investors for quite some time now in response to the far-reaching changes which we have implemented over the past few years. Thus, our successful issue of subordinated capital of EUR 500 million in May met with encouragingly strong interest in Germany as well as in other countries.

This is also strengthening us in our resolve to continue on the course that we have adopted and to steadily develop customer business along our business model. In all the measures and decisions that we take, however, we will continue to keep close track of risk aspects and costs. At the same time, we will be systematically continuing to run off assets and risks outside our core banking business. In this connection we made use of the relatively favorable market conditions in August at the suggestion of and in consultation with our shareholders to sell the remainder of the LBBW securitization portfolio which had been backed by our shareholders.

Despite the persistently challenging sector environment, we still expect to close the current year with a substantial net consolidated profit. In the absence of any unforeseen occurrences, we think that net consolidated profit before tax in line with the previous year is within the realms of possibility.

We would like to take this opportunity to thank our customers and business partners most sincerely for their confidence in our Bank. May we particularly also express our gratitude to the numerous customers with whom we have shared favorable and trusting business relations for many years. We were very gratified to see that some of you publicly expressed your confidence in our Bank in a recent advertising campaign launched by BW-Bank. This constitutes very encouraging recognition and acknowledgement not only for us but particularly also for our employees who go about their work day for day with a great deal of commitment and expertise. We are proud of these skills, which are repeatedly confirmed by the good results achieved in industry rankings and tests.

Looking forward, you, our customers and business partners, will remain at the core of all our efforts. Supporting you as partner and service provider on your path to prosperity will continue to be a crucial source of commitment and motivation for us and our employees.

Yours sincerely,

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER

VOLKER WIRTH

Interim Group management report.

Business report for the Group.

Economic development in the first half of 2014.

Conditions in the global economy painted a fairly mixed picture in the first half of the year. In the first quarter, weather conditions generated strong growth in Germany (0.8 % quarter on quarter), with eurozone GDP rising by 0.2 % over the previous quarter. In the United States, economic output shrank partially for weather-related reasons to an annualized rate of 2.1 %. This was followed in the 2nd quarter by a countermove causing overall economic output to widen by an annualized 4.0 %. In China, GDP expanded by 7.4 % over the previous year in the 1st quarter. In the 2nd quarter, the rate of expansion for the economy as a whole accelerated to 7.5 %, thus allaying fears of a slump.

One central concern in the eurozone was the specter of deflation. The decline in the rate of inflation from 0.8 % in January to 0.5 % in March, May and June triggered worries on the part of the ECB, prompting it to repeatedly warn of the risks of a protracted period of very low inflation rates in the period under review. It responded to this by easing its monetary policy further. On 5 June, it lowered its interest rates. Since then, the main refinancing rate has been 0.15 %, while the rate at which commercial banks may deposit excess liquidity with the ECB was lowered to – 0.1 %, i.e. a negative figure for the first time in the ECB's history. In addition, it announced that it would be providing commercial banks with liquidity of around EUR 1 trillion under its new Targeted Long-Term Refinancing Operations (TLTRO) until mid of 2016.

The measures taken by the ECB caused the eurozone debt crisis to recede into the background to some extent. This was especially because conditions in the market for eurozone sovereign bonds continued to ease in the period under review. In May, Portugal followed Ireland and left the EMU rescue shield, returning to the capital market with issues of its own. Greece had previously also come back to the capital market in April after a four-year absence.

In the financial markets, equities continued to advance in the 1st half, albeit at a slower pace. Although the DAX was able to clear the 10,000 mark for the first time in its history at the beginning of June, compared to the increase of around 20 % in the 2nd half of 2013, it achieved only paltry gains of just under 3 % in the period from 1 January to 30 June 2014, when the DAX closed at 9,833 points. In the fixed-income market, yields pointed distinctly downwards in the light of the ECB's monetary policy. 10-year Bunds were trading at 1.25 % at the end of June, down from 1.94 % at the beginning of the year. The decline in yields was not as pronounced in the US fixed-income market. At 2.52 %, yields on 10-year US Treasuries were around 50 bp down on the beginning of the year. In addition to the more muted performance of the US economy, this presumably reflected temporary concerns of an economic slump in China together with the political and military tensions in Ukraine and the Middle East. In the currency markets, the EUR/USD exchange rate hovered in a range of USD 1.35 – 1.39 per EUR

Business performance of the LBBW Group in the first half of 2014. Results of operations, net assets and financial position.

Net consolidated profit before tax stable in a challenging market environment. Central financial performance indicators satisfactory.

LBBW is continuing to operate in challenging market conditions for banks characterized by continued low interest rates in 2014. The regulatory requirements which banks are increasingly required to observe in ever shorter intervals are also causing challenges to mount accompanied by a corresponding strain on earnings. The LBBW Group's main financial performance indicators were generally satisfactory despite the aforementioned difficult underlying conditions.

The LBBW Group's **net consolidated profit before tax** totaled EUR 259 million in the first six months of the year, thus coming close to the previous year's level. Non-core banking business was again systematically run off in the course of the first half of 2014. Reflecting the strong economic conditions in LBBW's core markets, allocations to allowances for losses on loans and advances remained at a very low level in the first half of the year. All told, valuation effects and sales did not have any material impact on earnings. Net consolidated profit before tax exceeded the budget appreciably in the first half of 2014. This performance was primarily underpinned by lower-than-planned allocations to allowances for losses on loans and advances and an improvement in net gains/losses from financial investments and other operating income/expenses compared with the budget.

Total assets stood at EUR 292.4 billion on 30 June 2014, up EUR 17.7 billion compared to the end of 2013, thus exceeding the budget by a similar amount. This was chiefly due to an increase in the cash reserve, loans and advances to customers and higher financial investments measured at fair value through profit and loss.

The LBBW Group once again had access to a high volume of cash and cash equivalents in the first half of 2014. Funding available on the market considerably exceeded LBBW's funding requirements.

As at 30 June 2014, the **common equity Tier 1 ratio** (»fully loaded« in accordance with Basel III) came to 13.2% for the LBBW Group and was thus substantially above the conservatively budgeted target.

The **cost/income ratio (CIR)** equaled 68.9% at the end of the first half, i.e. slightly up on the budget due chiefly to the numerous regulatory burdens.

Results of operations.

The LBBW Group's income statement is shown in condensed form as follows:

	1 Jan. – 30 June 2014 EUR million	1 Jan. – 30 June 2013[1] EUR million	Change EUR million	in %
Net interest income	954	922	32	3.5
Allowances for losses on loans and advances	– 45	– 139	94	– 67.6
Net fee and commission income	254	277	– 23	– 8.3
Net gains/losses from financial instruments measured at fair value through profit or loss	30	187	– 157	– 84.0
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	32	– 25	57	-
Other operating income/expenses[2]	71	14	57	> 100
Total operating income/expenses (after allowances for losses on loans and advances)	**1,296**	**1,236**	**60**	**4.9**
Administrative expenses	– 902	– 816	– 86	10.5
Operating result	**394**	**420**	**– 26**	**– 6.2**
Guarantee commission for the State of Baden-Württemberg	– 119	– 154	35	– 22.7
Impairment of goodwill	– 16	– 2	– 14	> 100
Net income/expenses from restructuring	0	0	0	-
Net consolidated profit/loss before tax	**259**	**264**	**– 5**	**– 1.9**
Income tax	– 101	– 84	– 17	20.2
Net consolidated profit/loss	**158**	**180**	**– 22**	**– 12.2**

1) Restatement of prior year amounts (see Note 2).
2) Net income/expenses from investment property is shown as part of the other operating income/expenses.

In the first six months of 2014, **net interest income** rose by EUR 32 million over the previous year to EUR 954 million. This was particularly due to lower interest expense thanks to improved funding structures and narrower liquidity spreads. The still stable markets meant that less liquidity was required to cover risk compared with the previous year. Moreover, the slight increase in investment income also made a contribution to the positive trend. On the other hand, the perceptibly muted borrowing demand and the run-off of non-core bank activities placed a damper on earnings.

The net additions to **allowances for losses on loans and advances** dropped by EUR 94 million over the first half of 2013 to EUR – 45 million. LBBW consistently pursued its conservative risk policy. It was possible to reverse impairments on major individual exposures thanks to substantial improvements on the part of specific borrowers. Moreover, the ongoing stable economic situation in Germany and in LBBW's core markets bolstered the valuation of the overall credit portfolio.

Net fee and commission income contracted by EUR 23 million over the same period of the previous year to EUR 254 million. This was chiefly due to weaker demand in lending business (lending, trusteeship and guarantee business) as well as reduced foreign business.

Net gains/losses from financial investments measured at fair value through profit and loss dropped substantially by EUR 157 million compared with the first half of 2013 to EUR 30 million. This effect was particularly due to muted customer-oriented capital markets business. Although narrowing spreads on credit derivatives in the credit investment portfolio generally left positive traces on earnings, the contribution which they made was smaller than in the previous year due to the progress made in running off the portfolio. The further improvement in LBBW's credit rating caused strain from the mark-to-market measurement of its own liabilities.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method came to EUR 32 million, i.e. EUR 57 million up on the comparison period. Once again, this figure was influenced by the continued run-off of volumes and risks in non-core banking business. In the previous year, strain on earnings had been deliberately accepted on the credit investment portfolio, which no longer forms part of the Bank's core business. Given the encouraging market conditions, it was possible to achieve gains on sales of the guarantee portfolio, although the volume of sales in the Credit Investment segment was well down on the previous year. Valuation effects largely canceled each other out in the first half of the year and therefore exerted only a minor aggregate influence on earnings. Sales of investments generated proceeds of EUR 14 million, i.e. slightly up on the previous year.

Compared with the previous year, **other operating income/expenses** improved by EUR 57 million to EUR 71 million. This reflects the lower additions to provisions compared with the comparable period in the previous year. What is more, a substantial part of the overall change is due to a source of strain in connection with the planned sale of a subsidiary, which had caused expenses of EUR 30 million in the previous year. Positive contributions of EUR 14 million arose from real estate development projects completed in the current year. However, these were lower than in the previous year. Net income/expenses from investment property improved moderately over the previous year.

Administrative expenses rose by EUR 86 million over the comparable period to EUR – 902 million. Specifically, staff costs climbed by EUR 4 million to EUR – 497 million chiefly as a result of industry-wide pay-scale agreements and strain caused by pension expenses. Other administrative expenses increased significantly by EUR 93 million to EUR – 365 million. The greatest cost factors compared with the previous year were the regulatory requirements, the cost of which rose by around EUR 30 million. These include among others project expenses such as FinRep, SEPA and examinations in connection with the balance sheet assessment. Moreover, provisions for the bank levy rose by EUR 8 million over the previous year due to improved earnings. On the other hand, expenses for amortization and depreciation on intangible assets and property and equipment declined by EUR 12 million to EUR – 40 million. As previously reported at the end of 2013, the outsourcing of IT activities commenced in the previous year resulted in structural shifts in the individual expense types within administrative expenses.

All told, the **operating result** dropped by EUR 26 million over the previous year to EUR 394 million.

The **guarantee commission** fell by EUR 35 million to EUR – 119 million as a result of the reduction in the volume of the portfolio guaranteed by the State of Baden-Württemberg.

Against the backdrop of sustained low interest rates, muted market volatility and general customer reticence, the **goodwill** of EUR – 16 million allocated to the Financial Markets segment was written off in full.

All told, LBBW generated **net consolidated profit before tax** of EUR 259 million in the first six months of the current year, compared with EUR 264 million in the previous year.

Income tax increased by EUR 17 million to EUR – 101 million and chiefly comprises deferred taxes of EUR – 94 million including a negative effect arising from the merger of a foreign subsidiary.

Net consolidated profit after tax thus amounted to EUR 158 million in the first half of 2014, down from EUR 180 million in the same period of the previous year.

Net assets and financial position.

Assets	30 June 2014 EUR million	31 Dec. 2013[1] EUR million	Change EUR million	in %
Cash and cash equivalents	9,880	2,156	7,724	> 100.0
Loans and advances to banks	48,339	47,625	714	1.5
Loans and advances to customers	113,779	111,453	2,326	2.1
Allowances for losses on loans and advances	– 2,146	– 2,201	55	– 2.5
Financial assets measured at fair value through profit or loss	77,846	70,115	7,731	11.0
Financial investments and shares in investments accounted for using the equity method	39,900	40,957	– 1,057	– 2.6
Portfolio hedge adjustment attributable to assets	536	355	181	51.0
Non-current assets held for sale and disposal groups	675	727	– 52	– 7.2
Intangible assets	478	494	– 16	– 3.2
Investment property	482	481	1	0.2
Property and equipment	626	646	– 20	– 3.1
Current income tax assets	184	179	5	2.8
Deferred income tax assets	929	1,059	– 130	– 12.3
Other assets	865	610	255	41.8
Total assets	**292,373**	**274,656**	**17,717**	**6.5**

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

Equity and liabilities	30 June 2014 EUR million	31 Dec. 2013[1] EUR million	Change EUR million	in %
Deposits from banks	64,125	58,055	6,070	10.5
Deposits from customers	82,053	82,053	0	0.0
Securitized liabilities	45,010	50,693	– 5,683	– 11.2
Financial liabilities measured at fair value through profit or loss	75,666	57,636	18,030	31.3
Portfolio hedge adjustment attributable to liabilities	722	685	37	5.4
Provisions	3,273	3,133	140	4.5
Liabilities from disposal groups	727	915	– 188	– 20.5
Current income tax liabilities	41	58	– 17	– 29.3
Deferred income tax liabilities	97	169	– 72	– 42.6
Other liabilities	1,115	756	359	47.5
Subordinated capital	6,098	7,103	– 1,005	– 14.1
Equity	13,446	13,400	46	0.3
Nominal capital	3,484	3,484	0	0.0
Capital reserve	8,240	8,240	0	0.0
Retained earnings	1,294	1,214	80	6.6
Other income	251	104	147	> 100.0
Unappropriated profit/loss	158	340	– 182	– 53.5
Equity attributable to non-controlling interest	19	18	1	5.6
Total equity and liabilities	**292,373**	**274,656**	**17,717**	**6.5**
Guarantee and surety obligations	5,793	5,933	– 140	– 2.4
Irrevocable loan commitments	19,670	19,071	599	3.1
Business volume	**317,836**	**299,660**	**18,176**	**6.1**

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

Increase in consolidated total assets.

Total assets rose by EUR 17.7 billion to EUR 292.4 million in the first half of 2014. This was mainly due to an increase in cash and cash equivalents as a result of the investment of cash, particularly with central banks, loans and advances to customers and an increase in the financial assets measured at fair value through profit or loss based mainly on the rise in overnight and fixed-term deposits. On the other hand, there was a decline in financial assets due to the ongoing run-off of non-core banking business in the first half of 2014.

Including contingent liabilities and irrevocable loan commitments, the LBBW Group's business volume came to EUR 317.8 billion, i.e. EUR 18.2 billion up on the end of 2013.

The first-time application of the new accounting standard IFRS 10 resulted in preliminary-consolidation effects, which are described in depth in the Notes.

Lending.

The EUR 7.7 billion increase in **cash and cash equivalents** compared with the previous year was chiefly due to a greater volume of cash investments with central banks.

Loans and advances to banks rose by a slight EUR 0.7 billion over the end of 2013 to EUR 48.3 billion. This increase was primarily due to a greater volume of securities repurchasing business, particularly tri-party repos (EUR 4.1 billion). On the other hand, loan receivables were down due to expiring maturities, particularly municipal loans of EUR – 2.2 billion.

Loans and advances to customers rose by around EUR 2.3 billion to EUR 113.8 billion as at 30 June 2014. This increase was dominated in particular by a greater volume of securities repurchase transactions as a result of tri-party repos (EUR 2.5 billion) and increased current account receivables (EUR 1.6 billion). This was accompanied by a decline in receivables under mortgage loans (EUR – 0.7 billion) and municipal loans (EUR – 0.6 billion).

Financial assets measured at fair value through profit or loss climbed by EUR 7.7 billion to EUR 77.8 billion particularly as a result of an increase in trading assets. A material part of the increase (EUR 4.9 billion) was caused by higher overnight and fixed-term deposits. The decline in interest rates observable since the beginning of the period under review had a favorable effect on the measurement of derivatives held for trading, resulting in an EUR 2.7 billion increase in market value.

As a result of the ongoing risk run-off, **financial investments and shares in investments accounted for using the equity method** fell by EUR – 1.1 billion to EUR 39.9 billion in the first half of 2014. This decline was chiefly due to lower holdings of bonds and debentures of EUR – 1.3 billion, accompanied by an increase of EUR 0.2 billion in short-dated money-market instruments.

Funding.

Deposits from banks rose by EUR 6.1 billion compared with 31 December 2013 to EUR 64.1 billion. This was due to the increased volume of securities repurchase transactions (EUR 7.3 billion). On the other hand, holdings of borrower's note loans and registered covered bonds contracted by EUR – 1.5 billion.

Valued at around EUR 82.1 billion on the reporting date, **deposits from customers** were unchanged over the end of 2013. In this connection, the decline of EUR – 1.2 billion in borrower's notes loans and of EUR – 0.7 billion in public-sector registered covered bonds as a result of maturities as well as the decline of EUR – 1.2 billion in overnight and fixed-term deposits was made up for by the substantially larger volume of securities repurchase transactions of EUR 2.7 billion, which largely comprised tri-party repos, as well as current account liabilities of EUR 0.5 billion.

In the period under review, holdings of **securitized liabilities** decreased by EUR – 5.7 billion to EUR 45.0 billion. This was due to maturities of public-sector covered bonds of EUR – 2.7 billion and other debentures of EUR – 2.1 billion, which were accompanied by only muted new issue activity. In addition, holdings of money-market transactions were down EUR – 0.6 billion.

Financial liabilities measured at fair value through profit or loss rose by EUR 18.0 billion to EUR 75.7 billion. The increase in other trading liabilities comprised EUR 13.0 billion from money-market transactions and a further EUR 3.1 billion from an increase in securitized liabilities. An additional effect arose from the decline in interest observable since the beginning of the year, particularly in connection with interest-sensitive transactions. The market values of derivatives held in the trading portfolio rose by EUR 2.7 billion in the course of the first half of the year as a result of the aforementioned effect.

Provisions climbed by EUR 0.1 billion to EUR 3.3 billion in the first half of 2014. Whereas pension obligations rose by EUR 0.3 billion as a result of the adjustment in the discount rate from 3.50% (at the end of 2013) to 2.75%, provisions for litigation and recourse risks fell by EUR – 0.2 billion.

In the course of the first half of 2014, there was a decline of EUR – 1.0 billion in **subordinated capital** to EUR 6.1 billion. This was chiefly due to the repayment of the silent partners' contributions to the shareholders in April of this year (nominal EUR 1.0 billion). Including maturities and new issues, subordinated liabilities rose by around EUR 0.4 billion in the period under review; on the other hand, profit-participation capital was down EUR – 0.1 billion on the end of 2013.

The increase in **equity** was attributable to the decline of EUR 0.1 billion in the negative revaluation reserve from securities due to recoveries in securities prices within other income. In addition, the reduction in the discount rate for pension provisions from 3.50% to 2.75% produced actuarial losses of EUR – 0.2 billion.

Financial position.

LBBW's **financial position** was orderly in the first half of 2014 thanks to the good cash resources. It was able to obtain funding on the market on the requisite scale at all times. The liquidity indicator as per LiqV was only reported at the level of the Bank, and totaled 1.37 as at 30 June 2014 (31 December 2013: 1.47).

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 2013 as at 30 June 2014. Changes are described below.

Risk types.

Detailed notes on the definition of risks and the risk management system as a whole can be found in the Combined Management Report 2013. The following table provides a brief overview:

Risk type	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.
Liquidity risks	... problems meeting payment obligations in the short term, or not being able to quickly close out larger positions at market value.
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 other 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.

Further developments.

LBBW’s overall bank management is currently undergoing further development. The focus is on harmonizing the accounting systems and reporting structures between the steering segments finance, Group risk and financial controlling, and the creation of the basis (processes, methods, IT) for aligning integrated bank management to the heightened requirements. The structural challenges are being addressed in a medium-term program.

Supervisory framework.

Looking ahead over the next few quarters, developments in the regulation and supervision of banks will particularly be dominated by the introduction of the single supervisory mechanism (SSM). Under this mechanism, LBBW as a significant banking group will be supervised by the European Central Bank (ECB) from November 2014. To prepare for its new function, the ECB is performing a detailed balance sheet assessment and, in conjunction with the European Banking Authority (EBA), a stress test.

LBBW Group – risk situation.

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

There has been virtually no change in the overall economic capital tied up since the end of 2013. At the same time, there has been a slight improvement in the risk situation with respect to counterparty, market price and investment risks. This is particularly due to the systematic run-off of the non-core business portfolio and the positive market situation with respect to credit spreads and volatility.

Individual methodology changes have been made to the calculation of economic capital. Correlation effects and more detailed regulatory requirements resulted in an increase in operational risks. With respect to other risks, there was an increase in pension risks and additional clustering effects of credit risks in particular. Detailed information can be found in the sections on the individual risk types.

Aggregate risk cover particularly benefited from a reduction in the capital deduction items and the positive trends in revaluation reserves in the first half of 2014. The maturities of subordinate debt in 2015 already included in the 12-month preview were very largely offset by a new issue.

In summary, the LBBW Group's risk-bearing capacity and stress resistance was safeguarded without restrictions and at all times throughout the first half of 2014.

The economic capital limit was maintained at all times at the Group level. Utilization of the aggregate risk cover stood at 52% as at 30 June 2014.

LBBW Group - risk-bearing capacity.

	30 June 2014		31 Dec. 2013	
	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	17,170	52 %	16,859	53 %
Economic capital limit[2]	12,800	70 %	12,800	70 %
Economic capital tie-up	9,014		8,923	
of which:				
diversification effects	– 543		– 535	
counterparty risks	4,290		4,304	
market price risks	2,255		2,297	
investment risks	153		171	
operational risks	1,205		1,119	
development risks	59		60	
real estate risks	256		262	
other risks [3]	1,339		1,245	

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

Opportunities.

There have been no changes since the end of 2013 in LBBW's assessment of the opportunities arising from the factors determining risk-bearing capacity, namely aggregate risk cover and economic capital.

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 2013.

The primary parameter in the following comments is exposure. Gross exposure is defined here as the fair value or utilization plus open external loan commitments. Net exposure additionally includes risk-mitigating effects such as 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 sureties.

Development of exposure.

The following table shows the development of the two exposure variables and the risk-mitigating effects compared to 31 December 2013.

Development of exposure.

EUR million	30 June 2014	31 Dec. 2013
Gross exposure	**393,705**	**374,643**
Netting/collateral	86,009	68,502
Credit derivatives (protection buy)	17,223	20,550
Classic credit collateral	43,231	42,781
Net exposure	**247,241**	**242,810**

Gross exposure stood at around EUR 394 billion as at 30 June 2014, an increase of EUR 19 billion or 5% over the end of 2013.

However, net exposure increased by only around EUR 4 billion or 2% to EUR 247 billion. The greater netting effects substantially weaken the stronger increase in gross exposure.

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

1) Information on the economic capital tied up in the individual risk types can be found in the section on the LBBW Group's risk management systems/risk situation.
2) Statements on risk situation are based on the management approach. Differences over the valuation methods applied for accounting purposes are due to factors described in the 2013 risk and opportunity report.

Portfolio quality.

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

Portfolio quality.

Net exposure	EUR million 30 June 2014	in % 30 June 2014	EUR million 31 Dec. 2013	in % 31 Dec. 2013
1(AAAA)	66,216	26.8%	59,614	24.6%
1(AAA) – 1(A–)	111,036	44.9%	111,322	45.8%
2 – 5	42,805	17.3%	43,023	17.7%
6 – 8	11,705	4.7%	13,823	5.7%
9 – 10	5,702	2.3%	6,102	2.5%
11 – 15	3,509	1.4%	2,911	1.2%
16 – 18 (Default)1)	3,913	1.6%	3,768	1.6%
Other	2,355	1.0%	2,246	0.9%
Total	**247,241**	**100.0%**	**242,810**	**100.0%**

1) »Default« refers to exposure for which a default event as defined in CRR Art. 148 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 proportion of the exposures measured with the best rating class 1 (AAAA) as at the reporting date widened to more than one quarter of net exposure. This includes in particular German non-central public-sector entities. The share of the entire portfolio with an investment-grade rating (1(AAAA) to 5) now stands at 89.0% (31 December 2013: 88.1%). At 1.6%, net exposure in the default rating classes (16 – 18) continues to account for only a small proportion of the overall portfolio.

Sectors.

The presentation by 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 in the following table is based on LBBW's internal risk-oriented sector key.

There was a slight decline in CVaR at the Group level. Changes in individual sectors beyond portfolio-induced fluctuation were chiefly due to methodology enhancements in the determination of correlations.

Sectors.

	Net exposure 30 June 2014	CVaR 30 June 2014	Default 30 June 2014	Net exposure 31 Dec. 2013	CVaR 31 Dec. 2013	Default 31 Dec. 2013
Financials	**122,937**	**918**	**512**	**114,560**	**982**	**364**
of which transactions under specific state liability[1]	46,284	58	216	41,583	60	130
Companies	**71,640**	**2,574**	**3,221**	**73,891**	**2,549**	**3,215**
Automotive	10,271	331	311	9,331	420	305
Construction	5,643	230	281	5,811	213	304
Commercial real estate (CRE)	7,505	474	993	8,082	458	959
Utilities	5,694	145	38	6,170	153	28
Housing	3,895	185	168	4,314	262	150
Other sectors [2)]	38,632	1,210	1,430	40,183	1,043	1,467
Public sector	**46,554**	**601**	**3**	**47,799**	**586**	**2**
Private individuals	**6,110**	**197**	**177**	**6,560**	**187**	**186**
Total	**247,241**	**4,290**	**3,913**	**242,810**	**4,304**	**3,768**

1 This figure shows transactions with guarantor's liability, transactions provided with a guarantee by the State of Baden Württemberg as part of the risk shield or transactions under the SoFFin guarantee. This also includes central banks or banks with a state background.
3) »Other sectors« combines company sectors with net exposure not greater than 5 % of the company portfolio as at 30 June 2014.

With a net exposure of EUR 123 billion, financials represent the largest of the four sectors (financials, corporates, public sector and private individuals). The increase of around EUR 8 billion over the end of 2013 is chiefly due to a greater volume of central bank deposits. The transactions in default chiefly comprise securitization positions for which LBBW holds a deductible (first loss) from the risk shield concluded with the State of Baden Württemberg.

Net exposures to corporates contracted by EUR 2 billion over 31 December 2013 to EUR 72 billion. In line with the situation at the end of the year, company sectors contribute more than half of CVaR (60% vs. 59% as at 31 December 2013).[3)]

In the table above, company sectors with net exposure of more than 5% of the company portfolio are shown separately. Once again, automotive and commercial real estate sectors were the most important sectors in the portfolio. For this reason, they are closely monitored in the light of sector concentration. The »other sectors« item includes a further 25 sectors that contribute significantly to sector diversification within the company portfolio.

Net exposure to the public sector dropped by EUR 1 billion over 31 December 2013 to EUR 47 billion.

For private individuals there was a slight decline in net exposure. This portfolio has a particularly high level of granularity.

3) The CVaR breakdown by business segment is similar - here too at 60 % (59 % as at 31 December 2013) the Corporates segment accounts for the greatest share of CVaR.

Regions.

The proportion of domestic German business in net exposure contracted by 3% compared with 31 December 2013 to 71.6%. This was due almost solely to the increased volume of deposits with foreign central banks. As a result of the LBBW Group's focus on the core markets in private, SME and large customer business and its function as a clearing bank for the savings banks, German business will continue to account for a large part of the portfolio.

Foreign exposure was particularly spread across Western Europe and North America. By contrast, exposure to Eastern Europe, Latin America, Africa and supranationals is of only subordinate importance and results principally from export finance.

Regions.

Net exposure in %	Share 30 June 2014	Share 31 Dec. 2013
Germany	71.6%	74.6%
Western Europe (excluding Germany)	17.2%	17.0%
North America	7.6%	5.2%
Asia/Pacific	1.6%	1.3%
Eastern Europe	1.0%	1.1%
Latin America	0.8%	0.8%
Africa	0.0%	0.0%
Supranationals	0.0%	0.0%
Total	**100.0%**	**100.0%**

The effects of the European sovereign debt crisis continued to subside in the first half of 2014. Reflecting this, the negative effect which it caused on portfolio quality weakened. Details on the exposure to Ireland, Italy, Portugal and Spain can be found in the Notes.

The economic situation in Southeastern European countries such as Cyprus, Romania and Slovenia was closely monitored. Given the political situation, Egypt, Ukraine and Russia in particular were subjected to more intensive risk monitoring. However, due to the negligible size of these exposures these countries did not present any material hazards for the risk situation of the LBBW Group.

Size classes.

The following breakdown by size class is based on the borrower unit level if part of the Group, otherwise the customer level.

Size classes.

Net exposure	Number 30 June 2014	Net exposure in % 30 June 2014	Number 31 Dec. 2013	Net exposure in % 31 Dec. 2013
up to EUR 10 million	707,148	10.1%	733,788	11.1%
up to EUR 50 million	1,205	10.8%	1,234	11.3%
up to EUR 100 million	233	6.7%	222	6.6%
up to EUR 500 million	241	21.7%	253	23.0%
up to EUR 1 billion	56	16.4%	54	15.9%
over EUR 1 billion	31	34.3%	33	32.1%
Total	**708,914**	**100.0%**	**735,584**	**100.0%**

The size classes of up to EUR 100 million net exposure account for 27.6% of the portfolio. The large number of customers is due in particular to the retail portfolio.

With shares of over 99.3% in both cases, very good to good credit ratings (1 (AAAA) to 5) also dominated the two size classes of net exposure totaling EUR 100 million to EUR 500 million and EUR 500 million to EUR 1 billion, respectively.

In the case of exposures over EUR 1 billion, the number of counterparties dropped by two to 31; on the other hand, the proportion of net exposure in this size class widened to 34.3%. Of this size class, 27% comprised Landesbanken and savings banks (of which two-thirds are under guarantor's liability) and a further 38% public-sector bodies (particularly domestic non-central public-sector entities) as at 30 June 2014. The remaining 35% in this size class was spread across banks and companies exclusively with very good to good credit ratings.

Opportunities.

There are no changes in LBBW's assessment of the opportunities arising from its core business activities compared with the end of 2013.

Market price risks.

Risk situation of the LBBW Group.

In the first half of 2014, the LBBW Group's exposure to market price risks receded slightly.

The following table illustrates the composition of 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 2014	31 Dec. 2013
LBBW Group	**182**	**218**	**137**	**169**	**171**
Swap risk	81	134	28	93	60
Credit spread risk	155	165	140	148	160
Equity risks	3	5	2	2	5
Currency risks	5	7	3	4	6

Overall, VaR dropped slightly. This was due to two different effects. Risk declined in the first half of 2014 as a result of the run-off of items in the non-core and trading portfolio, the positive market conditions for credit spreads and volatility. On the other hand, the risk of treasury portfolio rose as a result of the accumulation of new positions.

In order to take account of more volatile market phases, 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 result is scaled to a confidence level of 99.93% and a holding period of one year.

The internal risk model for calculating LBBW's exposure to market price risks is approved by the regulatory authorities for equity risks as well as for general interest rate risks in the trading-book without funds. 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 did not produce any exceptions for the LBBW Group or the SolvV portfolio. Additional backtesting on the basis of the so-called Dirty P/L[1)] is conducted due to regulatory requirements. This yielded one outlier for the SolvV portfolio as at the reporting date arising from an aperiodic adjustment in the P/L calculation.

The changes in the portfolio values in stress scenarios rose slightly in the first half of 2014. This was chiefly due to the accumulation of positions in the treasury portfolio. Scenarios simulating an increase in spreads and interest rates have the greatest significance in stress testing. The stress test scenarios were reviewed, revised and adjusted in the light of current market conditions.

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 2014	31 Dec. 2013
LBBW (Bank) trading positions	**41**	**47**	**35**	**36**	**41**
Swap risk	35	44	29	32	32
Credit spread risk	28	32	23	23	32
Equity risks	3	5	2	2	2
Currency risks	5	7	3	4	6

Trends in the trading book show that the credit spread risk has declined as a result of the portfolio run-off.

Opportunities.

There are no changes in LBBW's assessment of the opportunities compared with the end of 2013.

Liquidity risks.

Risk situation of the LBBW Group.

The LBBW Group continued to have ample liquidity at all times in the first half of 2014. The good liquidity situation was additionally underpinned by stable customer deposit business and the release of liquidity through the run-off of the credit substitute business.

The LBBW Group's funding requirements for its business and for potential additional requirements as a result of call risks was sufficiently covered at all times by the potential for raising funding in the market as well as unencumbered assets eligible for submission to central banks as collateral.

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

Overview of funding requirement and liquidity reserves.

EUR billion as at 30 June 2014	3 months	12 months
Funding requirement from the business portfolio (deterministic cash flow)	17.3	5.0
Material call risks (stochastic cash flow)	11.0	28.4
Free liquidity reserves	28.7	39.5
Funding potential in the market	31.1	35.0

Over the year as a whole, the surplus cover from cover registers not required to preserve the covered bond rate 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.

The solvency of the LBBW Group was guaranteed at all times for a three-month period even on the basis of severe stress scenarios. Thus, the »rating downgrade«, »financial market crisis« and »market crisis with a downgrade« liquidity risk stress scenarios structured in accordance with the guidelines of MaRisk (BTR 3.2) show that the remaining funding potential via the market plus free liquidity reserves substantially exceeds possible funding requirements under stress scenarios for this period.

Results of the economic stress scenarios.

Scenario EUR billion as at 30 June 2014	Funding requirement	Funding potential (central banks and market)
Rating downgrade	30.8	53.3
Financial market crisis	30.7	60.2
Market crisis with downgrade	31.0	57.1

All limits and other requirements in connection with liquidity risk tolerance were observed at all times in the first half of 2014. The liquidity reserves were consistently adequate to compensate for any substantial, short-term liquidity outflows. LBBW did not have to make use of central bank liquidity facilities to cover its funding requirements.

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 2014, the liquidity ratio for LBBW was 1.37 (31 December 2013: 1.47). There is no corresponding indicator at the Group level as this indicator is disclosed to the regulatory authorities at a single-entity level.

Opportunities.

There are no changes in LBBW's assessment of the opportunities compared with the end of 2013.

Operational risks.

Risk situation of the LBBW Group.

The explanations on the risk situation provided at the end of 2013, particularly in connection with the legal risks arising from customer transactions in complex derivatives, continue to apply. Within LBBW, the interfaces used by units exposed to operational risks (e.g. information technology, compliance, internal auditing) were additionally extended and optimized. At the same time, cooperation with the local OpRisk managers was intensified to ensure a coordinated and uniform approach to operational risks. In addition, various committees are engaged in a regular exchange of ideas. Furthermore, the processes relating to legal risks, new products or outsourcing are regularly monitored and further developed. The instruments for identifying, recording and coordinating operational risks were additionally enhanced in the first half of 2014.

Opportunities.

There are no changes in LBBW's assessment of the opportunities compared with the end of 2013.

Other material risks.

Pension risks entail the possible need to increase provisions for pensions on account of heightened pension expense and, in particular, valuation effects. This may especially be caused by changes in interest rates, pensions and salaries. Pension risks are calculated on the basis of sensitivities, the results of which indicated an increase in pension risks. The slight decline in investment risks is mainly due to positive changes in market data and enhancements to methodologies for the identification of correlations. As well as this, additional clustering effects arising from the alternative calculation of CVaR at the borrower unit level and reported here led to an increase in other risks.

With respect to the other material risks, namely

- real estate risks
- development risks
- reputation risks and
- business risks

The statements made in the risk report in the LBBW Group's Combined Management Report 2013 continue to apply. There were no material changes in the first half of 2014.

Outlook.

Anticipated economic performance.

LBBW sees confirmation for the optimism which it expressed in its annual report for 2013 concerning economic conditions in the current year. Thus, German GDP should expand by around 2% in real terms, substantially exceeding the 2013 figure (0.5%). Economic growth in the eurozone will fall short of this but, at a projected 1.0%, should be well up on 2013, when contraction of 0.5% was recorded.

Conditions in Germany and the eurozone will take their cues from a persistently stable global economy. Global economic output should widen by 3.7% in 2014, a downward revision of 0.1 percentage points in the forecast which LBBW issued six months ago. At 7.3%, GDP growth in China in particular is set to remain strong.

On the other hand, LBBW has scaled back its inflation forecasts for Germany and the eurozone to some degree. On the basis of the figures which have already been released for the first half of the year, LBBW now projects an inflation rate of 0.9% in Germany and 0.6% in the eurozone for 2014. This is a reduction of 0.6 percentage points in both cases compared with the outlook contained in the annual report for 2013.

Low interest rates are likely to continue exerting considerable influence in the eurozone for quite some to come. The ECB confirmed in July that given the inflation outlook it would be keeping its key rates at their current level over an extended period of time. On the other hand, there are signs of a gradual departure from the accommodative monetary policies in the United States - thus, the US Federal Reserve's program for buying sovereign bonds and mortgage-backed securities has been tapered to USD 35 billion per month. The Fed is likely to abandon its asset-buying program once and for all by November. LBBW expects a preliminary increase in target overnight rates in the United States in March 2015.

The greatest risks to this forecast are currently to be found in the political situation in several regions in the Middle East as well as Ukraine. What is more, the stability of the Chinese banking system, which is characterized by strong growth in lending in the shadow bank sector over the past few years, may pose risks to the further performance of the global economy.

Industry and competitive situation.

There have been virtually no changes in LBBW's expectations with respect to the industry and competitive situation since the end of 2013; however, the challenges which the low interest rates pose for the German banking sector are, if anything, likely to be amplified by European central bank policies. Moreover, heightened volatility could arise in the markets in the course and in the aftermath of the announcement of the results of the balance sheet assessment and the stress test scheduled for October.

Although the future conditions of the European banking union have further substantiated in the first half of the year and fundamental agreement was achieved on the revised Markets in Financial Instruments Directive (MiFID) and the introduction of a financial transaction tax, which are likely to take effect in 2017 and 2016, respectively, banks still face considerable uncertainty, particularly in respect of regulatory and legal matters.

What can be said is that the step-by-step establishment of a common bank resolution fund in the eurozone with a target volume of some EUR 55 billion from 2015 will result in substantially increased levies on German banks over again. In addition to the fees for national oversight, the single supervision by the European Central Bank will lead to further expense, which according to a preliminary ECB estimate may reach at least EUR 260 million a year in the eurozone. Depending on the current features of the systems in question, banks may also face further burdens as a result of the agreement which has been reached on deposit guarantee.

As well as this, the proposals and measures at the EU level for boosting lending to the real economy will also impact banks. In this connection, for example, the ECB is implementing more stringent reporting requirements by collecting granular lending data for the first time at the end of 2016.

Outside the EU, the finalization in February of further elements of the Dodd-Franks Act will, among other things, result in further capital, liquidity and governance requirements, largely from 2016 onwards.

At the national level, the German federal government announced in May 2014 a plan of measures to improve the protection of retail investors; among other things, these introduce more stringent product- and selling-related rules.

Company forecast.

Preliminary remarks.

The comments made in the Group management report 2013 on the company forecast for LBBW were reviewed at the middle of 2014 on the basis of a forecast prepared for the remaining months of the year. This resulted in the identification of individual changes in the original estimates. The main changes are set out below.

The forecast issued at the end of 2013 assumed that interest rates would remain low in 2014. In the current forecast, these expectations have been revised further downwards. This revision together with sustained customer restraint has resulted in a partial adjustment to forecast income.

Outlook for LBBW.

On the basis of its strategic orientation, which is unchanged over the end of 2013, LBBW expects its main Group financial parameters to develop as follows in the remaining months of 2014 compared with the budget.

A common equity Tier 1 ratio in accordance with Basel III (»fully loaded«) which not only substantially exceeds the regulatory requirements but is also well above the budgeted level is expected by the end of 2014. This improvement will be primarily driven by the swifter run-off of risk weighted assets from the activities defined as non-core in tandem with the conservatively planned valuation of risk weighted assets.

LBBW expects a moderate decline in total assets in 2014 compared with the forecast contained in the Group management report 2013. In addition to the swifter run-off of non-core bank business, this will also be due to sustained muted customer demand.

In the absence of any unforeseen market turbulence or an unexpectedly sharp slump in the economy, LBBW continues to assume that it will be able to report a substantial positive net consolidated profit before tax in line with the budget for 2014. This forecast must particularly be seen in the light of the difficult market conditions. Thus, the persistently low interest rates, which have dropped even further following the cut in the European Central Bank's main key rates, persistent customer reticence and surplus liquidity in the markets will particularly exert pressure on income in the Corporates and Financial Markets segments. Moreover, LBBW assumes that administrative expenses will be higher than initially expected particularly as a result of increased expenditure in connection with regulatory requirements. Among other things, costs in connection with the balance sheet assessment ahead of the transfer of banking supervision responsibilities to the European Central Bank in autumn 2014 and numerous other regulatory projects will leave deeper traces than assumed. In addition, the improved earnings posted by LBBW (Bank) in 2013 mean that the provisions set aside for the bank levy in 2014 will be well in excess of the budget. However, allowances for losses on loans and advances in 2014 should be well down on the forecast issued at the end of 2013, while investment income should be higher than originally assumed.

In view of the expectations outlined above for income and expenses, the LBBW Group anticipates an appreciable increase in the cost income ratio in 2014 compared with the forecast contained in the annual report for 2013.

The material opportunities and risks for LBBW's forecast earnings reported at the end of 2013 continue to apply to the remaining months of 2014. In addition, the aforementioned current risks to the global economy as well as the geopolitical risks may leave traces on LBBW's expected business performance indirectly via affected customers and directly via the scope which it has for raising funding and the related cost of such funding.

The outlook at the segment level for the rest of 2014 varies from segment to segment. However, LBBW generally continues to assume that the operating segments will make a positive contribution to earnings on the one hand, while the Credit Investment segment will generate a loss, on the other. The main changes over the forecast in the Group management report for 2013 are described below.

In the Corporates segment, LBBW now expects substantially higher net consolidated profit before tax for the period in question than it did at the end of 2013. The main driver behind this improvement will be forecast allowances for losses on loans and advances, which will be well down on the budget and should therefore more than make up for the loss of income caused by muted customer demand. In addition, the investments allocated to this segment will generate earnings considerably higher than the budget. The expected cost income ratio should exceed the original budget slightly, while total assets are likely to be substantially down on the budget.

The expected performance of the Financial Markets segment will be materially determined by the difficult market environment. Thus, the low interest rates in connection with weak market volatility triggered customer restraint with respect to investment and hedging products in the first few months of 2014. As a result, net consolidated profit before tax is likely to be well down in 2014 as a whole compared with the budget. This will also lead to an appreciably higher cost income ratio than assumed. On the other hand, total assets should contract slightly and risk weighted assets substantially compared with the forecast issued at the end of 2013.

LBBW assumes that net consolidated profit before tax in the Retail/Savings Bank segment will be in line with the budget.

In the wake of the swifter-than-expected portfolio run-off, total assets in the Credit Investment segment will be slightly lower at the end of 2014 and contain substantially fewer risk weighted assets than originally forecast. Positive earnings effects will arise, with the substantially lower fee payable for the guarantee issued by the State of Baden-Württemberg as a result of the smaller portfolio particularly easing the pressure on earnings. For this reason, LBBW expects the strain on net consolidated profit before tax to be significantly weaker at the end of 2014 than expected at the end of 2013. This is also reflected in a sizably lower cost income ratio than assumed at the end of 2013.

All in all, LBBW assumes that the stability which it has achieved with its established business model as a solely customer-oriented bank in connection with solid capital resources provides a good basis for it to successfully assert itself in the market. Looking forward, LBBW will continue to expand its large and stable base of customers and serve them as their reliable partner

Consolidated interim financial statements.

Contents

Condensed income statement

for the period 1 January to 30 June 2014.

EUR million	Notes	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013[1)]
Net interest income	4	954	922
Allowances for losses on loans and advances	5	– 45	– 139
Net fee and commission income	6	254	277
Net gains/losses from financial instruments measured at fair value through profit or loss	7	30	187
Net gains/losses from financial investments	8	36	– 26
Net income/expenses from investments accounted for using the equity method	9	– 4	1
Other operating income/expenses	10	57	1
Net income/expenses from investment property	11	14	13
Administrative expenses	12	– 902	– 816
Guarantee commission for the State of Baden-Württemberg		– 119	– 154
Impairment of goodwill		– 16	– 2
Net consolidated profit/loss before tax		**259**	**264**
Income tax	13	– 101	– 84
Net consolidated profit/loss		**158**	**180**
of which attributable to shareholders after tax		158	180

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

Total comprehensive income

for the period 1 January to 30 June 2014.

EUR million	Notes	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013[1)]
Net consolidated profit/loss		158	180
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax		– 268	84
Income tax	13	81	– 25
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		207	448
Transferred to income statement		– 8	– 69
Income tax	13	– 51	– 89
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax		0	– 4
Measurement gains/losses from cash flow hedges			
Changes in fair value before tax		– 2	3
Income tax	13	0	– 1
Currency translation differences			
Changes before tax		1	– 2
Total net consolidated profit/loss in equity		**– 40**	**345**
of which from non-current assets held for sale and disposal groups		– 1	– 2
Net consolidated total comprehensive income		**118**	**525**
of which attributable to shareholders after tax		118	525

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

Balance sheet

as at 30 June 2014.

Assets.

EUR million	Notes	30 June 2014	31 Dec. 2013[1]
Cash and cash equivalents	14	9,880	2,156
Loans and advances to banks	15	48,339	47,625
Loans and advances to customers	16	113,779	111,453
Allowances for losses on loans and advances	17	– 2,146	– 2,201
Financial assets measured at fair value through profit or loss	18	77,846	70,115
Financial investments	19	39,610	40,660
Shares in investments accounted for using the equity method	20	290	297
Portfolio hedge adjustment attributable to assets		536	355
Non-current assets held for sale and disposal groups	21	675	727
Intangible assets	22	478	494
Investment property	23	482	481
Property and equipment	24	626	646
Current income tax assets		184	179
Deferred income tax assets		929	1,059
Other assets	25	865	610
Total assets		**292,373**	**274,656**

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

Equity and liabilities.

EUR million	Notes	30 June 2014	31 Dec. 2013 [1]
Deposits from banks	26	64,125	58,055
Deposits from customers	27	82,053	82,053
Securitized liabilities	28	45,010	50,693
Financial liabilities measured at fair value through profit or loss	29	75,666	57,636
Portfolio hedge adjustment attributable to liabilities		722	685
Provisions	30	3,273	3,133
Liabilities from disposal groups	21	727	915
Current income tax liabilities		41	58
Deferred income tax liabilities		97	169
Other liabilities	31	1,115	756
Subordinated capital	32	6,098	7,103
Equity	**33**	**13,446**	**13,400**
Share capital		3,484	3,484
Capital reserve		8,240	8,240
Retained earnings		1,294	1,214
Other income		251	104
Unappropriated profit/loss		158	340
Shareholders' equity		13,427	13,382
Equity attributable to non-controlling interest		19	18
Total equity and liabilities		**292,373**	**274,656**

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

Statement of changes in equity

for the period 1 January to 30 June 2014.

EUR million	Share capital	Capital reserve	Retained earnings	Revaluation reserve
Equity as at 31 December 2012	**2,584**	**6,910**	**782**	**– 462**
Restatement of prior year amounts	0	0	– 7	0
Equity as at 1 January 2013	**2,584**	**6,910**	**775**	**– 462**
Allocation to retained earnings	0	0	399	0
Capital increase/capital reduction	900	1,330	0	0
Actuarial gains/losses	0	0	59	0
Changes in AfS financial instruments	0	0	0	290
Measurement gains/losses from investments accounted for using the equity method	0	0	0	0
Measurement gains/losses from cash flow hedges	0	0	0	0
Currency translation differences	0	0	0	0
Net profit/loss in equity	**0**	**0**	**59**	**290**
Net consolidated profit/loss	0	0	0	0
Restatement of net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**59**	**290**
Other changes in equity	0	0	– 10	0
Equity as at 30 June 2013	**3,484**	**8,240**	**1,223**	**– 172**
Changes in the scope of consolidation	0	0	– 7	– 1
Actuarial gains/losses	0	0	3	0
Changes in AfS financial instruments	0	0	0	186
Measurement gains/losses from investments accounted for using the equity method	0	0	– 3	0
Measurement gains/losses from cash flow hedges	0	0	0	0
Currency translation differences	0	0	0	0
Net profit/loss in equity	**0**	**0**	**0**	**186**
Net consolidated profit/loss	0	0	0	0
Restatement of net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**0**	**186**
Other changes in equity	0	0	– 2	0
Equity as at 31 December 2013	**3,484**	**8,240**	**1,214**	**13**
Restatement of prior year amounts	0	0	– 1	0
Equity as at 1 January 2014	**3,484**	**8,240**	**1,213**	**13**
Allocation to retained earnings	0	0	340	0
Distribution to shareholders	0	0	– 72	0
Actuarial gains/losses	0	0	– 187	0
Changes in AfS financial instruments	0	0	0	148
Measurement gains/losses from cash flow hedges	0	0	0	0
Currency translation differences	0	0	0	0
Net profit/loss in equity	**0**	**0**	**– 187**	**148**
Net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 187**	**148**
Other changes in equity	0	0	0	0
Equity as at 30 June 2014	**3,484**	**8,240**	**1,294**	**161**

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

Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from cash flow hedges	Currency translation reserve	Unappro-priated profit/loss	Shareholders' equity	Equity attributable to non-controlling interest	Total[1)]
106	**– 3**	**– 4**	**399**	**10,312**	**21**	**10,333**
0	0	1	0	– 6	3	– 3
106	**– 3**	**– 3**	**399**	**10,306**	**24**	**10,330**
0	0	0	– 399	0	0	0
0	0	0	0	2,230	0	2,230
0	0	0	0	59	0	59
0	0	0	0	290	0	290
– 4	0	0	0	– 4	0	– 4
0	2	0	0	2	0	2
0	0	– 2	0	– 2	0	– 2
– 4	**2**	**– 2**	**0**	**345**	**0**	**345**
0	0	0	180	180	– 4	176
0	0	0	0	0	4	4
– 4	**2**	**– 2**	**180**	**525**	**0**	**525**
0	0	0	0	– 10	0	– 10
102	**– 1**	**– 5**	**180**	**13,051**	**24**	**13,075**
0	0	0	0	– 8	0	– 8
0	0	0	0	3	0	3
0	0	0	0	186	0	186
4	0	0	0	1	0	1
0	– 1	0	0	– 1	0	– 1
0	0	– 8	0	– 8	0	– 8
4	**– 1**	**– 8**	**0**	**181**	**0**	**181**
0	0	0	163	163	– 2	161
0	0	0	– 3	– 3	2	– 1
4	**– 1**	**– 8**	**160**	**341**	**0**	**341**
0	0	0	0	– 2	– 6	– 8
106	**– 2**	**– 13**	**340**	**13,382**	**18**	**13,400**
0	0	0	0	– 1	0	– 1
106	**– 2**	**– 13**	**340**	**13,381**	**18**	**13,399**
0	0	0	– 340	0	0	0
0	0	0	0	– 72	0	– 72
0	0	0	0	– 187	0	– 187
0	0	0	0	148	0	148
0	– 2	0	0	– 2	0	– 2
0	0	1	0	1	0	1
0	**– 2**	**1**	**0**	**– 40**	**0**	**– 40**
0	0	0	158	158	0	158
0	**– 2**	**1**	**158**	**118**	**0**	**118**
0	0	0	0	0	1	1
106	**– 4**	**– 12**	**158**	**13,427**	**19**	**13,446**

Condensed cash flow statement

for the period 1 January to 30 June 2014.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013[1)]
Cash and cash equivalents at the beginning of the period	**2,156**	**2,909**
Cash flow from operating activities	8,707	3,684
Cash flow from investing activities	1	– 4
Cash flow from financing activities	– 984	– 584
Cash and cash equivalents at the end of the period	**9,880**	**6,005**

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

Selected notes to the consolidated interim financial statements

for the first half of the 2014 financial year.

Basis of group accounting.

Landesbank 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 consolidated interim financial statements of LBBW as at 30 June 2014 were prepared in accordance with section 37w of the Securities Trading Act (Wertpapierhandelsgesetzes - 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, and the applicable provisions of the German Commercial Code (Handelsgesetzbuch - HGB) in accordance with section 315a (1) HGB. 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.

The consolidated interim financial statements of LBBW were approved for publication by the Board of Managing Directors on 13 August 2014.

Accounting policies.

1. Accounting principles.

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2014 do not contain all 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 2013.

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 2013. 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, other disclosures and supplementary information according to section 315a HGB are illustrated in Notes 34 to 48.

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 2014.

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 and estimates.

IFRS applied for the first time.

The following IFRS were applied for the first time in the 2014 financial year.

IFRS 10 Consolidated Financial Statements.

This standard contains the new regulations on consolidation and replaces the corresponding provisions in IAS 27 »Consolidated and Separate Financial Statements« and SIC-12 »Consolidation – Special Purpose Entities«. At the core of the changes is the redefinition of the parent-subsidiary relationship and therefore the scope of consolidation. In future, control is considered to exist if the following three elements are cumulatively fulfilled:

- LBBW has direct or indirect decision-making authority to determine key business activities for the economic success of an enterprise.
- LBBW is subject to variable returns from these companies that can be both positive and negative.
- LBBW can use its decision-making authority to impact on the amount of the company's variable returns.

The first-time application of IFRS 10 impacts on the scope of consolidation as well as on the Group's net assets, financial position and results of operations. This is essentially the first-time inclusion of one real estate company and two securitization vehicles. Detailed information about the scope of consolidation is set out in Note 3. The impact on the scope of consolidation on the consolidated balance sheet and the consolidated income statement is shown in the following tables:

Assets.

EUR million	31 Dec. 2013	1 Jan. 2013
Loans and advances to banks	47	47
Current account claims	– 2	0
Other receivables	49	47
Loans and advances to customers	2,403	1,926
Other receivables	2,058	1,595
Other loans	345	331
Allowances for losses on loans and advances	– 22	– 15
Specific/collective valuation allowance on loans and advances to customers	– 22	– 15
Financial assets measured at fair value through profit or loss	– 1,283	– 1,540
Trading assets	– 1,283	– 1,540
Positive fair values from trading derivatives	– 1	0
Bonds and debentures	– 1,282	– 1,540
Deferred income tax assets	– 3	– 2
Other assets	– 5	– 16
Inventories	– 5	– 16
Total assets	**1,137**	**400**

Equity and liabilities.

EUR million	31 Dec. 2013	1 Jan. 2013
Deposits from customers	0	22
Current account liabilities	– 54	– 47
Other liabilities	54	69
Securitized liabilities	1,132	375
Money market transactions	1,132	375
Provisions	– 7	– 4
Provisions for lending business	– 7	– 4
Equity	**12**	**7**
Retained earnings	3	3
Other income	0	1
Equity attributable to non-controlling interest	9	3
Total equity and liabilities	**1,137**	**400**
Contingent liabilities	– 2,782	– 2,236
Sureties and guarantee agreements	– 2,782	– 2,236

Income statement.

EUR million	30 June 2013
Net interest income	– 11
Interest income from lending and money market transactions	– 8
Interest expense for securitized liabilities	– 3
Allowances for losses on loans and advances	– 2
Additions to allowances for losses on loans and advances	– 2
Net fee and commission income	11
Fee and commission income from lending, trustee and guarantee (aval) business	13
Other fee and commission income	– 2
Other operating income/expenses	6
Income from the disposal of inventories	– 1
Impairment of inventories	6
Expenses from the disposal of inventories	1
Net consolidated profit/loss before tax	**4**
Net consolidated profit/loss	**4**
of which attributable to non-controlling interest after tax	4

IFRS 11 Joint Arrangements.

This standard contains the new accounting rules for joint ventures and combined operations and replaced IAS 31 »Interests in Joint Ventures« and SIC-13 »Jointly Controlled Entities – Non-Monetary Contributions by Venturers«. The new IFRS 11 distinguishes between joint ventures and combined operations. Joint ventures must be included in the consolidated financial statements using the equity method and no longer optionally using proportionate consolidation. In contrast, assets and liabilities applicable to the investor as well as expenses and income from combined operations are included proportionately in the consolidated financial statements.

The first-time application of IFRS 11 has no material impact on the consolidated financial statements of LBBW.

IFRS 12 Disclosure of Interests in Other Entities.

The disclosure requirements in respect of IFRS 10, IFRS 11 and IAS 28 are included in this standard. Specifically, information must be disclosed that offers an insight into the risks and their financial implications that are associated with subsidiaries, joint ventures and associates. In addition, IFRS 12 requires details about structured entities that are not controlled. An entity is structured if the management and controlling bodies following the laws applicable for the respective legal form exist only formally and the members of these bodies have no decision-making powers that have a material effect on the success of the company.

IFRS 12 is to be applied for the first time at year-end and leads to an extension of the reporting requirements in the Notes, particularly in connection with structured entities.

IAS 27 Separate Financial Statements.

This standard replaces the previous IAS 27 »Consolidated and Separate Financial Statements«. Its scope of application extends exclusively to the preparation of separate financial statements.

The changes do not have any impact on the consolidated financial statements of LBBW.

IAS 28 Investments in Associates and Joint Ventures.

This standard contains mainly the definition of an associate and provisions for using the equity method for associates and joint ventures and replaces IAS 28 »Investments in Associates«.

The first-time application has no material impact on the consolidated financial statements of LBBW.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12.

This standard facilitates above all the easy transition to IFRS 10, IFRS 11 and IFRS 12. In particular, the mandatory presentation of comparative figures is restricted to the previous year. In addition, no comparative data is necessary for structured entities over which no control is exercised in the year of first-time application.

Due to the relief granted by law, comparability with the previous year is not yet possible in 2014 for all disclosure requirements.

Investment Entities – Amendments to IFRS 10, IFRS 11 and IAS 27.

This standard provides for an exemption from the consolidation obligation for subsidiaries of specific parent companies in accordance with IFRS 10. This affects parent companies that meet the requirements of an investment entity within the meaning of this standard.

The first-time application does not have any impact on the consolidated financial statements of LBBW .

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32.

This standard contains clarification concerning the requirements for offsetting financial assets and financial liabilities.

The first-time application does not have any impact on the consolidated financial statements of LBBW.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39.

This standard extends the scope of the applications that can provide relief from discontinuing hedge accounting in relation to a novation of hedging instruments. Under certain circumstances, novations of hedging instruments to a central counterparty may no longer lead to a discontinuation of hedge accounting.

Applications include, in particular, transfers of hedging derivatives concluded off-exchange to a central counterparty in conjunction with the European Market Infrastructure Regulation (EMIR). The first-time application has no material impact on the consolidated financial statements of LBBW.

IFRIC 21 Levies.

This interpretation governs the accounting of public levies. It sets out when and in what amount these levies should be recognized. Its scope of application also includes the banking levy imposed by the Financial Market Stabilization Authority (FMSA).

This interpretation is voluntarily applied ahead of time. The first-time application does not have any impact on the consolidated financial statements .

IFRS to be applied in future.
The following IFRS had not yet taken effect as at 30 June 2014. Unless otherwise stated, these IFRS standards are already recognized in European Law and LBBW does not intend to apply them earlier on a voluntary basis:

Annual Improvements to IFRS 2010 – 2012 Cycle, Annual Improvements to IFRS 2011 – 2013 Cycle.

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.

Some of the changes from the »Annual Improvements to IFRS 2010– 2012 Cycle« standard are expected to become effective for the first time as of 1 July 2014, while others will not be effective until the 2015 financial year. The first-time application is not expected to have any material impact on the consolidated financial statements. It had not been recognized in European Law as at the reference date of the consolidated interim financial statements.

The change to the »Annual Improvements to IFRS 2011– 2013 Cycle« standard is expected to become effective for the first time in the 2015 financial year. The first-time application is not expected to have any material impact on the consolidated financial statements. It had not been recognized in European Law as at the date of the consolidated interim financial statements.

Defined Benefit Plans: Employee Contributions – Amendments to IAS 19.

This standard determines how contributions that the employees (or third parties) make themselves to defined benefit plans must be reported by the assenting company.

The changes are expected to become effective for the first time in the 2015 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed. It had not been recognized in European Law as at the date of the consolidated interim financial statements.

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 changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41.

This standard allows fruit-bearing plants, such as grape vines, to be recognized as fixed assets in the balance sheet under certain circumstances.

The changes are expected to effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

Clarification of Acceptable Methods of Depreciation and Amortization – Amendments to IAS 16 and IAS 38.

This standards clarifies that revenue-based methods to calculate depreciation generally do not appropriately reflect the use of fixed assets or intangible assets. The revised standard permits such a method of depreciation only for intangible assets subject to certain conditions.

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11.

This standard determines that interests acquired in a combined operation that represents a business operation within the meaning of IFRS 3 fundamentally meet the requirements of IFRS 3 as well.

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

IFRS 15 Revenue from Contracts with Customers.

This standard contains the new regulations 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 lease agreements, among other things.

The changes are expected to become effective for the first time in the 2017 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

IFRS 9 Financial Instruments (2009), IFRS 9 Financial Instruments (2010), Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7, IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39.

This standard contains the accounting rules for financial instruments to be applied in the future and therefore replaces the earlier versions of IFRS 9 and large parts of IAS 39. For the classification and measurement of financial instruments, the underlying business model and the product characteristics will be decisive in future in relation to cash flows. Allowances for losses on loans and advances will no longer be restricted to losses already incurred but will also comprise expected losses, and hedge accounting will be oriented more closely to risk management. The new regulations for macro hedge accounting are still being discussed and are not part of this standard.

The changes are expected to become effective for the first time in the 2018 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed. The standard had not been recognized in European Law as at the date of the consolidated interim financial statements.

Changes in presentation.

We refer to the explanations in the 2013 Annual Report in relation to changes in presentation, which are reflected in the current figures based on the comparable period.

A better assessment with regard to the level classifications also led to a change within the fair value hierarchy.

Changes.

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

- Up to 2013, a property that was mainly owner-occupied from the Group's perspective was reported under the item »Investment property« in the consolidated financial statements of LBBW and measured at fair value. Due to the immaterial valuation effects in the 2013 financial year, the retrospective correction of the cumulative effects on earnings from previous years in the amount of EUR – 3.7 million is reported in equity, and in the amount of EUR 0.7 million in the deferred tax assets, as at 1 January 2013. The reclassification in fixed assets is measured at amortized cost in the amount of EUR 20.5 million.
- Due to the improper measurement of forward-forward swaps in the second half of the 2013 financial year, the volume of assets held for trading reported as at 31 December 2013 was too high. The trading assets were reduced by EUR 4.1 million and the deferred tax assets increased by EUR 0.6 million in the retrospective amendment. Equity was amended in the amount of EUR – 3.5 million.
- Structured promissory notes were subject to an improper measurement of premium amortizations and measurement results of embedded options in previous periods. The effects until 2012 have been amended retrospectively against equity by EUR – 6.1 million as at 1 January 2013. Due to its small impact on results, the effect from 2013 amounting to EUR – 1.0 million will be amended against equity as at 1 January 2014. In addition, deferred tax assets of EUR 3.9 million, deposits from customers of EUR 4.5 million, deposits from banks of EUR 24.1 million and trading liabilities of EUR – 17.6 million were amended.

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 126 subsidiaries, of which 16 structured entities (previous year: 111 subsidiaries and 15 special-purpose entities), were included in the consolidated financial statements.

A subsidiary is an entity that is controlled by another entity (known as the parent). Control is assumed to exist, if the parent company (I) has direct or indirect authority over the relevant activities of a participating interest, (II) obtains variable benefits from the participating interest or has rights to variable benefits, (III) can use its authority to draw on the account of the participating interest to influence the amount of its variable benefits.

Inclusion of structured entities in the consolidated financial statements does not depend on the extent of the equity investment or the proportion of voting rights.

With the consolidation of the structured entities, all the material risks arising from these entities are included in LBBW's consolidated financial statements.

The following subsidiary was deconsolidated during the period under review, as it was merged with LBBW (Bank) as at 1 January 2014:

- LBBW Luxemburg S.A.

Full consolidation for the following special purpose vehicle was also ended; it is now accounted for using the equity method:

- Parcul Banatului SRL

No deconsolidation result was created by the above mentioned deconsolidations.

The following structured entities were consolidated for the first time in 2014:

- Weinberg Capital Ltd.
- Weinberg Funding Ltd.

Six joint ventures (31 December 2013: four joint ventures) and unchanged seven associates were accounted for using the equity method in the consolidated financial statements.

Joint ventures comprise two or several contractual parties that are (I) linked via a contractual agreement and (II) exercise joint control over jointly controlled entities. An associate is an entity over which the LBBW Group exercises a significant influence. 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 following joint venture was measured for the first time using the equity method:

- OVG MK6 GmbH

The changes in the scope of consolidation in relation to the following entities are attributable to the first-time application of IFRS 10:

- Parcul Banatului SRL
- Weinberg Capital Ltd.
- Weinberg Funding Ltd.

A total of 167 subsidiaries (previous year: 176 subsidiaries and SPEs) were not included in the consolidated financial statements because their individual and aggregate influence on the net assets, financial positions 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 field 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 2014 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.

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

- The **Corporates** segment is an aggregated reporting segment in accordance with IFRS 8.12 and includes the business segments Corporates I, Corporates II and International Business. These include the following material subsidiaries: LBBW Immobilien Management GmbH, Süd-Kapitalbeteiligungs-Gesellschaft mbH, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH. 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 offered solutions range from classic through structured to off-balance sheet financing. Services are also offered in the areas of international business, cash management, interest rate, currency and commodities management, asset and pension management. Products relating to the primary capital markets business for our customers in the Corporates segment and commercial real estate financing are also included here.
- Apart from trading activities in connection with the customer business, the **Financial Markets** segment also includes all sales activities with banks, sovereigns, insurance companies and pension funds. The product portfolio contains financial instruments for the management of liquidity and interest rate, currency and credit risks. Financing solutions are also offered on the primary market in the field of equity and debt, along with asset management services. The Corporates segment includes all results from financial market transactions with corporate customers. 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, investment, private banking and wealth management customers. The products on offer cover 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. In particular, this includes the Bank's own investments in plain vanilla bonds, structured securitizations and credit derivatives. It also includes the financing of the special-purpose entity Sealink Funding.
- The **Corporate Items** segment comprises all business activities not included in the operating segments mentioned above. In addition to treasury activities (especially the result generated from the central investment of own funds, lending/deposit-taking operations, IFRS specifics in relation to the refinancing and the management of strategic investments and cover funds), this notably consists of equity investments not included in the consolidated interim financial statements, the costs of strategic projects for the Bank as a whole and to prepare for the new regulatory requirements.
- 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. 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 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 net gains/losses from profit or loss transfer agreements, and allocated to the segments in which they arise.

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

Besides direct personnel and material expenses, the administrative expenses of a segment include expenses assigned on the basis of intragroup cost allocation. Bank levy is allocated to the segments. Overheads are allocated on a pro rata basis.

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

A segment’s return on equity (RoE) is calculated based on the ratio of annualized net consolidated profit/loss before tax to average equity deemed to be tied up in accordance with regulatory requirements. The cost income ratio (CIR) is calculated based on the ratio of administrative expenses to total operating income/ expenses (after allowances for losses) excluding allowances for losses on loans and advances and net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/ loss transfer agreements.

In the first half of 2014, marginal methodological improvements and more differentiated offsetting procedures led to a more refined income, cost, and volume allocation to segments. In addition, there was an improvement in allocation to the respective segments of the effects of allowances for losses on loans and advances from adjustments to interest rates and unwinding. The prior year amounts were adjusted to the new reporting to preserve comparability.

Furthermore, the segment reporting takes into consideration the retrospective adjustments to the income statement and the balance sheet in accordance with IAS 8.42 and from the first-time application of IFRS 10.

Segment results by business area.

1 Jan. – 30 June 2014 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/ Recon-ciliation/ Consolidation	LBBW Group
Net interest income	600	178	173	– 40	43	954
Allowances for losses on loans and advances	– 44	0	– 2	0	1	– 45
Net fee and commission income	125	46	108	– 3	– 23	254
Net gains/losses from financial instruments measured at fair value through profit or loss	1	66	0	44	– 80	30
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	– 4	0	0	29	8	32
Other operating income/expenses [1]	47	10	– 2	0	17	71
Total operating income/expenses (after allowances for losses on loans & advances)	**725**	**300**	**276**	**29**	**– 34**	**1,296**
Administrative expenses	– 365	– 191	– 235	– 21	– 90	– 902
Operating result	**360**	**109**	**41**	**9**	**– 124**	**394**
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 119	0	– 119
Impairment of goodwill	0	– 16	0	0	0	– 16
Net consolidated profit/loss before tax	**360**	**92**	**41**	**– 111**	**– 124**	**259**
Income tax						– 101
Net consolidated profit/loss						**158**
Segment assets (EUR billion)	77.3	119.7	33.0	27.0	35.4	292.4
Risk weighted assets [2] (EUR billion)	48.1	15.8	9.9	2.3	8.9	84.9
Tied-up equity [2] (EUR billion)	4.4	1.6	0.9	0.3	6.0	13.1
RoE [2] (in %)	**16.4**	**11.9**	**9.1**	**< 0**	**< 0**	**3.9**
CIR (in %)	**47.2**	**63.7**	**84.3**	**> 100**	**< 0**	**68.9**

1) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
2) Information based on future supervisory law acc. to Basel III following full implementation.

1 Jan. – 30 June 2013 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/ Recon-ciliation/ Consolidation	LBBW Group[3]
Net interest income	660	224	176	– 10	– 128	922
Allowances for losses on loans and advances	– 128	0	– 4	0	– 8	– 139
Net fee and commission income	157	56	108	– 2	– 42	277
Net gains/losses from financial instruments measured at fair value through profit or loss	– 16	78	0	74	51	187
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	0	0	0	– 59	33	– 25
Other operating income/expenses [1]	47	– 28	10	– 3	– 12	14
Total operating income/expenses (after allowances for losses on loans & advances)	**721**	**330**	**290**	**0**	**– 105**	**1,236**
Administrative expenses	– 335	– 174	– 222	– 29	– 56	– 816
Operating result	**385**	**156**	**68**	**– 29**	**– 161**	**420**
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 154	0	– 154
Impairment of goodwill	– 2	0	0	0	0	– 2
Net consolidated profit/loss before tax	**383**	**156**	**68**	**– 183**	**– 160**	**264**
Income tax						– 84
Net consolidated profit/loss						**180**
Segment assets (EUR billion)	76.6	99.2	33.3	29.8	35.8	274.7
Risk weighted assets[2] (EUR billion)	49.9	19.1	10.7	3.8	6.3	89.8
Tied-up equity[2] (EUR billion)	5.4	2.1	1.1	0.8	3.6	12.9
RoE[2] (in %)	**13.7**	**13.9**	**11.6**	**< 0**	**< 0**	**4.1**
CIR (in %)	**39.5**	**52.7**	**75.6**	**49.7**	**< 0**	**58.3**

1) Net income/expenses from investment property is recognized as part of other operating income/expenses.
2) Information based on future supervisory law acc. to Basel III following full implementation.
3) 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 2014	1 Jan. – 30 June 2013	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013 3)
Net interest income	47	– 80	– 3	– 48	43	– 128
Allowances for losses on loans and advances	1	– 5	0	– 2	1	– 8
Net fee and commission income	1	1	– 24	– 42	– 23	– 42
Net gains/losses from financial instruments measured at fair value through profit or loss	– 10	– 48	– 70	99	– 80	51
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	13	2	– 5	31	8	33
Other operating income/expenses 1)	21	13	– 5	– 25	17	– 12
Total operating income/expenses (after allowances for losses on loans and advances)	**73**	**– 117**	**– 106**	**12**	**– 34**	**– 105**
Administrative expenses	– 90	– 56	0	0	– 90	– 56
Operating result	**– 17**	**– 173**	**– 106**	**12**	**– 124**	**– 161**
Net consolidated profit/loss before tax	**– 17**	**– 173**	**– 106**	**12**	**– 124**	**– 160**
Segment assets (EUR billion)	39.4	45.9	– 4.0	– 10.1	35.4	35.8
Risk weighted assets 2) (EUR billion)	10.6	8.4	– 1.7	– 2.1	8.9	6.3
Tied-up equity 2) (EUR billion)	6.2	3.9	– 0.2	– 0.3	6.0	3.6

1) Net income/expenses from investment property is recognized as part of other operating income/expenses.
2) Information based on future supervisory law acc. to Basel III following full implementation.
3) Restatement of prior year amounts (see Note 2).

Reconciliation of segment results to the consolidated income statement.

In the first half of 2014, the total of »Reconciliation/Consolidation« on the net consolidated profit/loss before tax amounted to EUR – 106 million (previous year: EUR 12 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 from IFRS-specific measurements not included in internal management reporting (e. g. net result from the repurchase of own issues).
- The valuation methods used in internal management reporting for part of the trading book holdings differ from those of IFRS accounting.
- Effects resulting from IFRS-specific matters connected with hedge accounting and the fair value option.

Notes to the income statement.

4. Net interest income.

The items Interest income and Interest expenses 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 partnerships are reported under »Interest expense« due to the classification of silent partnership contributions as debt in accordance with IAS 32.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Trading derivatives	4,979	6,524
Lending and money market transactions	1,919	2,461
Hedging derivatives	790	1,936
Fixed-income securities and debentures	559	720
Early termination fees	24	38
Other	298	377
Interest income	**8,569**	**12,056**
Leasing business	205	228
Equity investments and affiliates	22	17
Equities and other non-fixed-income securities	9	8
Current income	**236**	**253**
Interest and current income	**8,805**	**12,309**
Trading derivatives	– 4,807	– 6,380
Hedging derivatives	– 893	– 2,046
Deposits	– 937	– 1,375
Securitized liabilities	– 489	– 645
Leasing business	– 32	– 32
Subordinated capital	– 134	– 173
Other	– 559	– 736
Interest expense	**– 7,851**	**– 11,387**
Total	**954**	**922**

The slight improvement in net interest income compared to the previous year is due in particular to lower interest expense resulting from an improved refinancing structure and from lower liquidity spreads.

For financial assets in the LaR category for which valuation allowances were recognized, interest income of EUR 23 million (previous year: EUR 30 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).

During the period under review, interest expense of EUR – 2 million (previous year: EUR – 5 million) was recognized from the netting of treasury and intragroup debentures in accordance with IAS 39.39 et seq.

5. Allowances for losses on loans and advances.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Additions to allowances for losses on loans and advances	– 387	– 331
Direct loan write-offs	– 14	– 66
Net gains/losses from provisions for lending business	– 26	– 8
Recoveries on loans and advances already written off	5	9
Reversal of allowances for losses on loans and advances	381	261
Other expenses for the lending business	– 4	– 4
Total	**– 45**	**– 139**

6. Net fee and commission income.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Securities and custody business	96	99
Payments and international transactions	77	88
Brokerage business	55	54
Lending, trustee and guarantee (aval) business	49	54
Other	32	37
Fee and commission income	**309**	**332**
Securities and custody business	– 31	– 36
Payments and international transactions	– 11	– 10
Lending, trustee and guarantee (aval) business	– 6	– 3
Brokerage business	– 3	– 3
Leasing business	– 2	– 1
Other	– 2	– 2
Fee and commission expenses	**– 55**	**– 55**
Total	**254**	**277**

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 2014	1 Jan. – 30 June 2013
Net trading gains/losses	131	92
Net gains/losses from financial instruments designated at fair value	– 102	90
Net gains/losses from hedge accounting	1	5
Total	**30**	**187**

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 2014	1 Jan. – 30 June 2013
Credit transactions	55	104
Interest rate transactions	– 88	– 51
Equity transactions	80	27
Gains/losses from foreign exchange/commodity products	13	– 22
Currency gains/losses	15	37
Economic hedging derivatives	56	– 3
Total	**131**	**92**

The increase in net trading gains is due, among other things, to the positive development of economic hedging derivatives, arising in particular from the absence of the one-off change from the previous year. The contrary effect of the related underlying transactions is reflected in the fair value option result.

Spread tightening for credit derivatives in the credit investment portfolio also had a positive impact on the result, even though this contribution to results was less pronounced compared with the previous year due to the reduction of the underlying portfolio.

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 expenses 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 2014	1 Jan. – 30 June 2013
Realized gains/losses	– 19	56
Unrealized gains/losses	– 83	34
Total	**– 102**	**90**

The change in the fair value of the financial liabilities classified here includes measurement losses of EUR – 14 million (previous year: EUR – 57 million) in »Unrealized gains/losses« in connection with consideration given to LBBW's own credit quality in the measurement.

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.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Portfolio fair value hedge	– 2	9
of which hedged items	90	64
of which hedging instruments	– 92	– 55
Micro fair value hedge	3	– 4
of which hedged items	164	– 181
of which hedging instruments	– 161	177
Total	**1**	**5**

8. Net gains/losses from financial investments.

Net gains/losses from financial investments include disposal and remeasurement (including impairment) 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 and investments not accounted for using the equity method. This item also includes reversals of impairment losses on debt instruments following credit-based write-downs to the amount of the amortized cost.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Net gains/losses on disposal	16	78
of which securities	2	68
of which equity investments	14	10
Impairment	– 8	– 9
Reversals of impairment losses	1	7
Net gains/losses from financial investments (AfS)	**9**	**76**
Net gains/losses on disposal	29	– 109
of which securities	29	– 109
Impairment	– 55	– 26
Reversals of impairment losses	60	41
Net gains/losses from reimbursement rights (guarantee)	– 7	– 8
Net gains/losses from financial investments (LaR)	**27**	**– 102**
Total	**36**	**– 26**

Net gains/losses from AfS financial investment declined, particularly due to lower income from disposals of securities compared with the previous year.

The improvement in net gains/losses from LaR financial investment is mainly due to the negative one-off effect in conjunction with disposal transactions for the credit investment portfolio the year before, while a slightly positive result on disposal from the guarantee portfolio was realized in the current year.

Net gains/losses from reimbursement claims of the guarantee arise from the risk shield agreed with the State of Baden-Württemberg for a defined securitization portfolio.

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

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Net gains/losses from associates	– 4	– 2
Net gains/losses from shares in joint ventures	0	3
Total	**– 4**	**1**

10. Other operating income/expenses.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Disposal of inventories	144	385
Reversal of other provisions	41	43
Reversal of impairment on inventories	2	0
Revenues from property services	9	9
Management of other property portfolios	2	9
Operating leases	15	10
Miscellaneous operating income	61	71
Other operating income	**274**	**527**
Disposal of inventories	– 130	– 356
Additions to other provisions	– 26	– 51
Impairment of inventories	0	– 3
Management of other property portfolios	– 1	– 2
Operating leases	– 2	– 2
Miscellaneous operating expenses	– 58	– 112
Other operating expenses	**– 217**	**– 526**
Total	**57**	**1**

The improvement in the result is largely due to the decline in Miscellaneous operating expenses due to a non-recurring effect last year. A material effect from write-downs on disposal groups featured the year before. In addition, the decline in allocations to provisions compared with the same period of the previous year also made a positive contribution to the overall result.

The income and expenses from the disposal of inventories primarily result from the sale of land and buildings, as well as development measures. The type and number of project developments realized in the period under review influence the net gains/losses on disposals.

11. Net income/expenses from investment property.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Income from investment property	17	17
Net gains/losses from fair value measurement	1	1
Expenses from investment property	– 4	– 5
Total	**14**	**13**

12. Administrative expenses.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Staff costs	– 497	– 493
Other administrative expenses	– 365	– 272
Depreciation and write-downs of property and equipment[1]	– 22	– 30
Amortization and write-downs of intangible assets[1]	– 18	– 21
Total	**– 902**	**– 816**

1) This includes scheduled and unscheduled write-downs.

Other administrative expenses of EUR – 365 million (previous year: EUR – 272 million) include expenses of EUR – 41 million for the bank levy charged in Germany (previous year: EUR – 33 million). The increase in the item is largely due to the higher expenses for IT services as well as consultancy and project services in connection with the implementation of regulatory topics.

13. Income tax.

EUR million	1 Jan. – 30 June 2014	1 Jan. – 30 June 2013
Income tax from previous years	24	– 55
Income tax in the reporting period	– 31	– 26
Deferred income tax	– 94	– 3
Total	**– 101**	**– 84**

The income tax expense rose by EUR – 17 million to EUR – 101 million. The effective, average group tax rate calculated for the reporting period is 39%.

Notes to the balance sheet.

14. Cash and cash equivalents.

EUR million	30 June 2014	31 Dec. 2013
Balances with central banks	9,732	1,969
Cash	100	135
Debt instruments issued by public-sector institutions and bills of exchange	48	52
Total	**9,880**	**2,156**

The significant increase in balances with central banks is due to the greater investment in cash and cash equivalents.

15. Loans and advances to banks.

Breakdown by business type.

EUR million	30 June 2014	31 Dec. 2013
Public-sector loans	30,232	32,417
Current account claims	1,431	1,516
Securities repurchase transactions	11,520	7,439
Other loans	2,946	3,190
Borrower's note loans	825	1,150
Overnight and term money	168	231
Mortgage loans	116	137
Other receivables	1,101	1,545
Total	**48,339**	**47,625**
of which to central counterparties	1,977	1,561

Breakdown by region.

EUR million	30 June 2014	31 Dec. 2013
Banks within Germany	36,841	38,972
Banks outside Germany	11,498	8,653
Total	**48,339**	**47,625**

16. Loans and advances to customers.

Breakdown by business type.

EUR million	30 June 2014	31 Dec. 2013
Other loans	31,075	31,117
Mortgage loans	30,087	30,741
Public-sector loans	20,020	20,644
Receivables from finance leases	5,090	5,268
Transmitted loans	3,242	3,250
Securities repurchase transactions	8,666	6,171
Current account claims	5,237	3,595
Overnight and term money	4,008	4,260
Borrower's note loans	2,448	2,533
Other receivables	3,906	3,874
Total	**113,779**	**111,453**
of which to central counterparties	1,472	80

Breakdown by region.

EUR million	30 June 2014	31 Dec. 2013
Customers within Germany	81,142	81,955
Customers outside Germany	32,637	29,498
Total	**113,779**	**111,453**

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 from finance leases	Loans and advances to banks	Loans and advances to customers	of which from finance leases
Balance as at 1 January 2014	**2**	**2,017**	**148**	**7**	**175**	**27**
Utilization	0	– 36	– 13	0	0	0
Additions	0	319	20	4	62	4
Reversals	0	– 296	– 12	– 3	– 80	– 8
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 23	0	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	– 1	0	0	– 1	0
Balance as at 30 June 2014	**2**	**1,980**	**143**	**8**	**156**	**23**

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which from finance leases	Loans and advances to banks	Loans and advances to customers	of which from finance leases
Balance as at 31 December 2012	14	2,322	175	8	161	29
Restatement of prior year amounts	0	15	0	0	0	0
Balance as at 1 January 2013	**14**	**2,337**	**175**	**8**	**161**	**29**
Utilization	– 2	– 494	– 41	0	0	0
Additions	0	481	35	5	108	9
Reversals	– 10	– 248	– 22	– 6	– 92	– 15
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 51	– 2	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	– 8	3	0	– 2	4
Balance as at 31 December 2013	**2**	**2,017**	**148**	**7**	**175**	**27**

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

EUR million	30 June 2014	31 Dec. 2013
Trading assets	73,820	65,400
Financial assets designated at fair value	1,371	1,316
Positive fair values from hedging derivatives	2,655	3,399
Total	**77,846**	**70,115**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Debentures and other fixed-income securities	20,761	20,012	646	623
Bonds and debentures	17,525	17,666	646	623
Money market instruments	3,236	2,346	0	0
Equities and other non-fixed-income securities	699	683	253	240
Investment units	526	458	229	215
Equities	159	225	10	10
Other securities	14	0	14	15
Other	27,345	22,422	472	453
Other money market transactions	22,560	17,458	21	0
Borrower’s note loans	4,279	4,229	425	396
Other loans and receivables			26	57
Miscellaneous	506	735	0	0
Positive fair values from derivative financial instruments	25,015	22,283		
Total	**73,820**	**65,400**	**1,371**	**1,316**

The increase in trading assets is largely due to an increase in the volume of overnight and term money held, shown in »Other money market transactions«. In addition, changes in fair value, especially due to the change in interest rates, led to an increase in the positive fair values from derivative financial instruments.

Positive fair values from hedging derivatives.

The positive fair values from derivatives which are 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 2014	31 Dec. 2013
Positive fair values from portfolio fair value hedges	1,938	2,822
Positive fair values from micro fair value hedges	717	577
Total	**2,655**	**3,399**

19. Financial investments.

EUR million	30 June 2014	31 Dec. 2013
Debentures and other fixed-income securities	38,196	39,246
Bonds and debentures	37,853	39,133
Money market instruments	343	106
Refund claim (guarantee)	0	7
Equities and other non-fixed-income securities	4	3
Equities	1	0
Investment units	1	1
Other securities	2	2
Equity investments	890	888
Shares in affiliates	520	523
Total	**39,610**	**40,660**

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

EUR million	30 June 2014	31 Dec. 2013
Associates	267	274
Joint ventures	23	23
Total	**290**	**297**

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

The restructuring plan for the reorganization of the LBBW Group resolved by the Board of Managing Directors envisages the disposal of various equity investments. The resolution was passed upon approval of the restructuring plan by the previous Supervisory Board and communication to the EU Commission dated 3 December 2009. Within the scope of the restructuring plan, negotiations on the sale of non-current assets and disposal groups were entered into or held during the current financial year.

The disposal group already reported already at year-end 2013 shall be sold in the third quarter of 2014. This affects the Corporates reporting segment. The changes recorded in the first half of 2014 resulted from the organic development of holdings of assets and debt and from the adjustments made to the disposal group during the ongoing sales negotiations. The latter effects results in a change in the reclassification in the balance sheet item »Loans and advances to customers« for the portfolio remaining within the LBBW Group in comparison with the yearend 2013.

The reclassification of the disposal group in accordance with IFRS 5 results in a cumulative impairment of EUR – 33.2 million. The impairment reported in the 2013 financial year amounted to EUR – 33 million; EUR – 30 million thereof was accounted for by Other operating income/expenses and EUR – 3 million by goodwill impairment.

Of this amount, EUR – 0.2 million, which was reported in »Other operating income/expenses« is attributable to the first half of 2014.

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

EUR million	30 June 2014	31 Dec. 2013
Assets		
Cash and cash equivalents	23	8
Loans and advances to banks	77	175
Loans and advances to customers	555	478
Allowances for losses on loans and advances	– 6	– 1
Financial assets measured at fair value through profit or loss	3	5
Financial investments	19	55
Investment property	2	2
Income tax assets	1	4
Other assets	1	1
Total	**675**	**727**
Equity and liabilities		
Deposits from banks	0	23
Deposits from customers	707	880
Financial liabilities measured at fair value through profit or loss	11	8
Income tax liabilities	1	0
Other liabilities	8	4
Total	**727**	**915**
Contingent liabilities and other obligations	99	118

22. Intangible assets.

EUR million	30 June 2014	31 Dec. 2013
Goodwill	380	396
Software	59	60
Advance payments and acquisition cost of intangible assets in development or preparation	34	33
Other intangible assets	5	5
Total	**478**	**494**

Amortization and write-downs of intangible assets, both scheduled and unscheduled – with the exception of goodwill – are included in the Amortization and write-downs of intangible assets item in the Administrative expenses.

Goodwill.

EUR million	Corporates I		Corporates II		International Business		Financial Markets		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Balance as at 1 January	195	198	185	185	0	0	16	16	396	399
Impairment	0	– 3	0	0	0	0	– 16	0	– 16	– 3
Balance as at 30 June/31 December	**195**	**195**	**185**	**185**	**0**	**0**	**0**	**16**	**380**	**396**
Gross amount of goodwill	435	435	449	449	33	33	16	16	933	933
Cumulative impairment	– 240	– 240	– 264	– 264	– 33	– 33	– 16	0	– 553	– 537

Within the scope of the impairment test, the recoverable amount of the cash-generating unit Financials Markets is compared with the carrying amount in accordance with IAS 36. The recoverable amount is the value in use. The carrying amount of the cash-generating unit is determined through the equity assigned to the unit.

The impairment test for the Financial Markets segment showed that goodwill of EUR 16 million as at 30 June 2014 must written off completely. This is attributable to the sustained low interest rate environment and widespread reluctance among customers.

The discount rate used for the Financial Markets segment was calculated on the basis of the Capital Asset Pricing Model, which includes a risk-free interest rate, a market risk premium and a factor for systemic market risk (beta factor). The risk-free interest rate, market risk premium and beta factors are determined using external sources of information. The segment-specific beta factor is based on the data of a peer group. The discount rate for the Financial Markets segment came to 10.19% as at 30 June 2014 (previous year: 10.81%).

23. Investment property.

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

EUR million	2014	2013
Balance as at 31 December	**481**	**516**
Restatement of prior year amounts	0	– 25
Balance as at 1 January	**481**	**491**
Additions	0	3
Disposals	0	– 11
Changes in the scope of consolidation	0	14
Transfer to non-current assets held for sale or disposal groups	0	– 4
Transfers out of/into inventories and property and equipment	0	– 14
Changes in fair value from assets	1	1
Changes in fair value due to disposals, impairment or transfer	0	1
Balance as at 30 June/31 December	**482**	**481**

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

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, 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 generated in each period is 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 the quality of the property, the type of property and the macro- and micro-location, among other things.

See Note 34 et seq. for additional quantitative information.

24. Property and equipment.

EUR million	30 June 2014	31 Dec. 2013
Land and buildings	375	384
Leased assets under operating leases	122	125
Operating and office equipment	104	109
Technical equipment and machinery	20	21
Leased assets under finance leases	4	4
Advance payments and assets under construction	1	3
Total	**626**	**646**

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 2014	31 Dec. 2013
Inventories	438	433
Receivables from tax authorities	27	47
Receivables from investment income received in the same period	2	5
Other miscellaneous assets	398	125
Total	**865**	**610**

Considerably more transactions were concluded in the Client Clearing unit in the first half-year, leading to an increase in »Other miscellaneous assets«.

26. Deposits from banks.

Breakdown by business type.

EUR million	30 June 2014	31 Dec. 2013
Securities repurchase transactions	21,602	14,259
Borrower's note loans	8,756	10,092
Overnight and term money	3,004	3,256
Public-sector registered covered bonds issued	2,104	2,238
Current account liabilities	1,751	1,972
Mortgage-backed registered covered bonds issued	417	506
Other liabilities	26,491	25,732
Total	**64,125**	**58,055**
of which to central counterparties	9,073	4,884

Breakdown by region.

EUR million	30 June 2014	31 Dec. 2013
Banks within Germany	56,432	50,617
Banks outside Germany	7,693	7,438
Total	**64,125**	**58,055**

27. Deposits from customers.

Breakdown by business type.

EUR million	30 June 2014	31 Dec. 2013
Current account liabilities	31,144	30,607
Overnight and term money	16,787	18,020
Borrower's note loans	7,653	8,833
Securities repurchase transactions	11,072	8,382
Public-sector registered covered bonds issued	6,081	6,785
Savings deposits	7,336	7,218
Mortgage-backed registered covered bonds issued	1,046	1,062
Other liabilities	934	1,146
Total	**82,053**	**82,053**
of which to central counterparties	10,339	5,991

Breakdown by region.

EUR million	30 June 2014	31 Dec. 2013
Customers within Germany	65,714	71,199
Customers outside Germany	16,339	10,854
Total	**82,053**	**82,053**

28. Securitized liabilities.

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

EUR million	30 June 2014	31 Dec. 2013
Issued debentures	44,273	49,374
Mortgage-backed covered bonds	4,095	4,369
Public-sector covered bonds	7,865	10,577
Other bonds	32,313	34,428
Other securitized liabilities	737	1,319
Total	**45,010**	**50,693**

See Note 41 for explanations regarding issuing activity.

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

The financial liabilities measured at fair value through profit or loss are broken down as follows:

EUR million	30 June 2014	31 Dec. 2013
Trading liabilities	66,677	47,955
Financial liabilities designated at fair value	5,474	5,734
Negative fair values from hedging derivatives	3,515	3,947
Total	**75,666**	**57,636**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Money market transactions	37,953	24,975	61	53
Negative fair values from trading derivatives and economic hedging derivatives	22,123	19,471		
Securitized liabilities	5,482	2,864	2,850	2,933
Delivery obligations from short sales of securities	1,088	603	0	0
Borrower's note loans	30	41	1,326	1,431
Subordinated liabilities			709	702
Other financial liabilities	1	1	528	615
Total	**66,677**	**47,955**	**5,474**	**5,734**

The rise in trading liabilities is due in particular to the increase in the number of money market transactions and securitized liabilities. The development of interest rates also contributed to the higher negative fair values from derivatives.

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 2014	31 Dec. 2013
Negative fair values from portfolio fair value hedges	2,084	2,661
Negative fair values from micro fair value hedges	1,431	1,286
Total	**3,515**	**3,947**

30. Provisions.

EUR million	30 June 2014	31 Dec. 2013
Provisions for pensions	2,576	2,288
Other provisions	520	684
of which restructuring-related provisions	147	165
Provisions for lending business	100	75
Other personnel-related provisions	77	86
Total	**3,273**	**3,133**

While the adjustment to the discount rate led to an increase in the provisions for pensions, provisions for litigation and recourse risks listed under Other provisions fell.

31. Other liabilities.

EUR million	30 June 2014	31 Dec. 2013
Liabilities from		
Other taxes	71	191
Employment	20	47
Deliveries and services	32	51
Non-controlling interests	3	6
Finance leases	7	8
Advances received	125	172
Other miscellaneous liabilities	857	281
Total	**1,115**	**756**

The increase in Other miscellaneous liabilities is largely due to the reclassification of maturing profit-participation rights from Subordinated capital to Other liabilities, the accrual of the guarantee charge for the risk shield and the pro rata expense for the bank levy. It also includes a settlement account balance with Deutsche Bundesbank.

The reduced obligations from the capital gains tax to be paid for customers are the main drivers for a decline in the Liabilities from other taxes item.

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 2014	31 Dec. 2013
Subordinated liabilities	4,402	4,027
Typical silent partnership contributions	1,415	2,687
Capital generated from profit-participation rights	281	389
Total	**6,098**	**7,103**

The decline in the contributions by typical silent partners results from the repayment of silent contributions to the owners.

33. Equity.

EUR million	30 June 2014	31 Dec. 2013
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,294	1,214
Other income	251	104
Unappropriated profit/loss	158	340
Shareholders' equity	**13,427**	**13,382**
Equity attributable to non-controlling interest	19	18
Total	**13,446**	**13,400**

In the year under review LBBW's fully paid-in ordinary share capital was held by the State of Baden-Württemberg with 25.0% (previous year: 25.0%), the city of Stuttgart with 19.0% (previous year: 19.0%), the Savings Bank Association of Baden-Württemberg (including savings banks in Baden-Württemberg) with 40.5% (previous year: 40.5%), Landeskreditbank Baden-Württemberg with 2.0% (previous year: 2.0%) and Landesbeteiligungen Baden-Württemberg GmbH with 13.5% (previous year: 13.5%).

The item Equity includes accumulated actuarial gains and losses amounting to EUR – 482 million (previous year: EUR – 295 million), as well as taxes recognized directly in equity totaling EUR 226 million (previous year: EUR 195 million).

Notes on financial instruments.

34. Fair value measurement.

The fair value is defined in accordance with IFRS 13 as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date.

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 understands principal market to mean the market with the biggest trading volume and highest market activity for the asset to be valued. 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.

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 measurement methods are based, where available, on parameters observable on the markets. Use of these models and of these parameters requires assumptions and assessments by the management team, the extent of which is dependent on price transparency with regard to the financial instrument and its market and to the complexity of the instrument. Particularly in cases where no parameters observable on the markets are available a significant degree of subjective assessment is required.

The aim of the application of the measurement procedures 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 determining the price.

The fair values of holdings measured at fair value are subject to the 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	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
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and failure rates, losses

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, equity/index options, 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, borrower's note loans, loans, money market transactions
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 held for sale and disposal groups	According to the respective balance sheet item
Liabilities measured at fair value	
Trading liabilities	Currency options, interest rate swaps and interest rate options, credit derivatives, equities, index options, commodity options, money market transactions, forward rate agreements
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	Own bearer bonds and borrower's note loans issued
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 valued using prices from non-active markets that are amended for valuation adjustments, or are derived from market data by means of the discounted cash flow method using rating- or sector-dependent yield curves and credit spreads.

Exchange-traded derivatives are valued using market prices, provided a current price exists. If not, they are valued using a recognized valuation model (e.g. Black-Scholes).

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 to unobservable parameters on a minor scale.

Derivatives whose fair value is calculated on the basis of complex methods using unobservable parameters with a material influence on the measurement are classified in Level III of the measurement hierarchy. In order to reduce price uncertainty from the unobservable parameters as much 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.

In addition, parts of the complex credit derivatives are measured using correlations regarding probabilities of default, which are calculated on a monthly basis from consensus prices for standard transactions by a price service agency. As these correlations are classified as being non-observable, a day one Reserve is set aside for the credit derivatives to which this measurement method is applied.

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 (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 for impaired securitizations, or such for which there are not sufficient market prices (Level III) are calculated using valuation models. These are standard market models based on the discounted cash flow method. Some of the parameters used by these models cannot be observed on the markets. In this case, the fair value is influenced by the assumptions and estimates made by LBBW. These assumptions are chosen with the greatest possible care by the back office of the LBBW Group. The parameters to be calculated comprise defaults, recovery rates and repayment ratios. These are calculated per asset class. Investment bank and rating agency research as well as own observations or derivations from the transactions are used to determine these parameters. The projections are established on the basis of the expectations regarding the macroeconomic environment taking into account the available historical data.

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 observe 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 (credit valuation adjustment).
- Adjustments to mid-price based measurements 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 interest rate and credit derivatives.
- Day one profit or loss for specific complex derivatives.
- Adjustments for using market prices from markets that are not active (Level II/Level III) for interest-bearing securities.

When calculating the fair value of listed equity holdings 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 used 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 2014		31 Dec. 2013	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**9,880**	**9,880**	**2,156**	**2,156**
Assets carried at fair value				
Trading assets	73,820	73,820	65,400	65,400
Derivatives	25,015	25,015	22,283	22,283
Currency-related derivatives	2,187	2,187	2,690	2,690
Interest rate-related derivatives	22,139	22,139	18,839	18,839
Credit derivatives	276	276	258	258
Share/index-related derivatives	372	372	418	418
Commodity-related and other derivatives	41	41	78	78
Equity instruments	699	699	683	683
Securities	20,761	20,761	20,012	20,012
Receivables	27,345	27,345	22,422	22,422
Financial assets designated at fair value	1,371	1,371	1,316	1,316
Equity instruments	253	253	240	240
Securities	646	646	623	623
Loans and receivables	472	472	453	453
Positive fair values from hedging derivatives	2,655	2,655	3,399	3,399
Interest rate derivatives	2,552	2,552	3,296	3,296
Cross-currency interest rate swaps	103	103	103	103
Financial investments (AfS)	21,928	21,928	21,451	21,451
Equity instruments	1,409	1,409	1,408	1,408
Securities	20,519	20,519	20,043	20,043
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	48,329	49,578	47,616	48,728
Public-sector loans	30,230	31,486	32,416	33,361
Securities repurchase transactions	11,520	11,523	7,439	7,496
Other receivables	6,579	6,569	7,761	7,871
Loans and advances to customers after allowances for losses on loans and advances	111,643	117,995	109,261	110,404
Public-sector loans	20,009	22,297	20,620	22,179
Mortgage loans	29,817	33,004	30,442	32,597
Securities repurchase transactions	8,666	8,680	6,171	6,176
Other receivables	53,151	54,014	52,028	49,452
of which finance leases	4,924	5,254	5,093	5,469
Financial investments (LaR)	17,682	17,872	19,209	19,173
Equity instruments	5	5	6	6
Securitizations	4,016	3,993	5,526	4,879
Government bonds	57	57	60	60
Other securities	13,604	13,817	13,617	14,228
Non-current assets held for sale and disposal groups	**671**	**671**	**720**	**720**

Equity and liabilities.

EUR million	30 June 2014 Carrying amount	30 June 2014 Fair value	31 Dec. 2013 Carrying amount	31 Dec. 2013 Fair value
Liabilities measured at fair value				
Trading liabilities	66,677	66,677	47,955	47,955
Derivatives	22,123	22,123	19,471	19,471
Currency-related derivatives	2,075	2,075	2,502	2,502
Interest rate-related derivatives	19,152	19,152	15,959	15,959
Credit derivatives	307	307	391	391
Share/index-related derivatives	535	535	578	578
Commodity-related and other derivatives	54	54	41	41
Delivery obligations from short sales of securities	1,088	1,088	603	603
Deposits	37,983	37,983	25,016	25,016
Securitized liabilities	5,482	5,482	2,864	2,864
Other financial liabilities	1	1	1	1
Financial liabilities designated at fair value	5,474	5,474	5,734	5,734
Deposits	1,616	1,616	1,706	1,706
Securitized liabilities	3,330	3,330	3,413	3,413
Other financial liabilities	528	528	615	615
Negative fair values from hedging derivatives	3,515	3,515	3,947	3,947
Interest rate derivatives	3,414	3,414	3,835	3,835
Cross-currency interest rate swaps	101	101	112	112
Liabilities carried at amortized cost				
Deposits from banks	64,125	65,926	58,055	60,181
Securities repurchase transactions	21,602	21,603	14,259	14,256
Borrower's note loans	8,756	9,088	10,092	10,402
Other liabilities	33,767	35,235	33,704	35,523
Deposits from customers	82,053	83,790	82,053	83,742
Current account liabilities	31,144	31,142	30,607	30,656
Borrower's note loans	7,653	8,116	8,833	9,219
Registered covered bonds	7,127	8,047	7,847	8,580
Securities repurchase transactions	11,072	11,076	8,382	8,385
Other liabilities	25,057	25,409	26,384	26,902
Securitized liabilities	45,010	46,180	50,693	51,579
Other liabilities – of which finance leases	7	7	8	8
Subordinated capital	6,098	6,354	7,103	6,993
Subordinated liabilities	4,402	4,606	4,027	4,061
Capital generated from profit-participation rights	281	334	389	440
Silent partnership contributions	1,415	1,414	2,687	2,492
Liabilities from disposal groups	**718**	**718**	**911**	**911**

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 lowest 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 defined 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. This includes complex OTC derivatives, certain private equity investments, most of the loans and certain high-grade structured bonds including illiquid asset-backed securities and structured securitizations.

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

Assets.

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 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Cash and cash equivalents	**100**	**135**	**9,732**	**1,969**	**48**	**52**
Assets carried at fair value						
Trading assets	13,460	12,801	59,738	52,009	622	590
Derivatives	341	301	24,066	21,404	608	578
Currency-related derivatives	0	0	2,045	2,583	142	107
Interest rate-related derivatives	0	0	21,675	18,393	464	446
Credit derivatives	0	0	276	255	0	3
Share/index-related derivatives	308	283	62	113	2	22
Commodity-related and other derivatives	33	18	8	60	0	0
Equity instruments	158	225	527	458	14	0
Securities	12,961	12,274	7,800	7,738	0	0
Receivables	0	1	27,345	22,409	0	12
Financial assets designated at fair value	27	33	1,258	1,199	86	84
Equity instruments	0	0	216	199	37	41
Securities	27	33	570	547	49	43
Receivables	0	0	472	453	0	0
Positive fair values from hedging derivatives	0	0	2,655	3,399	0	0
Interest rate derivatives	0	0	2,552	3,296	0	0
Cross-currency interest rate swaps	0	0	103	103	0	0
Financial investments (AfS)	16,025	15,490	4,916	4,992	987	969
Equity instruments	449	458	0	12	960	938
Securities	15,576	15,032	4,916	4,980	27	31
Investment property	0	0	0	0	482	481
Assets carried at amortized cost						
Loans and advances to banks after allowances for losses on loans and advances	0	2	26,775	24,240	22,803	24,486
Public-sector loans	0	0	11,600	13,735	19,886	19,626
Securities repurchase transactions	0	0	11,523	7,496	0	0
Other receivables	0	2	3,652	3,009	2,917	4,860
Loans and advances to customers after allowances for losses on loans and advances	0	0	25,145	22,828	92,850	87,576
Public-sector loans	0	0	7,554	7,148	14,743	15,031
Mortgage loans	0	0	619	1,361	32,385	31,236
Securities repurchase transactions	0	0	8,680	6,176	0	0
Other receivables	0	0	8,292	8,143	45,722	41,309
of which finance leases	0	0	0	160	5,254	5,309
Financial investments (LaR)	285	350	15,597	16,793	1,990	2,030
Equity instruments	0	0	2	2	3	4
Securitizations	0	0	2,056	2,907	1,937	1,972
Government bonds	0	0	7	10	50	50
Other securities	285	350	13,532	13,874	0	4
Non-current assets held for sale and disposal groups	**0**	**36**	**673**	**26**	**0**	**660**

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 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Liabilities measured at fair value						
Trading liabilities	1,458	999	64,665	46,410	554	546
Derivatives	398	382	21,171	18,543	554	546
Currency-related derivatives	0	0	2,056	2,483	19	19
Interest rate-related derivatives	0	0	18,629	15,476	523	483
Credit derivatives	0	0	297	369	10	22
Share/index-related derivatives	368	350	165	206	2	22
Commodity-related and other derivatives	30	32	24	9	0	0
Delivery obligations from short sales of securities	1,059	602	29	1	0	0
Deposits	0	0	37,983	25,016	0	0
Securitized liabilities	0	15	5,482	2,849	0	0
Other financial liabilities	1	0	0	1	0	0
Financial liabilities designated at fair value	0	0	4,443	4,810	1,031	924
Deposits	0	0	1,450	1,548	166	158
Securitized liabilities	0	0	2,465	2,647	865	766
Other financial liabilities	0	0	528	615	0	0
Negative fair values from hedging derivatives	0	0	3,515	3,947	0	0
Interest rate derivatives	0	0	3,414	3,835	0	0
Cross-currency interest rate swaps	0	0	101	112	0	0
Liabilities carried at amortized cost						
Deposits from banks	2	0	65,061	58,545	863	1,636
Securities repurchase transactions	0	0	21,603	14,256	0	0
Borrower's note loans	0	0	9,052	10,367	36	35
Other liabilities	2	0	34,406	33,922	827	1,601
Deposits from customers	0	0	83,101	82,808	689	934
Current account liabilities	0	0	31,142	30,656	0	0
Borrower's note loans	0	0	8,090	9,194	26	25
Registered covered bonds	0	0	8,047	8,580	0	0
Securities repurchase transactions	0	0	11,076	8,385	0	0
Other liabilities	0	0	24,746	25,993	663	909
of which finance leases	0	0	0	0	0	0
Securitized liabilities	0	0	44,387	49,185	1,793	2,394
Other liabilities - of which finance leases	0	0	0	0	7	8
Subordinated capital	0	0	6,304	6,893	50	100
Subordinated liabilities	0	0	4,556	3,961	50	100
Capital generated from profit-participation rights	0	0	334	440	0	0
Silent partnership contributions	0	0	1,414	2,492	0	0
Liabilities from disposal groups	**0**	**0**	**718**	**8**	**0**	**903**

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, amount, executability and bid-offer spreads of the market data 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 the financial instruments to be identified that must be transferred between Levels II and III of the measurement hierarchy.

The following transfers were made between Levels I and II in the fair value hierarchy since the last reporting date in accordance with IAS 34.15B:

Assets.

EUR million	Transfers from Level I to Level II 30 June 2014	Transfers from Level I to Level II 31 Dec. 2013	Transfers from Level II to Level I 30 June 2014	Transfers from Level II to Level I 31 Dec. 2013
Assets carried at fair value				
Trading assets	514	107	52	82
Securities	514	107	52	82
Financial assets designated at fair value	28	0	26	13
Securities	28	0	26	13
Financial investments (AfS)	630	1,139	69	1,377
Securities	630	1,139	69	1,377

In the first half of 2014, LBBW transferred securities from Level I to Level II as no listed prices from active markets were available.

Reclassifications in the opposite direction took place as listed prices from active markets became available for them again.

LBBW made no transfers between Level I and Level II on the liabilities side.

Development of Level III.

Changes and results per class in the portfolios of financial instruments measured at fair value and investment property, which were calculated using valuation models and include material non-observable parameters (Level III), developed per asset class as follows:

Assets.

30 June 2014	Trading assets					
	Derivatives				Equity instruments	Receivables
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives		
Carrying amount as at 1 January 2014	**107**	**446**	**3**	**22**	**0**	**12**
Gains and losses recognized in net consolidated profit/loss	35	19	0	– 1	0	0
of which net trading income	35	19	0	– 1	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0	0
of which other earnings items	0	0	0	0	0	0
Income and expenses recognized in Other income	0	0	0	0	0	0
Additions through acquisitions	0	0	0	0	2	0
Disposals through sales	0	– 1	0	0	0	0
Repayments/offsetting	0	0	– 3	– 19	0	0
Transfers	0	0	0	0	12	– 12
Transfers to Level III	0	0	0	0	0	0
Carrying amount as at 30 June 2014	**142**	**464**	**0**	**2**	**14**	**0**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	35	19	1	– 1	0	0
of which net trading income	35	19	1	– 1	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0	0
of which other earnings items	0	0	0	0	0	0

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Specific non-current assets held for sale and disposal group	Total
Equity instruments	Securities	Equity instruments	Securities			
41	**43**	**938**	**31**	**481**	**0**	**2,124**
– 1	3	– 9	– 6	1	0	41
0	0	0	0	0	0	53
– 1	3	0	0	0	0	2
0	0	– 9	– 6	0	0	– 15
0	0	0	0	1	0	1
0	0	20	0	0	0	20
0	1	13	2	0	0	18
– 1	0	– 6	0	0	0	– 8
– 2	– 1	– 7	0	0	0	– 32
0	0	0	0	0	0	0
0	3	11	0	0	0	14
37	**49**	**960**	**27**	**482**	**0**	**2,177**
– 2	3	– 6	– 6	2	0	45
0	0	0	0	0	0	54
– 2	3	0	0	0	0	1
0	0	– 6	– 6	0	0	– 12
0	0	0	0	2	0	2

Within the scope of model validations, there were reclassifications from Level II to Level III.

31 Dec. 2013	Trading assets					
	Derivatives				Equity instruments	Receivables
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives		
Carrying amount as at 31 December 2012	0	– 1	3	0	0	0
Restatement of prior year amounts[1)]	201	600	0	3	0	0
Carrying amount as at 1 January 2013	**201**	**599**	**3**	**3**	**0**	**0**
Gains and losses recognized in net consolidated profit/loss	– 94	– 152	0	19	0	0
of which net interest income	0	0	– 2	0	0	0
of which net trading income	– 94	– 152	2	19	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0	0
of which other earnings items	0	0	0	0	0	0
Income and expenses recognized in Other income	0	0	0	0	0	0
Additions through acquisitions	0	0	0	0	0	12
Disposals through sales	0	0	0	0	0	0
Repayments/offsetting	0	– 1	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0	0
Changes from foreign currency translation	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Transfers to Level III	0	0	0	0	0	0
Transfers from Level III	0	0	0	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0	0	0
Carrying amount as at 31 December 2013	**107**	**446**	**3**	**22**	**0**	**12**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 94	– 152	0	19	0	0
of which net interest income	0	0	– 2	0	0	0
of which net trading income	– 94	– 152	2	19	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0	0
of which other earnings items	0	0	0	0	0	0

1) The prior-year values have been restated, since as of the year under review, underlying and hedging transactions of the fair value options and back-to-back transactions are subject to a gross observation for the level classifications. Because of the risk compensation, these transactions were allocated to Level II in the previous year.

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Specific non-current assets held for sale and disposal group	Total
Equity instruments	Securities	Equity instruments	Securities			
59	161	1,066	68	512	0	1,868
0	0	0	0	– 25	0	779
59	161	1,066	68	487	0	2,647
– 1	25	– 14	3	1	0	– 213
– 2	1	0	0	0	0	– 3
0	– 1	0	0	0	0	– 226
1	25	0	0	0	0	26
0	0	– 14	3	0	0	– 11
0	0	0	0	1	0	1
0	0	– 6	0	0	0	– 6
0	0	8	2	3	0	25
– 14	– 7	– 36	– 21	– 9	0	– 87
– 6	– 87	– 4	– 11	0	0	– 109
0	0	– 45	0	14	0	– 31
0	0	– 1	0	0	0	– 1
3	– 3	0	0	– 14	0	– 14
0	0	9	0	0	0	9
0	– 46	– 1	– 10	– 1	– 38	– 96
0	0	– 38	0	0	38	0
41	43	938	31	481	0	2,124
– 1	32	– 14	3	1	0	– 206
– 2	1	0	0	0	0	– 3
0	– 1	0	0	0	0	– 226
1	32	0	0	0	0	33
0	0	– 14	3	0	0	– 11
0	0	0	0	1	0	1

Equity and liabilities.

30 June 2014	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives			
Carrying amount as at 1 January 2014	**19**	**483**	**22**	**22**	**158**	**766**	**1,470**
Gains and losses recognized in net consolidated profit/loss	0	46	– 10	– 1	6	25	66
of which net trading income	0	46	– 10	– 1	0	0	35
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	6	25	31
Repayments/offsetting	0	– 6	– 1	– 19	0	1	– 25
Transfers	0	0	0	0	2	– 2	0
Transfers to Level III	0	0	0	0	0	75	75
Transfers from Level III	0	0	– 1	0	0	0	– 1
Carrying amount as at 30 June 2014	**19**	**523**	**10**	**2**	**166**	**865**	**1,585**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	46	– 10	– 1	5	25	65
of which net trading income	0	46	– 10	– 1	0	0	35
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	5	25	30

Within the scope of model validations, there were reclassifications from Level III to Level II as well as from Level II to Level III.

31 Dec. 2013	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives			
Carrying amount as at 31 December 2012	0	8	48	0	45	67	168
Restatement of prior year amounts[1]	6	569	0	3	111	816	1,505
Carrying amount as at 1 January 2013	**6**	**577**	**48**	**3**	**156**	**883**	**1,673**
Gains and losses recognized in net consolidated profit/loss	13	– 94	– 18	19	2	– 117	– 195
of which net interest income	0	7	0	0	0	0	7
of which net trading income	13	– 101	– 18	19	0	0	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	2	– 117	– 115
Repayments/offsetting	0	0	– 7	0	0	0	– 7
Transfers from Level III	0	0	– 1	0	0	0	– 1
Carrying amount as at 31 December 2013	**19**	**483**	**22**	**22**	**158**	**766**	**1,470**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	13	– 94	– 18	19	2	– 117	– 195
of which net interest income	0	7	0	0	0	0	7
of which net trading income	13	– 101	– 18	19	0	0	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	2	– 117	– 115

1) The prior-year values have been restated, since as of the year under review, underlying and hedging transactions of the fair value options and back-to-back transactions are subject to a gross observation for the level classifications. Because of the risk compensation, these transactions were allocated to Level II in the previous year.

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 disclosed.

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 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 Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Assets carried at fair value				
Trading assets	9.9	10.8	– 9.2	– 8.0
Derivatives	9.8	10.6	– 9.1	– 7.8
Interest rate-related derivatives	8.6	9.1	– 8.1	– 6.3
Credit derivatives	0.1	0.1	– 0.1	– 0.2
Share/index-related derivatives	0.1	0.2	– 0.1	– 0.4
Foreign exchange-rated derivatives	1.0	1.2	– 0.8	– 0.9
Equity instruments	0.1	0.0	– 0.1	0.0
Receivables	0.0	0.2	0.0	– 0.2
Financial assets designated at fair value	1.5	0.6	– 6.1	– 0.9
Equity instruments	0.6	0.4	– 4.6	– 0.3
Securities	0.9	0.2	– 1.5	– 0.6
Financial investments (AfS)	30.0	30.9	– 33.8	– 29.9
Equity instruments	26.0	30.6	– 24.6	– 28.1
Securities	4.0	0.3	– 9.2	– 1.8
Total	**41.4**	**42.3**	**– 49.1**	**– 38.8**

Equity and liabilities.

	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Liabilities measured at fair value				
Trading liabilities	10.6	8.7	– 10.2	– 10.4
Derivatives	10.6	8.7	– 10.2	– 10.4
Interest rate-related derivatives	10.1	7.6	– 9.9	– 9.8
Credit derivatives	0.3	0.7	– 0.2	– 0.4
Share/index-related derivatives	0.2	0.4	– 0.1	– 0.2
Financial liabilities designated at fair value	0.9	1.1	– 1.0	– 1.3
Deposits	0.1	0.0	0.0	0.0
Securitized liabilities	0.8	1.1	– 1.0	– 1.3
Total	**11.5**	**9.8**	**– 11.2**	**– 11.7**

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 below shows the maximum and minimum values of the non-observable parameter that is used for valuations in the Level III category. The specifications of the financial instruments in question can differ significantly; consequently, some parameters can be very wide-ranging.

The parameter shifts in the table show the upwards and downwards changes to the un-observable parameter in the sensitivity analysis and thus provide an indication of the range of parameter alternatives chosen by LBBW to calculate the fair value.

Assets.

30 June 2014 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	20%–99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70%–90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Foreign exchange-rated derivatives	Option price model	Currency correlation	38%	abs. – 30% / +30%
Equity instruments	Net present value method	Credit spread (bp)	85–200	rel. – 30% / +30%
Financial assets designated at fair value				
Equity instruments	Price method --- Net present value method	Price --- Credit spread (bp)	0.5–71.80 --- 1,600	individually per security --- rel. – 30% / +30%
Securities	Price method --- Discounted cash flow method	Price --- Portfolio loss	5.00–93.33 --- 4.7%–5.5%	individually per security --- individually per security
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.62%–5.06% --- 0.29–1.27	n/a --- rel. +5% / – 5% --- individually per instrument
Securities	Price method --- Discounted cash flow method	Price --- Portfolio loss	0.01–18.00 --- 0%–80%	individually per security --- individually per security
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5%–1.6% ---- 6.1%–8.75% ---- EUR 0–15 / m² ---- 1%–5%	n/a

31 Dec. 2013 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	20%–99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70%–90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Volatility correlation	0%–5%	abs. – 25% / +15%
Foreign exchange-rated derivatives	Option price model	Currency correlation	43%	abs. – 30% / +30%
Receivables	Net present value method	Credit spread (bp)	100–265	rel. – 30% / +30%
Financial assets designated at fair value				
Equity instruments	Net present value method	Credit spread (bp)	2,200	rel. – 30% / +30%
Securities	Price method	Price	5%–88%	individually per security
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.43%–5.06% --- 0.49%–1.23%	n/a --- rel. +5% / – 5% --- individually per instrument
Securities	Price method	Price	0%–72%	individually per security
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5%–1.6% ---- 6.1%–8.75% ---- EUR 0–15 / m2 ---- 1%–5%	n/a

Equity and liabilities.

30 June 2014 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	20%–99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70%–90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	20%–99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	20%–99% --- 38%	rel. – 20% / +10% --- abs. – 30% / +30%

31 Dec. 2013 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	20%–99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70%–90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	0%–5%	abs. – 25% / +15%
Foreign exchange-rated derivatives	Option price model	Currency correlation	43%	abs. – 30% / +30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	20%–99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	20%–99% --- 43%	rel. – 20% / +10% --- abs. – 30% / +30%

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.

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 derivative models. Hence, the transaction price may deviate from what LBBW considers to be the fair value.

LBBW holds so-called day one reserves for trading portfolios in the interest rate and credit derivatives classes.

The following table shows the performance of the day one profit for the first half of 2014 compared with year-end 2013, which was accrued to the use of major unobservable parameters for financial instruments recognized at fair value.

EUR million	2014	2013
Balance as at 1 January	2	5
Gains/losses recognized in the income statement during the reporting period (reversals)	– 1	– 3
Balance as at 30 June/31 December	**1**	**2**

37. Reconciliation of carrying amounts to categories.

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

30 June 2014 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	48,329					48,329
Loans and advances to customers after allowances for losses on loans and advances	111,643					111,643
Financial assets measured at fair value through profit or loss[1]			73,820	1,371		75,191
Financial investments	17,682	21,928				39,610
Non-current assets held for sale and disposal groups[1]	626	19	3	0		648
Deposits from banks					64,125	64,125
Deposits from customers					82,053	82,053
Securitized liabilities					45,010	45,010
Financial liabilities measured at fair value through profit or loss[2]			66,677	5,474		72,151
Liabilities from disposal groups[2]			1	0	708	709
Subordinated capital					6,098	6,098

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

31 Dec. 2013 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	47,616					47,616
Loans and advances to customers after allowances for losses on loans and advances	109,261					109,261
Financial assets measured at fair value through profit or loss[1]			65,400	1,316		66,716
Financial investments	19,209	21,451				40,660
Non-current assets held for sale and disposal groups[1]	652	56	4	0		712
Deposits from banks					58,055	58,055
Deposits from customers					82,053	82,053
Securitized liabilities					50,693	50,693
Financial liabilities measured at fair value through profit or loss[2]			47,955	5,734		53,689
Liabilities from disposal groups[2]			2	0	903	905
Subordinated capital					7,103	7,103

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

38. Reclassifications.

Modifications to IAS 39 and IFRS 7 (Reclassification of Financial Assets) were passed by the IASB and adopted by the EU in the course of the financial markets crisis in 2008. On this basis, certain non-derivative financial instruments could be reclassified retrospectively from 1 July 2008 into the LaR category, leading to measurement at amortized cost instead of the – usually lower – current fair value.

In the LBBW Group, certain trading assets and AfS securities with a total carrying amount of EUR 28 billion were reclassified as loans and receivables as at 1 July 2008 in line with these changes. The reclassification has also resulted in changing the way in which the assets are shown in the balance sheet.

The following table shows the carrying amounts and the fair values of the reclassified securities:

EUR million	30 June 2014 Carrying amount	30 June 2014 Fair value	31 Dec. 2013 Carrying amount	31 Dec. 2013 Fair value	1 July 2008 Nominal amount	1 July 2008 Carrying amount
Held for trading reclassified as loans and receivables	**50**	**48**	**58**	**55**	**935**	**913**
of which securitization transactions	22	19	31	27	134	128
of which other securities	28	29	27	28	801	785
Available for sale reclassified as loans and receivables	**2,925**	**2,631**	**3,727**	**3,320**	**29,023**	**27,373**
of which securitization transactions	2,662	2,364	3,309	2,893	14,643	13,302
of which other securities	263	267	418	427	14,380	14,071
Total	**2,975**	**2,679**	**3,785**	**3 375**	**29 958**	**28,286**

The nominal volume of the securities reclassified out of the held-for-trading category was EUR 56 million as at 30 June 2014 (31 December 2013: EUR 65 million), of which EUR 22 million (31 December 2013: EUR 32 million) related to securitized transactions and EUR 34 million (31 December 2013: EUR 33 million) to other securities.

Securities reclassified as available for sale had a nominal volume of EUR 3,208 million as at 30 June 2014 (31 December 2013: EUR 4,050 million), of which EUR 2,946 million (31 December 2013: EUR 3,637 million) related to securitized transactions and EUR 262 million (31 December 2013: EUR 413 million).

The reclassified portfolios therefore contributed EUR 9 million (30 June 2013: EUR – 44 million) to the results in the first half year.

Had there been no reclassification, the contribution to results would have been positive at EUR 11 million (30 June 2013: EUR 39 million). The fair value changes of reclassified AfS securities would have eased the revaluation reserve by EUR 123 million (30 June 2013: easing of EUR 211 million).

At the time of the reclassification, the effective interest rates for the reclassified trading assets ranged from 2.74% to 9.32%, with expected achievable cash flows of EUR 935 million. The effective interest rates of the financial assets reclassified as available for sale ranged between 0.54% and 19.69%, with expected achievable cash flows of EUR 28,778 million.

No further financial instruments were reclassified in the subsequent financial years.

39. Breakdown of derivatives volume.

30 June 2014	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	109,432	39,697	32,616	9,869	191,614	2,293	2,176
Interest rate-related derivatives	132,071	191,485	361,342	325,197	1,010,095	24,691	22,576
Credit derivatives	1,463	8,067	20,727	2,026	32,283	276	307
Share/index-related derivatives	840	5,273	7,729	1,164	15,006	372	535
Commodity-related and other derivatives	1,735	1,149	40	0	2,924	41	54
Total	**245,541**	**245,671**	**422,454**	**338,256**	**1,251,922**	**27,673**	**25,648**

31 Dec. 2013	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	54,536	31,904	33,714	9,498	129,652	2,798	2,614
Interest rate-related derivatives	146,235	205,908	392,586	337,443	1,082,172	22,135	19,802
Credit derivatives	3,670	7,378	28,886	1,763	41,697	258	391
Share/index-related derivatives	1,697	4,952	6,556	1,042	14,247	418	578
Commodity-related and other derivatives	1,111	1,783	45	0	2,939	78	41
Total	**207,249**	**251,925**	**461,787**	**349,746**	**1,270,707**	**25,687**	**23,426**

The figures above contain derivative financial instruments that were held for sale in accordance with IFRS 5 as at 30 June 2014, with a positive fair value of EUR 3 million (previous year: EUR 5 million) and a negative fair value of EUR 10 million (previous year: EUR 8 million).

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.

40. 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 (borrower) or lent in 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 2014	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets carried at fair value		
Trading assets	5,229	4,534
Securities	5,010	4,315
Receivables	219	219
Financial investments (AfS)	12,477	4,931
Securities	12,477	4,931
Assets carried at amortized cost		
Loans and advances to banks	16,782	16,871
Public-sector loans	16,782	16,871
Loans and advances to customers	6,177	6,207
Public-sector loans	440	442
Mortgage loans	2,005	2,015
Other receivables	3,732	3,750
Financial investments (LaR)	20	0
Other securities	20	0

31 December 2013 EUR million	Transferred assets continue to be recognized in full	
	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets carried at fair value		
Trading assets	6,259	5,955
Securities	6,259	5,955
Financial investments (AfS)	11,438	3,824
Securities	11,438	3,824
Assets carried at amortized cost		
Loans and advances to banks	16,733	16,614
Public-sector loans	16,733	16,614
Loans and advances to customers	5,512	5,473
Public-sector loans	344	342
Mortgage loans	1,796	1,783
Other receivables	3,372	3,348
Financial investments (LaR)	20	0
Other securities	20	0

41. Information on issuing activities.

30 June 2014 EUR million	Amount	Volume	Primary sale[1]	Repayments
Covered bonds	25	713	935	3,977
Money market transactions	33	1,201	1,201	1,430
Other bearer bonds	2,441	121,765	2,915	4,281
Other bonds	0	0	0	12
Total	**2,499**	**123,679**	**5,051**	**9,700**

1) Primary sale also includes volume from previous years.

31 Dec. 2013 EUR million	Amount	Volume	Primary sale[1]	Repayments
Covered bonds	47	615	613	7,568
Money market transactions	152	6,087	6,087	7,524
Other bearer bonds	5,422	272,274	4,311	7,749
Other bonds	0	0	0	483
Total	**5,621**	**278,976**	**11,011**	**23,324**

1) Primary sale also includes volume from previous years.

In accordance with IAS 39, own debentures held by the Group amounting to a nominal EUR 12,393 million (previous year: EUR 11,366 million) were offset against the debentures issued.

Other notes.

42. Related party disclosures.

Related party transactions are concluded at arm's length terms in the ordinary course of business. The following tables show the scope of such transactions:

30 June 2014 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	189	0	0	131	0	0
Loans and advances to customers	3,516	2	682	123	65	39
Allowances for losses on loans and advances	0	0	– 47	0	– 4	0
Financial assets measured at fair value through profit or loss	3,227	0	1,765	69	5	0
Financial investments	31	0	89	17	1	12,958
Total assets	**6,963**	**2**	**2,489**	**340**	**67**	**12,997**
Deposits from banks	6,422	0	3	113	0	0
Deposits from customers	198	3	318	84	5	13,457
Financial liabilities measured at fair value through profit or loss	1,998	0	153	118	0	0
Subordinated capital	90	0	0	7	0	0
Total equity and liabilities	**8,708**	**3**	**474**	**322**	**5**	**13,457**
Contingent liabilities	**0**	**0**	**0**	**11**	**0**	**0**

31 December 2013 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	188	0	228	169	0	0
Loans and advances to customers	3,475	2	507	110	58	38
Allowances for losses on loans and advances	0	0	– 43	– 1	– 4	0
Financial assets measured at fair value through profit or loss	3,110	0	1,333	102	4	0
Financial investments	32	0	89	18	1	12,722
Total assets	**6,805**	**2**	**2,114**	**398**	**59**	**12,760**
Deposits from banks	6,515	0	52	131	0	0
Deposits from customers	114	4	156	163	9	13,080
Financial liabilities measured at fair value through profit or loss	2,011	0	116	62	0	0
Subordinated capital	1,249	0	0	8	0	0
Total equity and liabilities	**9,889**	**4**	**324**	**364**	**9**	**13,080**
Contingent liabilities	**0**	**0**	**1**	**12**	**0**	**0**

43. Off-balance sheet transactions and other obligations.

Contingent liabilities and other obligations.

EUR million	30 June 2014	31 Dec. 2013
Contingent liabilities	5,783	5,911
Sureties and guarantee agreements	5,742	5,870
Other	41	41
Other obligations	20,358	19,757
Irrevocable loan commitments	19,623	19,017
Other	735	740
Total	**26,141**	**25,668**

Contingent liabilities and other obligations from a fully-consolidated subsidiary held for sale increased the Group's off-balance sheet obligations by a further EUR 99 million (previous year: EUR 118 million, see Note 21), of which EUR 51 million (previous year: EUR 64 million) is accounted for by sureties and guarantee agreements and EUR 48 million (previous year: EUR 54 million) by irrevocable loan commitments.

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 guaranty (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.

Guarantee fund.

There are additional funding obligations to the Guarantee fund of the Landesbanken and Central Savings Banks (Sicherungsreserve der Landesbanken und Girozentralen) totaling EUR 174 million (previous year: EUR 174 million).

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. Payment of these additional contributions can be demanded immediately in the event that an institution requires assistance. Such a case did not occur in the period under review.

Contingent claims.

EUR million	30 June 2014	31 Dec. 2013
Legal disputes	8	8
Total	**8**	**8**

44. 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 values per issuer's country of origin and per borrower or balance sheet category, as well as the specific valuation allowances created are shown below.

The claims of LBBW Group against financial institutions, corporates and public-sector bodies from these four countries remained virtually unchanged at EUR 5.4 billion compared with year-end 2013. Exposure to banks with registered offices in Italy (EUR – 180 million) and Spain (EUR – 23 million) posted a significant decline, while public-sector financial investments from Italy increased as at the date of the consolidated interim financial statements due to an improvement in the fair value measurement (EUR 226 million).

To banks.

EUR million	Ireland		Italy		Portugal		Spain	
	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Receivables[1)]	0.7	0.6	1.9	156.3	1.3	26.7	0.2	4.4
Financial instruments measured at fair value through profit or loss (net)	56.1	– 13.1	– 14.0	12.5	– 70.8	– 0.2	268.8	258.9
Derivatives	– 35.8	– 96.8	20.5	5.8	– 1.8	– 1.9	– 52.8	– 37.6
Financial investments (AfS)	0.0	0.0	49.4	48.9	0.0	0.0	267.3	295.8
Revaluation reserve	0.0	0.0	3.1	2.2	0.0	0.0	6.2	5.0
Total	**56.8**	**– 12.5**	**37.3**	**217.7**	**– 69.5**	**26.5**	**536.3**	**559.1**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	1.0	0.8	0.0	– 0.1	2.4	4.0
CDS liability items	0.0	0.0	– 1.0	– 0.4	0.0	0.1	– 1.5	– 2.8
Nominals of CDS assets	0.0	0.0	265.0	448.0	20.0	20.0	302.0	465.0
Nominals of CDS liabilities	0.0	0.0	279.0	434.0	20.0	20.0	300.0	455.0

1) Loans and advances of EUR 606 million on nostro accounts to financial institutions with registered offices in Italy and EUR 95 million to financial institutions with registered offices in Spain from payment transactions as at the reporting date are not included in the table.

To corporates.

EUR million	Ireland		Italy		Portugal		Spain	
	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Receivables	337.4	375.9	220.9	174.8	24.4	22.6	722.4	761.0
Allowances for losses on loans and advances (specific loan loss provisions)	0.0	0.0	– 0.1	– 1.5	0.0	0.0	– 18.1	– 20.8
Financial instruments measured at fair value through profit or loss (net)	27.1	– 13.3	8.6	7.2	0.0	0.0	– 12.6	44.5
Derivatives	4.7	6.1	8.5	6.9	0.0	0.0	56.8	41.1
Financial investments (AfS)	7.3	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments (LaR)	19.5	19.4	0.0	0.0	0.0	0.0	0.0	0.0
Total	**391.3**	**388.5**	**229.4**	**180.5**	**24.4**	**22.6**	**691.7**	**784.7**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.1	1.5	2.0	0.1	0.1	1.4	1.7
CDS liability items	0.0	– 0.1	– 83.2	– 1.8	– 0.1	– 0.1	– 1.0	– 1.2
Nominals of CDS assets	0.0	5.0	118.7	225.7	10.0	12.0	173.5	156.5
Nominals of CDS liabilities	0.0	6.0	83.2	172.1	10.0	10.0	147.0	147.0

To public sector.

EUR million	Ireland		Italy		Portugal		Spain	
	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
Receivables	0.0	0.0	0.0	0.0	0.0	0.0	5.8	7.5
Financial instruments measured at fair value through profit or loss (net)	1.2	1.2	– 0.5	– 0.6	– 0.1	– 0.4	0.6	1.7
Derivatives	– 0.1	– 0.1	– 0.5	– 0.6	– 0.4	– 0.5	0.1	0.0
Financial investments (AfS)	0.0	0.0	2,526.3	2,300.4	273.1	251.9	772.3	709.2
Revaluation reserve	0.0	0.0	– 290.3	– 377.2	– 16.3	– 40.6	– 57.3	– 92.2
Total	**1.2**	**1.2**	**2,525.8**	**2,299.8**	**273.0**	**251.5**	**778.7**	**718.4**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	– 0.7	0.6	– 17.1	– 1.8	– 6.6	1.4	– 31.0
CDS liability items	– 0.1	0.7	– 1.1	– 2.7	1.3	6.1	– 1.3	– 8.9
Nominals of CDS assets	49.7	89.0	429.3	728.3	62.0	123.0	127.0	1,359.6
Nominals of CDS liabilities	51.1	86.1	412.6	754.4	61.4	120.9	123.1	1,393.3

No ABS whose issuers have registered offices in these four countries are included in the figures above.

45. Counterparty risk.

Maximum counterparty risk together with risk-reducing measures.

30 June 2014 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**10,488**	**0**	**0**	**0**	**10,488**
Assets carried at fair value					
Trading assets	106,621	37,066	17,208	1,520	50,827
Financial assets designated at fair value	725	0	0	24	701
Positive fair values from hedging derivatives	4,164	4,023	0	11	130
Financial investments (AfS)	21,130	0	15	130	20,985
interest-bearing assets	18,495	0	15	130	18,350
non-interest-bearing assets	2,635	0	0	0	2,635
Assets carried at amortized cost					
Loans and advances to banks	72,159	28,473	0	2,026	41,618
Loans and advances to customers	116,060	16,448	0	36,342	62,296
of which finance leases	5,287	0	0	531	4,752
Financial investments (LaR)	15,257	0	0	23	15,233
interest-bearing assets	15,197	0	0	23	15,174
non-interest-bearing assets	59	0	0	0	59
Non-current assets held for sale and disposal groups	**73**	**0**	**0**	**0**	**73**
Sub-total	**346,677**	**86,009**	**17,223**	**40,077**	**202,350**
Loan commitments and other agreements	47,028	0	0	3,155	44,891
Total	**393,705**	**86,009**	**17,223**	**43,231**	**247,241**

31 Dec. 2013 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**2,369**	**0**	**0**	**0**	**2,369**
Assets carried at fair value					
Trading assets	98,699	29,341	20,500	1,314	47,544
Financial assets designated at fair value	761	0	0	24	737
Positive fair values from hedging derivatives	4,891	4,652	0	15	224
Financial investments (AfS)	20,928	0	50	130	20,748
interest-bearing assets	18,248	0	50	130	18,068
non-interest-bearing assets	2,680	0	0	0	2,680
Assets carried at amortized cost					
Loans and advances to banks	66,929	20,219	0	2,331	44,379
Loans and advances to customers	114,631	13,790	0	35,790	65,051
of which finance leases	5,552	0	0	574	4,978
Financial investments (LaR)	16,497	500	0	23	15,974
interest-bearing assets	16,438	500	0	23	15,915
non-interest-bearing assets	59	0	0	0	59
Non-current assets held for sale and disposal groups	**58**	**0**	**0**	**0**	**58**
Sub-total	**325,763**	**68,502**	**20,550**	**39,627**	**197,084**
Loan commitments and other agreements	48,880	0	0	3,154	45,726
Total	**374,643**	**68,502**	**20,550**	**42,781**	**242,810**

Portfolio quality - exposure in arrears and not impaired.

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 provisions are created.

As at 30 June 2014, this applied to gross exposure of EUR 167 million, equivalent to 0.04% of the portfolio.

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

30 June 2014 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	25	40	31	1	1	67	166
of which finance leases	1	8	0	0	0	0	9
Total	**26**	**40**	**31**	**1**	**1**	**68**	**167**

31 Dec. 2013 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 customers	8	12	22	1	2	45	91
Total	**8**	**12**	**22**	**1**	**2**	**45**	**91**

Portfolio quality – impaired assets.

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

EUR million	30 June 2014	31 Dec. 2013
Assets carried at fair value		
Financial investments (AfS)	148	71
interest-bearing assets	148	71
Assets carried at amortized cost		
Loans and advances to banks	20	20
Loans and advances to customers	3,320	3,414
of which finance leases	164	167
Financial investments (LaR)	390	337
interest-bearing assets	390	337
Sub-total	**3,878**	**3,842**
Loan commitments and other agreements	224	235
Total	**4,102**	**4,077**

Impaired assets increased marginally compared with 31 December 2013.

The share of the portfolio of assets that are neither impaired nor in arrears is 98.9% (unchanged from 31 December 2013).

46. Equity and total amount at risk.

EUR million	30 June 2014	31 Dec. 2013
Equity	**16,538**	**17,853**
Core capital (Tier 1)	13,098	14,711
of which common equity Tier 1 capital (CET 1)	12,218	12,437
of which additional Tier 1 capital (AT 1I)	880	2,274
Supplementary capital (Tier 2)	3,440	2,927
Tier 3 capital	0	215
Total amount at risk (formerly: Qualifying items)	**84,938**	**79,351**
Risk-weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	67,213	64,463
Total exposure amount for position, foreign exchange and commodity risk	9,746	10,288
Total risk exposure amount for operational risks	5,065	4,600
Total risk exposure for credit valuation adjustments	2,914	0
Total ratio in %	**19.5**	**22.5**
Core capital ratio in %	**15.4**	**18.5**
CET 1 ratio in %	**14.4**	**15.7**

On 1 January 2014, the SolvV (German Solvency Ordinance) was replaced by the CRR/CRD (Capital Requirements Regulation/Capital Requirements Directive). The CRR thus forms the basis for the figures reported above as at 30 June 2014. Under the CRR, IFRS carrying amounts are used instead of the previous HGB carrying amounts for the total risk exposure amount as well as for equity. Accordingly, the values shown above as at 31 December 2013 were reported in accordance with the regime pursuant to SolvV.

Using IFRS carrying amounts under the CRR generated new deductible items. These will be phased in gradually in the reporting within the scope of the transitional provisions. New deductible items are, for example, goodwill, the revaluation reserve on securities, losses on some liabilities measured at fair value through the change in credit quality and losses incurred on derivative liabilities recognized at fair value resulting from the Bank's own credit risk.

In addition to changes to the legislative framework, the repayment of EUR 1 billion in silent partnership contributions resulted in a reduction in the Tier 1 capital.

The increase in Tier 2 capital is largely attributable to the new issue of EUR 500 million in subordinated liabilities. Tier 3 capital is no longer eligible in accordance with CRR.

The increase in the total risk exposure amount results mainly from the new capital adequacy requirement for risk exposure for the credit valuation adjustments. Other effects generated from calculating the capital adequacy requirements for risk weighted exposure amounts include the higher capital adequacy requirements for exposure to companies in the financial sector and the new capital adequacy requirements for exposures to central counterparties.

47. Events after the date of the consolidated interim financial statements.

After the date of the consolidated interim financial statements, the remainder of the LBBW securitization portfolio was sold, which was secured by a guarantee structure by a guarantee company of the State of Baden-Württemberg. The sale of the hedged securities is accompanied by a partial liquidation of the guarantee structure. The transaction as a whole is not expected to have any material effect on the income statement.

After the date of the consolidated interim financial statements, a company accounted for using the equity method on the LBBW consolidated financial statements sold an equity investment. LBBW is set to receive a proportional sales profit in the high double-digit million range from the transaction, which is still subject to the approval of the antitrust authority.

Additional disclosures in accordance with section 315a HGB.

48. Executive and supervisory bodies.

Members of the Board of Managing Directors and supervisory bodies.

Board of Managing Directors.

Chairman.

HANS-JÖRG VETTER

Deputy Chairman.

MICHAEL HORN

Members.

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER

VOLKER WIRTH

Supervisory Board.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MDL
Deputy Minister-President, Minister of Finance and Economics of the State of Baden-Württemberg

Members.

HANS BAUER
Employee Representative of Landesbank Baden-Württemberg

CARSTEN CLAUS
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

HARALD COBLENZ
Employee Representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Retired Lord Mayor

PROF. DR. SC. TECHN. DIETER HUNDT
up to 9 May 2014
Chairman of the Supervisory Board of Allgaier Werke GmbH

JENS JUNGBAUER
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

KLAUS-PETER MURAWSKI
State Secretary in the State Ministry of Baden-Württemberg and Head of the State Chancellery

GÜNTHER NOLLERT
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law, law firm Oesterle

MARTIN PETERS
Managing Partner of the Eberspächer group of companies

NORBERT H. QUACK
Attorney at law, notary, law firm Quack Gutterer & Partner

CLAUS SCHMIEDEL MDL
Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg)

DR.-ING. HANS-JOCHEM STEIM
Chairman of the Board of Hugo Kern und Liebers GmbH & Co.

DR. JUTTA STUIBLE-TREDER
as of 9 May 2014
Managing Partner of EversheimStuible Treuberater GmbH

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Further information.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable framework for interim 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, 12 August 2014

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

Dr. MARTIN SETZER

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 2014 to 30 June 2014 that are part of the semi annual financial report according to § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the 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 the IFRS 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 IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart, 13 August 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

KOCHOLL
Wirtschaftsprüfer

EISELE
Wirtschaftsprüfer

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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