Half-yearly financial report 2015.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 30 June 2015	1 Jan. – 30 June 2014 [1]
Net interest income	819	954
Allowances for losses on loans and advances	– 12	– 45
Net fee and commission income	255	254
Net gains/losses from financial instruments measured at fair value through profit or loss	97	23
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	78	32
Other operating income/expenses[2]	58	71
Total operating income/expenses (after allowances for losses on loans and advances)	**1 295**	**1 288**
Administrative expenses	– 960	– 902
Operating result	**335**	**387**
Guarantee commission for the State of Baden-Württemberg	– 64	– 119
Impairment of goodwill	0	– 16
Net income/expenses from restructuring	0	0
Net consolidated profit/loss before tax	**271**	**251**
Income tax	– 90	– 98
Net consolidated profit/loss	**182**	**153**
Key figures in %	1 Jan. – 31 Dec. 2015	1 Jan. – 30 June 2014[1]
Return on equity (RoE)	4.2	3.8
Cost/income ratio (CIR)	78.1	69.3
Balance sheet figures (EUR billion)	30 June 2015	31 Dec. 2014
Total assets	278.6	266.3
Equity	13.2	13.2
Ratios in accordance with CRR/CRD IV (with transitional rules)	30 June 2015	31 Dec. 2014
Risk weighted assets (EUR billion)	80.6	82.2
Common equity Tier 1 (CET 1) capital ratio (in %)	15.1	14.6
Total capital ratio (in %)	20.5	19.9
Ratios in accordance with CRR/CRD IV (Basel III after full implementation)	30 June 2015	31 Dec. 2014
Risk weighted assets (EUR billion)	80.6	82.2
Common equity Tier 1 (CET 1) ratio (in %)	14.0	13.6
Total capital ratio (in %)	19.7	18.9
Employees	30 June 2015	31 Dec. 2014
Group	11 098	11 117

Rating (6 August 2015)

Rating agency	Long-term rating guaranteed obligations	Long-term rating non-guaranteed obligations	Financial strength	Public-sector covered bonds	Mortgage-backed covered bonds
Moody's Investors Service	Aaa	A1[3]	baa3	Aaa	Aaa
Fitch Ratings	AAA	A-[4]	bbb	AAA	–

1) Restatement of prior year amounts in accordance with IAS 8 (see Note 2).
2) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
3) Outlook: Long-term bank deposits: positive; senior unsecured: negative.
4) Outlook: stable.
Figures may be subject to rounding differences.

2015

Foreword by the Board of Managing Directors.

Dear customers, dear business partners of the LBBW Group,

In a still challenging and dynamically changing environment, we performed successfully again in the first six months of 2015. At EUR 271 million as at 30 June 2015, net consolidated profit before tax was moderately higher than the previous year's figure of EUR 251 million.

With the addition of a further two quarters, this marks a continuation of the past three years' uninterrupted series of positive quarterly results at the Group level. Our performance in the first half is consistent with our expectations for the entire year. In the absence of any unforeseen market turbulence, we reaffirm our forecast of a moderate increase in earnings over the previous year.

At the operating level, the German banking market continues to be characterized by intense competition in corporate and retail business. This is coinciding with heavy regulatory strains, due to a large number of inquiries received from the supervisory authorities as well, and the persistent challenges being posed by the current phase of low interest rates.

Against this backdrop, our goal remains to grow selectively and on an unabated risk-conscious basis, to continue increasing our earnings and to systematically optimize our costs.

In this connection, we are paying key attention to implementing ongoing improvements to our processes and structures. Among other things, we will be linking our customer-oriented capital markets business, foreign activities and asset management more closely for the benefit of our corporate and retail customers and accelerating loan approval processes.

At the same time, we will be adjusting our range of products and services to meet our customers' wishes with respect to increased digitization. We are rising to the challenge of offering state-of-the-art online-based services. It goes without saying that at the same time we will continue offering our customers advice and service at our branches in the future.

Multifaceted prudential rules as well as stipulations under consumer protection and regulatory law have resulted in substantial changes in the requirements which an effective IT infrastructure and efficient data management must be able to fulfil. We have initiated appropriate programs for ensuring that our system landscape is fit for the future.

LBBW currently has a long-term rating of A- (Fitch Ratings) and A1 (Moody's), which was raised by one notch in June. This reflects the rating agencies' view that the Bank is well-positioned in the German banking market relative to its peers.

In line with forward-looking capital planning, we again reinforced our capital resources in the first half of the year. To this end, we raised subordinate capital of EUR 500 million in the market in June 2015. As at 30 June 2015, the Group had a common equity Tier 1 ratio of 14.0% on the basis of full implementation of CRR/CRD IV. This puts us in a convenient position – also by banking industry standards. We consider ourselves to be adequately placed for the selective growth which we are seeking in line with our business model and we reliably satisfy the mounting regulatory requirements with regard to own funds.

We would like to thank you, our customers and business partners, for the confidence which you have shown us over the past six months. Together with our staff, we will be doing everything we can to ensure that you remain satisfied customers and business partners in the future. At the same time, we thank our owners for their sustained support for the course adopted.

Yours sincerely,

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Interim Group management report.

Business report for the Group.

Economic development in the first half of 2015.

The first half of the year was characterized by a slight increase in economic confidence but also by setbacks. In the eurozone, GDP in the first quarter grew by 0.4 % over the previous quarter. This was the highest rate of expansion since 2011, with Spain, France and Italy in particular providing pleasant surprises. Although GDP growth in Germany came to only 0.3 %, thus falling short of the fourth quarter of 2014 (+0.7 %), the economy generally remained robust with substantially positive growth rates. GDP in the United States rose by 0.6 % in the first quarter and by 2.3 % in the second quarter (annualized quarter-on-quarter rate in both cases). In China growth remained stable, reaching the government's year-on-year target of 7 % in both quarters of the first six months. The leading indicators suggest that Germany and rest of the eurozone continued to grow at roughly the same rate or possibly even somewhat more quickly throughout the rest of the first half of the year. The mean ifo business barometer reading for the months from April to June stood at 108.2 and thus substantially higher than in the first three months of the year (107.1). However, after reaching a high in April, this indicator, which is of central importance in Germany, softened on balance, thus pointing to rising downside risks in the further course of the year.

The first half of the year was dominated by two matters. For one thing, the deflation risks, which the European Central Bank (ECB) had cited as justification for the implementation of a program to buy public-sector bonds and other assets. Since March, the ECB has been buying bonds issued by the public sector of the EMU member states as well as other assets, such as covered bonds and asset-backed securities, worth around EUR 60 billion each month. The program is to run until September 2016. The aim is to increase the total assets of the Eurosystem to EUR 3 000 billion. At the end of June, total Eurosystem assets were in excess of EUR 2 500 billion. For another, the market was mesmerized by the Greek debt crisis, which came to a pronounced head at the middle of the year with the country's failure to repay the amount which it owed the IMF on 30 June 2015, thus making it the first industrialized nation to default on its obligations to the IMF.

The first half of 2015 saw new records being reached in the financial markets. Thus, the German DAX equities index closed at an all-time high of 12 374 points on 10 April. As well as this, yields on ten-year German Bunds dropped to 0.08 % on a closing basis in April. In this environment, yields even dipped into negative territory on maturities of eight years and less. This drop in yields is likely to have been the consequence of the ECB's aforementioned massive asset-buying program. However, shortly after hitting their historical low, yields on ten-year Bunds rose again sharply, returning to 0.77 % at the end of June and even temporarily reaching the 1 % mark since then. This was underpinned by rising inflation rates, which allayed fears of sustained deflation in the eurozone, as well as expectations of an increase in interest rates in the United States. As the first half of the year progressed, equities came under some pressure, with the DAX closing at 10 944 at the end of June. The euro lost value almost consistently in the first quarter. After beginning the year at USD 1.21 per euro, it slid to a low of 1.06 in April. In addition, 15 January was an important date as this marked the day on which the Swiss National Bank (SNB) abandoned the floor of CHF 1.20 which it had previously defended against the euro. As a result, the Swiss franc appreciated sharply to CHF 1.02 per euro, even dipping below this level in the course of the day. Since then, the exchange rate has stabilized at around CHF 1.05 per euro.

Business performance of the LBBW Group in the first half of 2015. Results of operations, net assets and financial position.

Slight increase in profit before tax despite continued challenging market conditions. Central financial performance indicators generally satisfactory.

In 2015, LBBW is continuing to operate in a difficult market environment for banks characterized by persistently intense competition, historically low interest rates and complex regulatory requirements. Following the efforts completed in 2014 to reduce risk, LBBW focused closely on growing on a selective and risk-conscious basis in the performance of its business activities, one example being the commencement of measures to take over NordLB's custodian bank business. In line with its systematic risk awareness, LBBW made use of opportunities for entering new lending business. The LBBW Group's main financial performance indicators were generally satisfactory in the first half of the year.

On an encouraging note, the LBBW Group achieved **net consolidated profit before tax** of EUR 271 million in the first six months of the year, thus moderately exceeding the previous year's figure of EUR 251 million[1)]. This also marked a slight increase in net consolidated profit before tax over the budget for the first half of 2015 and was due to lower-than-planned allocations to allowances for losses on loans and advances. At the same time, net gains/losses from financial instruments measured at fair value through profit or loss were favorable. On the other hand, net interest income fell short of the budget. Despite the fact that net consolidated profit before tax exceeded the budget, the **cost/income ratio (CIR)** rose by 8.8 percentage points to 78.1% at the end of the first half of the year. This was slightly higher than budgeted primarily as a result of increased administrative expenses (including an initial contribution to the European bank levy as well as increased contributions for the newly structured deposit guarantee fund of the Savings Banks Finance Group).

Total assets stood at EUR 278.6 billion on 30 June 2015, up EUR 12.3 billion on the end of 2014, thus exceeding the budget by a similar amount. The growth in total assets was particularly caused by an increase in cash held with foreign central banks as well as higher holdings of money-market transactions measured at fair value.

At 4.1% at the end of the first half of the year, LBBW's **leverage ratio** (»fully loaded« according to CRR/CRD IV) was on a par with the end of 2014 and, hence, still well in excess of the current regulatory minimum of 3.0%.

The LBBW Group's **capital ratios** as at the reporting date remained well above the increased regulatory requirements in accordance with the CRR based on full implementation (CRR/CRD IV »fully loaded«). Specifically, the **common equity Tier 1 ratio**[2)] came to 14.0% (31 December 2014: 13.6%) and the **total capital ratio**[2)] to 19.7% (31 December 2014: 18.9%). Like all institutions under ECB supervision, LBBW must meet institution-specific capital requirements in excess of the statutory CRR stipulations from 2015. The current regulatory framework is already covered by the Bank's

1) After adjustments in accordance with IAS 8.
2) According to internal calculations.

planning and should be significantly exceeded by the end of the year. In the period under review, **risk weighted assets** declined minimally by EUR – 1.6 billion to EUR 80.6 billion.

The LBBW Group's risk-bearing capacity remains at a comfortable level. Utilization of **aggregate risk cover (ARC)** stood at 55 % as at the reporting date and was thus virtually unchanged over the end of 2014.

Results of operations.

The LBBW Group generated net consolidated profit before tax of EUR 271 million in the first six months of the year. The LBBW Group's income statement is shown in condensed form as follows (reference should be made to the notes for details of the figures for the individual segments):

	1 Jan. – 30 June 2015 EUR million	1 Jan. – 30 June 2014[1] EUR million	Change EUR million	in %
Net interest income	819	954	– 135	– 14.2
Allowances for losses on loans and advances	– 12	– 45	33	– 72.7
Net fee and commission income	255	254	1	0.4
Net gains/losses from financial instruments measured at fair value through profit or loss[2]	97	23	75	> 100
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	78	32	46	> 100
Other operating income/expenses[3]	58	71	– 12	– 17.6
Total operating income/expenses (after allowances for losses on loans and advances)	**1 295**	**1 288**	**7**	**0.5**
Administrative expenses	– 960	– 902	– 59	6.5
Operating result	**335**	**387**	**– 52**	**– 13.4**
Guarantee commission for the State of Baden-Württemberg	– 64	– 119	55	– 46.5
Impairment of goodwill	0	– 16	16	– 100.0
Net consolidated profit/loss before tax	**271**	**251**	**20**	**8.1**
Income tax	– 90	– 98	8	– 8.6
Net consolidated profit/loss	**182**	**153**	**29**	**18.9**

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

At EUR 819 million in the first six months of the year, **net interest income** was down a substantial EUR 135 million on the figure recorded in the first half of 2014. The reasons for this decline included sustained low interest rates, continued appreciable customer restraint and intense competition amongst banks. LBBW continued to focus on low-risk new business. Similarly, trends in the mean first-half EUR yield curve exerted pressure on net interest income from the trading books and equity investments. In addition, there were substantial accounting-related effects, e.g. in connection with hedge accounting, which left traces on earnings. The performance in the Bank's core market, particularly, SME business, was favorable.

Net additions to **allowances for losses on loans and advances** dropped again by a substantial EUR 33 million over the previous year to EUR – 12 million in the first half of 2015. This was particularly due to substantially reduced net additions to specific valuation allowances and sizably lower provisions in lending business. The fact that allowance requirements remained substantially below the budget as well as the long-term average was due to stable economic conditions in the core markets addressed by LBBW and confirms the high quality of the loan portfolio.

At EUR 255 million, **net fee and commission income** in the first half of 2015 was slightly higher than in the previous year. Small improvements were recorded in asset management as well as securities and custodian business, whereas lower net fee and commission income from brokerage business took its toll on the positive trend.

Net gains/losses from financial instruments measured at fair value through profit and loss rose considerably by EUR 75 million over the previous year to EUR 97 million, particularly underpinned by improved customer-oriented capital markets business. In addition, lower discounts for counterparty risks (primarily credit valuation adjustments) due to trends in interest and credit spreads also contributed to the improvement in this figure. Derivative financial instruments serving as economic hedges but not included in IFRS hedge accounting again exerted pressure on net trading gains/losses and net gains/losses from financial instruments measured at fair value through profit or loss, albeit to a materially lesser extent than in the previous year. The opposite effect arose from contributions from the measurement of syndicated loans not yet placed as well as the sharp decline in remeasurement gains/losses on credit derivatives.

Net gains/losses from financial investments and net/income expenses from investments accounted for using the equity method also rose considerably by EUR 46 million over the previous year to EUR 78 million. Net gains/losses on securities fell short of the previous year, which had been characterized by higher sales proceeds from the run-off of volumes and risks in portfolios no longer forming part of the Bank's core business. A good half of the figure, which was well up on the previous year, was underpinned by the sale of equity investments and investments accounted for using the equity method. In addition, there was a sharp increase in net income/expenses from investments accounted for using the equity method; among other things, the increase over the previous year resulted from higher profit contributions from a venture capital company and was particularly due to LBBW's share in the profit from the sale of an investment.

Compared with the previous year, **other operating income/expenses** and **net income/expenses from investment property** fell by EUR – 12 million to EUR 58 million due to numerous individual effects. Contributions from successfully completed development projects were smaller than in the previous year but still positive. Whereas rental income from real estate rose as a whole, the fair value measurement of investment properties exerted pressure.

Administrative expenses rose moderately by EUR – 59 million over the previous year to EUR – 960 million. Staff costs climbed by EUR – 9 million chiefly as a result of pay-scale effects and allocations to retirement benefit provisions. The contributions to the European bank levy, which took effect on 1 January 2015, and the increased contributions compared with the previous year to the restructured deposit guarantee fund operated by the Savings Banks Finance Group were recognized in full through profit and loss in the first half of the year, resulting in an overall increase of EUR – 43 million in other administrative expenses. Depreciation of property, plant and equipment was also EUR – 6 million higher than in the same period of the previous year.

Expenses incurred for the **guarantee commission** for the State of Baden-Württemberg fell significantly by EUR 55 million to EUR – 64 million as a result of the complete sale of the guarantee portfolio over the course of 2014. LBBW continues to finance the special-purpose entity Sealink, which is not required to be consolidated within the Group. The State of Baden-Württemberg still offers a guarantee for certain loans to this special-purpose entity, for which fee and commission payments are payable even after the sale of the guarantee portfolio.

In the first half of 2015 there was no impairment of **goodwill**. By contrast, the **goodwill** attributable to the Financial Markets segment had been written off in full in the same period of the previous year.

All told, LBBW thus recorded **net consolidated profit before tax** of EUR 271 million in the first six months of the current year, thus moderately exceeding the previous year's figure of EUR 251 million. **Income tax** dropped slightly by EUR 8 million to EUR – 90 million. **Net consolidated profit after tax** came to EUR 182 million in the first half of 2015, compared with EUR 153 million in the same period of the previous year.

Net assets and financial position.

Assets	30 June 2015 EUR million	31 Dec. 2014[1)] EUR million	Change EUR million	in %
Cash and cash equivalents	10 122	1 936	8 186	> 100.0
Loans and advances to banks	40 146	38 424	1 722	4.5
Loans and advances to customers	112 877	113 195	– 318	– 0.3
Allowances for losses on loans and advances	– 1 398	– 1 594	196	– 12.3
Financial assets measured at fair value through profit or loss	79 706	79 871	– 166	– 0.2
Financial investments and shares in investments accounted for using the equity method	32 138	29 352	2 786	9.5
Portfolio hedge adjustment attributable to assets	546	750	– 205	– 27.3
Non-current assets held for sale and disposal groups	30	93	– 64	– 68.2
Intangible assets	504	489	15	3.0
Investment property	759	705	54	7.7
Property and equipment	692	644	48	7.4
Current income tax assets	197	219	– 22	– 9.9
Deferred tax assets	1 069	1 145	– 77	– 6.7
Other assets	1 216	1 038	178	17.2
Total assets	**278 603**	**266 268**	**12 335**	**4.6**

Equity and liabilities	30 June 2015 EUR million	31 Dec. 2014[1)] EUR million	Change EUR million	in %
Deposits from banks	54 847	52 314	2 534	4.8
Deposits from customers	74 464	69 874	4 591	6.6
Securitized liabilities	41 740	44 231	– 2 491	– 5.6
Financial liabilities measured at fair value through profit or loss	83 005	75 244	7 761	10.3
Portfolio hedge adjustment attributable to liabilities	591	751	– 160	– 21.3
Provisions	3 375	3 455	– 80	– 2.3
Liabilities from disposal groups	0	0	0	– 100.0
Current income tax liabilities	58	69	– 10	– 14.8
Deferred tax liabilities	66	74	– 8	– 11.3
Other liabilities	1 027	787	240	30.5
Subordinated capital	6 212	6 229	– 17	– 0.3
Equity	13 217	13 241	– 24	– 0.2
Share capital	3 484	3 484	0	0.0
Capital reserve	8 240	8 240	0	0.0
Retained earnings	1 097	949	148	15.6
Other income	194	111	83	74.5
Unappropriated profit/loss	181	438	– 257	– 58.6
Equity attributable to non-controlling interest	21	19	2	9.3
Total equity and liabilities	**278 603**	**266 268**	**12 335**	**4.6**
Guarantee and surety obligations	5 531	5 574	– 44	– 0.8
Irrevocable loan commitments	20 279	23 432	– 3 154	– 13.5
Business volume	**304 412**	**295 275**	**9 138**	**3.1**

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

Increase in consolidated total assets.

At EUR 304.4 billion as at 30 June 2015, the **volume of business** was up EUR 9.1 billion on 31 December 2014. In this connection, a decline of EUR – 3.2 billion in irrevocable loan commitments was accompanied by an increase in total assets in the period under review.

The increase in total assets was primarily due to greater volumes of cash deposited with foreign central banks as well as higher holdings of financial assets ahead of future regulatory requirements. The LBBW Group's **total assets** rose by EUR 12.3 billion to EUR 278.6 billion in the first half of 2015.

Lending.

The **cash reserve** increased by EUR 8.2 billion to EUR 10.1 billion in the period under review. This was due to increased cash held deposits with foreign central banks as at the reporting date.

At EUR 40.1 billion, **loans and advances to banks** climbed by EUR 1.7 billion. This was primarily caused by the total increase of EUR 4.9 billion in securities repurchase transactions particularly with central counterparties and large internationally active banks as well as a slight EUR 0.5 billion increase in current account claims. The opposite effect arose from loans and advances to public-sector customers, which are reported within municipal loans: within this item, holdings of promissory notes in particular dropped by EUR – 3.0 billion due to partial repayments and maturities.

On the other hand, **loans and advances to customers** declined marginally by EUR – 0.3 billion, coming to EUR 112.9 billion on the reporting date. Whereas municipal loans contracted by EUR – 2.8 billion and other loans and advances by EUR – 1.1 billion, securities repurchase business climbed by EUR 1.9 billion, finance leases by EUR 0.8 billion and overnight and term money by a further EUR 0.7 billion.

Financial assets measured at fair value through profit and loss declined by a negligible EUR – 0.2 billion to EUR 79.7 billion in the first half of 2015. In addition to the decline of EUR – 4.2 billion in the market values of derivatives, bonds/debentures as well as maturities of public-sector promissory notes were down a total of EUR – 1.6 billion. Money-market paper and other money-market transactions moved in the opposite direction by a total of EUR 5.8 billion.

Financial investments and shares in investments accounted for using the equity method grew by EUR 2.8 billion to EUR 32.1 billion. Among other things, Treasury specifically accumulated highly liquid securities in order to satisfy the rising regulatory requirements with respect to the liquidity coverage ratio (LCR). European government bonds in particular were acquired.

Funding.

Compared with 31 December 2014, the portfolio of **deposits from banks** rose by EUR 2.5 billion to EUR 54.8 billion in the first half of 2015. This was chiefly due to larger volumes in securities repurchase business (EUR 3.8 billion), which primarily arose from tri-party repurchase transactions with central counterparties. On the other hand, the portfolio of bond issues was down. The decline of EUR – 1.9 billion in borrower’s note loans and of EUR – 0.6 billion in covered bonds was chiefly due to partial repayments and maturities, the effect of which it was not possible to fully offset with new business.

Deposits from customers climbed by EUR 4.6 billion over the end of 2014 to EUR 74.5 billion. The main reason for this increase was the rise of a total of EUR 6.8 billion in securities repurchase transactions with central counterparties and other financial service providers. In the period under review, the portfolio of registered bonds and borrower’s note loans contracted by EUR – 0.4 billion and EUR – 0.7 billion, respectively.

Securitized liabilities dropped by EUR – 2.5 billion over 31 December 2014 to EUR 41.7 billion. In the case of other bonds, repayments and maturities exceeded muted new business substantially, causing the portfolio to shrink by a total of EUR – 3.2 billion in the first six months of the year. The sharp decline of EUR – 2.5 billion in public-sector covered bonds was mostly due to maturities. Strong demand for low-risk covered securities created a favorable market environment for the issue of covered mortgage bonds which LBBW used to place large-scale covered bonds at the beginning of the year. Despite maturities of around EUR – 3.0 billion, the portfolio of mortgage-backed covered bonds as at 30 June 2015 was up EUR 1.6 billion on the end of 2014. At the same time, the portfolio of money-market transactions was also EUR 1.7 billion higher. This mostly comprised short-dated commercial paper.

Liabilities measured at fair value through profit or loss rose by EUR 7.8 billion to EUR 83.0 billion primarily as a result of the increase in trading liabilities. This reflected greater issuing of short-dated securities, which caused an increase of EUR 3.3 billion. In addition, other money-market transactions rose by EUR 9.6 billion primarily as a result of strong demand. On the other hand, the market values of trading derivatives fell by EUR – 4.3 billion chiefly as a result of interest trends.

Financial position.

Throughout the entire first half of 2015, the Group’s **financial position** was orderly thanks to its good liquidity situation. Funding available on the market continued to exceed LBBW’s funding requirements substantially. The LiqV liquidity indicator is only determined at the level of the Bank and stood at 1.42 as at 30 June 2015 (previous year: 1.34).

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 2014 as at 30 June 2015. Material changes are described below.

Risk types.

Detailed notes on the definition of risks and on the risk management system as a whole can be found in the Combined Management Report 2014. The following table provides a brief overview:

Risk category	Describes possible ...
Counterparty default risk	... losses arising from the default or deterioration in the credit rating of business partners. ... defaults by sovereign borrowers or restrictions on payments. ... losses arising from shortfall in proceeds from the liquidation of collateral.
Market price risks	... losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility. ... problem of not being able to quickly close out larger positions at market value.
Liquidity risks	... problems meeting payment obligations in the short term.
Operational risks	... losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
Investment risks	... losses in the value of Group companies and equity investments not included in the above risk categories.
Reputation risks	... losses caused by damage to the Bank's reputation.
Business risks	... losses due to less favorable business performance than expected or from strategic errors provided that they do not relate to 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 integrated 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 on creating the basis (processes, methods, IT) for additionally aligning integrated bank management with the more stringent requirements. The structural challenges are being addressed in a medium-term program.

Supervisory framework.

On 4 November 2014 the ECB took over supervision of LBBW within the framework of the Single Supervisory Mechanism (SSM). In this connection LBBW has been assigned to Directorate General I within the ECB's bank supervision, which is to assume responsibility for the 30 most important banks.

As the key element of its future supervisory activities, the ECB is performing an independent evaluation and review of banks' capital and liquidity resources as well as their processes as a basis for calculating individual minimum requirements. These measures are based on the Supervisory Review and Evaluation Process (SREP) and must be applied from 1 January 2016.

This year, the recovery plan is being updated on the basis of the German Bank Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), which came into effect on 1 January 2015, and in the light of EBA documents. This act transposes the Bank Recovery and Resolution Directive (BRRD) into national law.

Risk situation of the LBBW Group.

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

Since the end of 2014, there has been virtually no change in the economic capital committed, while the increase in counterparty and market price risks has been offset by lower real estate and pension risks. The increase in counterparty risks is due to trends in market data as well as methodology adjustments. Detailed information can be found in the sections on the individual risk types.

In the first half of 2015, aggregate risk cover (ARC) was virtually unchanged over the end of 2014. Increased deductions from ARC (particularly increased pension provisions) and the expiry of subordinate debt were made up for through the issuance of new subordinate liabilities.

In summary, the LBBW Group's risk-bearing capacity and stress resistance were safeguarded at all times throughout the first half of 2015.

The economic capital limit was maintained at all times at the Group level. Utilization of the aggregate risk cover was unchanged at 55% as at 30 June 2015.

LBBW Group – risk-bearing capacity.

	30 June 2015		31 Dec. 2014	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	15 858	55 %	15 840	55 %
Economic capital limit[2])	12 800	68 %	12 800	68 %
Economic capital tie-up	8 682		8 645	
of which:				
diversification effects	– 490		– 475	
counterparty risk	4 536		4 274	
market price risk	2 188		2 118	
investment risk	158		175	
operational risk	883		885	
development risk	75		57	
real estate risk	196		258	
other risks [3]	1 136		1 353	

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

Opportunities.

The relevant aggregate risk cover (ARC) for calculating risk-bearing capacity is defined as the lowest ARC of the following twelve months (rolling 12-month minimum view). Opportunities therefore occur for the ARC when the actual ARC outstrips the projected development or when the ARC forecast improves in the wake of a positive trend. This is particularly the case for market trends (particularly credit spreads) with a positive effect on earnings and capital figures with lower allowances for losses on loans and advances due to economic trends or with a better-than-expected business performance. Apart from market- and business-driven improvements, the ARC can be proactively strengthened by measures such as issuing subordinated capital.

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

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 2014.

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

Development of exposure.

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

Development of exposure.

EUR million	30 June 2015	31 Dec. 2014
Gross exposure	**375 393**	**363 047**
Netting/collateral	103 295	90 999
Credit derivatives (protection buy)	13 739	15 878
Classic credit collateral	42 207	43 886
Net exposure	**216 152**	**212 284**

Gross exposure amounts to around EUR 375 billion as at the reporting date and was thus some EUR 12 billion or 3% higher than at the end of 2014. However, this did not feed through to net exposure in full due to the simultaneous increase in the risk-mitigating effects of netting and collateral agreements. Net exposure rose by around EUR 4 billion or 2% to EUR 216 billion.

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

1) Information on economic capital tied up for the individual risk types can be found in the section on the risk management system/risk situation of the LBBW Group.
2) Statements on risk situation are based on the management approach. Differences over the valuation methods applied for accounting purposes are due to factors described in the 2014 risk and opportunity report.

Portfolio quality.

The breakdown 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 2015	in % 30 June 2015	EUR million 31 Dec. 2014	in % 31 Dec. 2014
1(AAAA)	53 512	24.8%	46 911	22.1%
1(AAA) – 1(A–)	100 240	46.4%	102 164	48.1%
2 – 5	40 036	18.5%	39 664	18.7%
6 – 8	12 426	5.7%	11 130	5.2%
9 – 10	3 752	1.7%	5 513	2.6%
11 – 15	1 625	0.8%	2 311	1.1%
16 – 18 (Default)[1]	2 282	1.1%	2 531	1.2%
Other	2 280	1.1%	2 060	1.0%
Total	**216 152**	**100.0%**	**212 284**	**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.

There has been a further slight improvement in the quality of the portfolio. The share of investment grade exposures (ratings 1(AAAA) to 5) widened to 89.7% (31 December 2014: 88.9%). The top rating class 1(AAAA) particularly includes domestic public-sector entities. The share of exposures in this rating class rose to around one-quarter of net exposure as at the reporting date due to the increased exposure to foreign central banks. In addition, exposure to critical rating classes (11 – 15) contracted by EUR 0.7 billion to EUR 1.6 billion. Net exposure to the default rating classes (16 – 18) continued to decline and accounts for only a small proportion of the total portfolio.

Sectors.

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

Sectors.

EUR million	Net exposure 30 June 2015	CVaR 30 June 2015	Default 30 June 2015	Net exposure 31 Dec. 2014	CVaR 31 Dec. 2014	Default 31 Dec. 2014
Financials	**98 832**	**914**	**43**	**95 415**	**755**	**112**
of which transactions under specific state liability[1]	30 560	58	0	28 460	34	0
Companies	**72 390**	**2 778**	**2 091**	**70 267**	**2 589**	**2 271**
Automotive	11 160	422	179	10 381	325	195
Chemicals and pharmaceuticals	6 042	160	85	6 101	150	92
Commercial real estate (CRE)	7 384	482	589	6 621	442	592
Retail and consumer	9 203	310	191	8 830	286	223
Industry and construction	14 078	513	338	13 752	494	387
of which construction	5 733	234	147	5 534	233	180
Telecommunications and media	2 541	77	38	2 608	75	57
Transport and logistics	3 564	133	130	3 922	150	111
Utilities and energy	11 011	349	324	10 807	331	396
of which utilities and disposal companies	4 866	139	27	4 931	126	26
Housing	3 372	189	126	3 397	183	119
Other sectors	4 035	143	92	3 849	153	100
Public sector	**39 455**	**640**	**1**	**41 042**	**699**	**1**
Private individuals	**5 475**	**204**	**147**	**5 560**	**230**	**146**
Total	**216 152**	**4 536**	**2 282**	**212 284**	**4 274**	**2 531**

1) This figure shows transactions with guarantor's liability, transactions covered by a guarantee provided by the State of Baden Württemberg or other government guarantees. This also includes central banks and banks with a state background.

With a net exposure of EUR 99 billion, financials represent the largest of the four main sectors. The increase of around EUR 3 billion over the end of 2014 is chiefly due to the greater volume of central bank deposits. As a result, there was also an increase in transactions under specific state liability. The expiry of transactions with savings banks and Landesbanken with guarantor's liability lessened the effects of this increase. The higher CVaR is chiefly due to changes in market data.

Net exposure to corporates widened by EUR 2 billion over the end of 2014 to EUR 72 billion. This increase was due in almost equal portions to the automotive section and the commercial real estate sector. These were simultaneously the two most important sectors in the portfolio and are therefore continuing to be closely monitored for the purposes of managing sector concentration. CVaR rose particularly as a result of scheduled parameter adjustments. At 61 % companies accounted for more than half of the CVaR and was thus unchanged over the end of the previous year (31 December 2014: 61 %).[2)]

The German states in particular were responsible for a decline of around EUR 2 billion in net exposure to the public sector to EUR 39 billion. The CVaR was correspondingly lower.

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

2) The CVaR breakdown by business segment is similar – here too at 63 % (62 % as at 31 December 2014) the Corporates segment accounts for the greatest share of CVaR.

Regions.

The share of domestic business in net exposure dropped since 31 December 2014 particularly as a result of the aforementioned decline of 6 percentage points to 69.9% in exposure to the domestic public sector as well as savings banks and Landesbanken. 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. Exposure to Eastern Europe, Latin America and Africa is of subordinate importance and results principally from export finance.

Regions.

Net exposure in %	Share 30 June 2015	Share 31 Dec. 2014
Germany	69.9%	75.8%
Western Europe (excluding Germany)	17.0%	15.6%
North America	9.9%	5.3%
Asia/Pacific	1.8%	1.7%
Eastern Europe	0.7%	0.8%
Latin America	0.7%	0.7%
Africa	0.0%	0.0%
Supranationals	0.0%	0.1%
Total	**100.0%**	**100.0%**

The effects of the European sovereign debt crisis continued to subside in the first half of 2015. 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 Group's exposure to these countries comes to a total of EUR 5.4 billion (31 December 2014: EUR 5.7 billion; all figures are based on IFRS). The remaining exposure to Greece is valued at EUR 68 million (based on IFRS) and primarily relates to a small number of minor project development transactions in the renewable energies sector.

In connection with the worsening of the Greek crisis, its neighboring countries (particularly Cyprus) are being observed more closely. Given the political situation, exposure to Ukraine and Russia in particular is being monitored carefully. Measures were approved to limit risks and/or measures already in place reaffirmed for the aforementioned countries. However, this exposure does not entail any substantial risk for the LBBW Group due to its subordinate importance.

Size classes.

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

Size classes.

Net exposure	Number 30 June 2015	Net exposure in % 30 June 2015	Number 31 Dec. 2014	Net exposure in % 31 Dec. 2014
up to EUR 10 million	667 808	10.7 %	692 740	11.2 %
up to EUR 50 million	1 129	11.8 %	1 078	11.6 %
up to EUR 100 million	235	7.9 %	224	7.6 %
up to EUR 500 million	256	27.2 %	236	25.8 %
up to EUR 1 billion	42	13.2 %	52	17.4 %
over EUR 1 billion	28	29.3 %	23	26.4 %
Total	**669 498**	**100.0 %**	**694 353**	**100.0 %**

The size classes of up to EUR 100 million net exposure account for 30 % of the portfolio. The large number of customers is due here in particular to the retail portfolio.

With shares of 95 % and 96 % respectively, very good to good credit ratings (1 (AAAA) to 5) dominate the two size classes of net exposure totaling EUR 100 million to EUR 500 million and EUR 500 million to EUR 1 billion.

Exposure of more than EUR 1 billion increased from 23 to 28 names; accordingly, their share of the portfolio widened by around three percentage points to 29 %. Of this size class, 21 % comprised Landesbanken and savings banks (of which two-thirds are under guarantor's liability) and a further 38 % public-sector bodies (particularly domestic public-sector entities) as at 30 June 2015. The remaining 41 % in this size class was spread across banks and companies exclusively with very good to good credit ratings (rating class of 1(A-) or better). The large exposures will continue to be monitored closely in terms of the management of cluster risks.

Opportunities.

LBBW's core business activity involves assuming counterparty risks. According to the principles of the credit risk strategy, credits are adjusted for risk when priced. Selecting transactions with a favorable risk/return ratio offers special opportunities for profit. Furthermore, a positive trend in the economic situation may offer an opportunity to improve the quality of the portfolio, thus resulting in lower write-down requirements.

Market price risks.

Risk situation of the LBBW Group.

In the first half of 2015, the market price risk within the LBBW Group increased.

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

VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	30 June 2015	31 Dec. 2014
LBBW Group	**178**	**200**	**146**	**188**	**165**
Swap risk	87	104	65	88	86
Credit spread risk	162	184	130	175	141
Equity risks	3	5	2	2	2
Currency risks	4	5	1	5	3

The Bank's trading book risk dropped slightly. However, the banking book risk increased. The increase in the banking book was mainly due to new positions in investment-grade government bonds. The decline in the trading book was primarily due to closing of positions.

In calculating the Bank's economic capital, in order to include the effect of volatile market time periods, LBBW calculates economic capital from the maximum of VaR (covariance matrix from a 250-day history) and the long-term VaR (covariance matrix from a 5-year history).

The internal risk model for calculating LBBW's exposure to market price risks is approved by the regulatory authorities for equity risks as well as for general interest rate risks in the trading book without funds (CRR portfolio). Together with a risk weighted factor these identified risks are used for calculating capital requirements. Backtesting of the internal risk model for the previous 250 trading days produced two exceptions for the LBBW Group and none for the CRR portfolio. Additional backtesting on the basis of the so-called Dirty P/L[1] is conducted due to regulatory requirements. On this basis, there was one exception at the level of the LBBW Group as of the reporting date. Two exceptions were registered for the CRR portfolio arising from aperiodic adjustments in the P/L calculation.

The changes in the portfolio values in stress scenarios rose slightly in the first half of 2015. This was mainly due to the accumulation of positions in the banking book. Scenarios simulating on an increase in spreads and interest rates have the greatest significance in stress testing. The stress test scenarios were reviewed, revised and adjusted to be in line with the current market conditions.

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

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

VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	30 June 2015	31 Dec. 2014
LBBW (Bank) trading positions	**27**	**32**	**21**	**22**	**26**
Swap risk	17	22	9	15	13
Credit spread risk	22	26	16	18	25
Equity risks	3	4	2	2	2
Currency risks	4	5	1	5	3

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

Opportunities.

The portfolios of the LBBW Group show a great dependency on market developments of credit spreads. A further drop in the interest rate or narrowing of the relevant credit spreads has a positive effect for the revaluation of Profit and Loss of the current portfolio feature of the LBBW Group. The extent of this effect depends on the development of the LBBW Group's portfolio feature.

Liquidity risks.

Risk situation of the LBBW Group.

The LBBW Group continued to have ample liquidity at all times in the first half of 2015. Stable customer deposit business particularly contributed to the good liquidity situation.

The LBBW Group's funding requirements for its business and for potential additional requirements as a result of call risks were 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.

Overview of funding requirement and liquidity reserves.

EUR billion as at 30 June 2015	3 months	12 months
Funding requirement from the business portfolio (deterministic cash flow)	18.8	20.9
Material call risks (stochastic cash flow)	16.0	37.3
Free liquidity reserves	26.6	33.9
Funding potential in the market	36.1	40.5

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

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 2015	Funding requirement	Funding potential (central banks and market)
Rating downgrade	35.7	50.6
Financial market crisis	37.0	59.1
Market crisis with downgrade	37.0	55.5

All limits and other requirements in accordance with the Group's liquidity risk tolerance were observed at all times in the first half of 2015. The liquidity reserves were adequate at all times 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 2015, the liquidity ratio for LBBW was 1.42 (31 December 2014: 1.34). There is no corresponding indicator at the Group level as this indicator is disclosed to the regulatory authorities at a single-entity level.

Opportunities.

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

Operational risks.

Risk situation of the LBBW Group.

The explanations on the risk situation provided at the end of 2014, particularly in connection with the legal risks arising from customer transactions in complex derivatives and developments in consumer protection law, continue to apply. LBBW continued to optimize the interfaces related to operational risks between the various departments. The processes and instruments for identifying, recording and managing operational risks undergo regular review in the light of new regulatory requirements and are modified where necessary. In addition, various committees are engaged in regular consultations.

IT risk management increasingly dwelled on risks arising from cyberspace as well as unauthorized use of privileges. These risks are being addressed with a comprehensive package of measures targeted at processes as well as technical and organizational structures.

Opportunities.

There are no changes in LBBW's assessment of the opportunities compared with the end of 2014.

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. The underlying scenario analysis was modified to allow for the historically low interest rates and corresponding increase in pension provisions. With relative changes remaining the same, the interest rate is no longer expected to drop as sharply in absolute terms, resulting in a reduction in pension risks and a decline in other risks. Real estate risks subsided due to a consolidation-related decline in the carrying amounts of partial stocks.

With respect to the other material risks, namely

- investment risks
- development risks
- reputation risks and
- business risks

the statements made in the risk report in the LBBW Group's Combined Management Report 2014 continue to apply. There were no material changes in the first half of 2015.

Outlook.

Anticipated economic performance.

In the mid-year economic outlook, optimism and caution are broadly balanced. In this regard, the main opportunities for Germany arise from the domestic economy, whereas risks are to be found outside its borders. Domestic demand in Germany is being spurred by three factors. First, the good situation in the labor market, which is likely to continue throughout the rest of the year. Second, moderate inflation: LBBW expects an annual average inflation rate of 0.6% for 2015 as a whole. Low inflation customarily fuels consumer spending. Third, low interest rates and the related recovery of the real estate market are driving demand as a whole. All in all, German GDP should expand by a total of 1.6% over the previous year in this constellation. Adjusted for the higher number of work days, growth will actually stand at 1.8%. Risks are primarily arising from the ongoing EMU debt crisis, the expected increase in interest rates in the United States and slower growth in China.

The eurozone debt crisis is centered on Greece. That said, there are growing signs that this country will be able to avert imminent insolvency by securing a further three-year aid package. However, market reactions show that the risk of contagion in the other EMU periphery states is substantially lower than it was in summer 2012. Spain, Portugal, Italy and Ireland, all countries that experienced great difficulties in 2012, currently still have access to the capital markets. By contrast, the situation in Russia and Ukraine remains tense. If the conflict in Eastern Ukraine comes to a head, the financial markets and also the real economy, particularly German exports to these regions, will sustain further disadvantages.

Judging by the signals emitted by the US Fed, interest rates in the United States are likely to be increased in the near future in a move which LBBW expects to see in September 2015. If the US Fed is able to convince the markets that further increases in interest rates will be implemented cautiously, market fluctuation should be contained. Failing this, volatility will rise substantially in the financial markets. LBBW assumes that the Fed will raise its rates from a current 0.25% to 0.75% by the end of 2015 and that this will not unleash any market uncertainty. Yields on 10-year Bunds should rise to 1.00% in the wake of the US rate hikes. At 6.8%, growth in Chinese GDP is likely to just fall short of the government’s target of 7.0%. Slower growth in China could affect the German economy via the export sector as the country has since become Germany’s largest non-EMU trading partner.

Inflation will remain benign in both Germany (+0.4%) and the eurozone (+0.2%) this year; however, LBBW does not expect any deflation. The equity market should benefit from the combination of low interest rates, muted inflation and stable growth, advancing on balance by the end of the year. LBBW sees the blue-chip DAX index at 13 000 points at the end of the year. The euro is likely to come under pressure relative to the US dollar due to the higher interest rates in the United States, and slip from USD 1.10 to 1.05 per euro by the end of the year.

Industry and competitive situation.

There are virtually no changes in LBBW's expectations with respect to the industry and competitive situation compared with the end of 2014. The challenges which low interest rates and the high regulatory burden pose for the banking sector are likely to continue. LBBW also expects the intense competition for both retail and corporate customers to persist. Accordingly, pressure on costs and income across the sector will remain. German banks should continue to benefit from the good economic conditions in their home country.

However, unclear regulatory plans and future developments in the eurozone debt crisis, which is still awaiting a final solution notwithstanding the likely agreement on a third bail-out package for Greece, remain sources of uncertainty for banks. Generally speaking, the regulatory requirements imposed on banks look set to grow in complexity. The ECB's multifaceted regulatory process including additional equity backing requirements will probably also contribute to this.

In the first half of 2015, the EU Commission's plans for a European Capital Markets Union with which it wants to step up the development and integration of capital markets in the European Union took on form. In addition to further legal harmonization, this also includes measures to facilitate and improve access by small and mid-size companies to the capital markets. However, the ultimate form which these plans take still remains to be seen. The three-way negotiations between the European Commission, the European Parliament and the Council of the European Union on European dual banking system legislation look set to be conducted in the further course of the year. There is still uncertainty surrounding the specific form and the timing of the financial transaction tax being planned by a number of EU states.

Company forecast.

General conditions.

The comments made in the Group management report 2014 on the company forecast for LBBW were based on the budget prepared at the end of 2014. This forecast assumes stable economic conditions in Europe, continued low interest rates and rising complexity caused by the implementation of regulatory requirements in 2015.

The comments made in the Group management report 2014 on the company forecast for LBBW were reviewed at the middle of 2015 on the basis of a forecast prepared for the remaining months of the year. This has occasionally resulted in a number of changes to the views expressed. For one thing, the stable economic conditions in Germany are exerting a favorable effect, something which is expected to result in substantially lower allowances for losses on loans and advances than planned while, for another, the persistently intense competition is exerting a strain on both retail and corporate customer business.

The main changes are set out below.

Outlook for LBBW.

On the basis of its strategic orientation, which is unchanged over the end of 2014, LBBW expects its main Group financial parameters to develop as follows in the remaining months of 2015 compared with the budget.

LBBW does not expect any material differences in total assets or risk weighted assets over the budget in 2015. At the same time, however, the total capital ratio should be slightly up on the forecast due to the successful issuance of subordinate debt. On the other hand, the common equity Tier 1 capital ratio is likely to fall slightly short of the forecast. This will be mainly caused by interest rates, which continue to fall short of the forecast and the resultant low discount rate applied to the calculation of pension provisions, which will exert pressure on retained earnings, which form part of common equity Tier 1 capital. Even so, both the common equity Tier 1 capital ratio and the total capital ratio will remain at a comfortable level, considerably exceeding the regulatory requirements as defined in the full implementation of the CRR transitional rules (CRR/CRD IV »fully loaded«). Like all institutions under ECB supervision, LBBW must meet institution-specific capital requirements in excess of the statutory CRR stipulations from 2015. The current regulatory framework is already covered by the Bank’s planning and should be significantly exceeded by the end of the year.

Notwithstanding the challenging market environment, LBBW still expects net consolidated profit before tax to reach the budget in 2015 and exceed the previous year’s figure in the absence of any unforeseen market turbulence. The historically low interest rates and continued intense competition are exerting pressure on LBBW’s earnings. LBBW assumes that administrative expenses will initially only be marginally higher than originally planned despite the increased cost of implementing regulatory requirements and IT modifications. On the other hand, it will benefit from the stable economic conditions in Germany and the good quality of its loan portfolio. Accordingly, allowances for losses on loans and advances should be well down on the previous year.

All told, the LBBW Group assumes that the cost/income ratio will be lower than it was in the previous year in 2015 but probably remain moderately above the budget.

The material opportunities and risks for LBBW's earnings forecast reported at the end of 2014 continue to apply. Similarly, the LBBW does not expect the eurozone debt crisis, which is currently centering on Greece, to have any impact.

The outlook at the segment level is more mixed for the remaining months of 2015. LBBW continues to project substantially positive earnings contributions from the operating segments in excess of the budget. However, the Credit Investment segment is likely to sustain a loss despite the further reduction in guarantee commission. The main changes over the forecast in the Group management report for 2014 are described below.

In the Corporates segment, LBBW expects perceptibly higher net consolidated profit before tax for the remaining months of the year than it did at the end of 2014. The material driver will be forecast allowances for losses on loans and advances, which should be considerably less than planned at the end of 2015. This should more than make up for the slight shortfall in earnings compared with the budget caused by the intense competition. The cost/income ratio is not likely to materially exceed the budget. Similarly, total assets and risk weighted assets should develop as planned.

LBBW assumes that net consolidated profit before tax in the Financial Markets segment will be considerably up on the previous year and exceed the budget slightly. This will be mainly due to the effects of the currently volatile market and, as a result of this, heightened customer demand for hedging products. The cost/income ratio should be slightly lower than forecast at the end of 2014.

The anticipated performance of the Retail/Savings Banks segment will exceed the expectations formulated at the end of 2014. With allowances for losses on loans and advances substantially lower than planned as well as the encouraging net fee and commission income on securities transactions with retail and private-banking customers, net consolidated profit before tax should be well up on the budget at the end of the year. As a result of this, the cost/income ratio may also improve slightly.

With respect to the Credit Investment segment, a slightly lower net consolidated loss before tax is projected for the end of 2015 compared with the forecast issued at the end of 2014. The main driver here will be the significantly lower fee payable for the guarantee issued by the State of Baden-Württemberg compared with the previous year, although it will be noticeably higher than planned due to exchange-rate effects.

Looking forward, LBBW still considers itself to be generally well-positioned in an environment which will remain challenging against the backdrop of increasingly stringent regulatory requirements and sustained low interest rates. With its solid capitalization, it is a reliable and secure partner to its broad customer base, which it will continue to widen at a regional level in particular. 2015 and the ensuing years will see major efforts aimed at converting the Bank's IT architecture. In this way, LBBW will be able to maintain its good market position in the future and make the best possible use of the potential available to it in the interests of its customers.

Condensed interim consolidated financial statements.

CONTENTS

Condensed income statement

for the period 1 January to 30 June 2015.

EUR million	Notes	1 Jan. – 30 June 2015	1 Jan. – 30 June 2014[1)]
Net interest income	4	819	954
Allowances for losses on loans and advances	5	– 12	– 45
Net fee and commission income	6	255	254
Net gains/losses from financial instruments measured at fair value through profit or loss	7	97	23
Net gains/losses from financial investments	8	60	36
Net income/expenses from investments accounted for using the equity method	9	19	– 4
Other operating income/expenses	10	53	57
Net income/expenses from investment property	11	5	14
Administrative expenses	12	– 960	– 902
Guarantee commission for the State of Baden-Württemberg		– 64	– 119
Impairment of goodwill	22	0	– 16
Net consolidated profit/loss before tax		**271**	**251**
Income tax	13	– 90	– 98
Net consolidated profit/loss		**182**	**153**
of which attributable to shareholders after tax		181	153

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

Total comprehensive income

for the period 1 January to 30 June 2015.

EUR million	Notes	1 Jan. – 30 June 2015	1 Jan. – 30 June 2014[1)]
Net consolidated profit/loss		**182**	**153**
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax		38	– 268
Income tax	13	– 12	81
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		105	207
Transferred to income statement		– 13	– 8
Income tax	13	– 13	– 51
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax		11	0
Transferred to income statement		– 15	0
Measurement gains/losses from cash flow hedges			
Changes in fair value before tax		0	– 2
Currency translation differences			
Changes before tax		7	1
Total net consolidated profit/loss in equity		**109**	**– 40**
of which from non-current assets held for sale and disposal groups		17	– 1
Net consolidated total comprehensive income		**291**	**113**
of which attributable to shareholders after tax		290	113

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

Balance sheet

as at 30 June 2015.

Assets.

EUR million	Notes	30 June 2015	31 Dec. 2014[1]	1 Jan. 2014[1]
Cash and cash equivalents	14	10 122	1 936	2 156
Loans and advances to banks	15	40 146	38 424	47 625
Loans and advances to customers	16	112 877	113 195	111 453
Allowances for losses on loans and advances	17	– 1 398	– 1 594	– 2 201
Financial assets measured at fair value through profit or loss	18	79 706	79 871	70 094
Financial investments	19	31 896	29 050	40 660
Shares in investments accounted for using the equity method	20	242	302	297
Portfolio hedge adjustment attributable to assets		546	750	355
Non-current assets held for sale and disposal groups	21	30	93	727
Intangible assets	22	504	489	494
Investment property	23	759	705	481
Property and equipment	24	692	644	646
Current income tax assets		197	219	179
Deferred tax assets		1 069	1 145	1 062
Other assets	25	1 216	1 038	610
Total assets		**278 603**	**266 268**	**274 638**

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

Equity and liabilities.

EUR million	Notes	30 June 2015	31 Dec. 2014[1)]	1 Jan. 2014[1)]
Deposits from banks	26	54 847	52 314	58 045
Deposits from customers	27	74 464	69 874	82 053
Securitized liabilities	28	41 740	44 231	50 693
Financial liabilities measured at fair value through profit or loss	29	83 005	75 244	57 649
Portfolio hedge adjustment attributable to liabilities		591	751	685
Provisions	30	3 375	3 455	3 133
Liabilities from disposal groups	21	0	0	915
Current income tax liabilities		58	69	58
Deferred income tax liabilities		66	74	169
Other liabilities	31	1 027	787	742
Subordinated capital	32	6 212	6 229	7 103
Equity	**33**	**13 217**	**13 241**	**13 392**
Share capital		3 484	3 484	3 484
Capital reserve		8 240	8 240	8 240
Retained earnings		1 097	949	1 207
Other income		194	111	104
Unappropriated profit/loss		181	438	339
Shareholders' equity		13 196	13 222	13 374
Equity attributable to non-controlling interest		21	19	18
Total equity and liabilities		**278 603**	**266 268**	**274 638**

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

Statement of changes in equity

for the period 1 January to 30 June 2015.

EUR million	Share capital	Capital reserve	Retained earnings	Revaluation reserve
Equity as at 31 December 2013	**3 484**	**8 240**	**1 214**	**13**
Adjustment of prior year values	0	0	– 7	0
Adjusted equity as at 1 January 2014	**3 484**	**8 240**	**1 207**	**13**
Allocation to retained earnings	0	0	339	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 consolidated profit/loss in equity	**0**	**0**	**– 187**	**148**
Net consolidated profit/loss	0	0	0	0
Adjustment of net consolidated profit/loss	0	0	0	0
Adjusted net consolidated total comprehensive income	**0**	**0**	**– 187**	**148**
Other changes in equity	0	0	0	0
Adjusted equity as at 30 June 2014	**3 484**	**8 240**	**1 287**	**161**
Changes in the scope of consolidation	0	0	– 175	– 108
Actuarial gains/losses	0	0	– 198	0
Changes in AfS financial instruments	0	0	0	– 4
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 consolidated profit/loss in equity	**0**	**0**	**– 198**	**– 4**
Net consolidated profit/loss	0	0	0	0
Adjustment of net consolidated profit/loss	0	0	0	0
Adjusted net consolidated total comprehensive income	**0**	**0**	**– 198**	**– 4**
Other changes in equity	0	0	– 1	0
Adjustment of prior year values	0	0	36	0
Adjusted equity as at 31 December 2014	**3 484**	**8 240**	**949**	**49**
Allocation to retained earnings	0	0	438	0
Distribution to shareholders	0	0	– 313	0
Actuarial gains/losses	0	0	26	0
Changes in AfS financial instruments	0	0	0	79
Measurement gains/losses from investments accounted for using the equity method	0	0	0	0
Currency translation differences	0	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**26**	**79**
Net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**26**	**79**
Other changes in equity	0	0	– 4	0
Equity as at 30 June 2015	**3 484**	**8 240**	**1 097**	**128**

The factors relating to the adjusted prior year amounts are presented in 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
106	**–2**	**–13**	**339**	**13 381**	**18**	**13 399**
0	0	0	0	–7	0	–7
106	**–2**	**–13**	**339**	**13 374**	**18**	**13 392**
0	0	0	–339	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	0	0	–5	–5	0	–5
0	**–2**	**1**	**153**	**113**	**0**	**113**
0	0	0	0	0	1	1
106	**–4**	**–12**	**153**	**13 415**	**19**	**13 434**
0	0	0	0	–283	0	–283
0	0	0	0	–198	0	–198
0	0	0	0	–4	0	–4
–59	0	0	0	–59	0	–59
0	4	0	0	4	0	4
0	0	27	0	27	0	27
–59	**4**	**27**	**0**	**–230**	**0**	**–230**
0	0	0	276	276	0	276
0	0	0	9	9	0	9
–59	**4**	**27**	**285**	**55**	**0**	**55**
0	0	0	0	–1	0	–1
0	0	0	0	36	0	36
47	**0**	**15**	**438**	**13 222**	**19**	**13 241**
0	0	0	–438	0	0	0
0	0	0	0	–313	0	–313
0	0	0	0	26	0	26
0	0	0	0	79	0	79
–3	0	0	0	–4	0	–4
0	0	7	0	7	0	7
–3	**0**	**7**	**0**	**109**	**0**	**109**
0	0	0	181	181	0	182
–3	**0**	**7**	**181**	**290**	**0**	**291**
0	0	0	0	–4	1	–2
44	**0**	**22**	**181**	**13 196**	**21**	**13 217**

Condensed cash flow statement

for the period 1 January to 30 June 2015.

EUR million	1 Jan. – 30 June 2015	1 Jan. – 30 June 2014[1)]
Cash and cash equivalents at the beginning of the period	**1 936**	**2 156**
Cash flow from operating activities	8 303	8 714
Cash flow from investing activities	141	1
Cash flow from financing activities	– 258	– 991
Cash and cash equivalents at the end of the period	**10 122**	**9 880**

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

Selected notes to the consolidated interim financial statements

for the first half of the financial year 2015.

Basis of group accounting.

Landesbank Baden-Baden-Württemberg (LBBW (Bank)), as the parent company of the Group, is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz.

The consolidated interim financial statements of LBBW as at 30 June 2015 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. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and binding for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

Accounting policies.

1. Accounting principles.

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2015 do not contain all the information and disclosures which are required for the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2014.

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 2014. Further main accounting and valuation principles as well as the key areas in which discretion has been exercised by management and applied in the preparation of these consolidated interim financial statements, are explained in general in Notes 1 to 2. Notes on the scope of consolidation, segment reporting, and the individual items of the income statement and the balance sheet can be found in Notes 3 to 33, and notes on financial instruments and other disclosures are presented in Notes 34 to 47.

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 2015.

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 2015 financial year:

Annual Improvements to IFRS 2011 – 2013 Cycle.

This standard contains minor revisions to IFRS 1»First-time Adoption of International Financial Reporting Standards«, to IFRS 3 »Business Combinations«, to IFRS 13 »Fair Value Measurement« and to IAS 40 »Investment Property«. The first-time application had no material impact on the consolidated financial statements of LBBW.

IFRS to be applied in future.

The following IFRS had not yet taken effect as at the balance sheet date. Unless otherwise stated, these IFRS 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 2012 – 2014 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.

The changes to the »Annual Improvements to IFRSs 2010 – 2012 Cycle« standard will become effective for the first time in the 2016 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements.

The changes to the »Annual Improvements to IFRSs 2012 – 2014 Cycle« standard are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements. It had not been recognized in European Law as at the balance sheet date.

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

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

The changes will be effective for the first time in the 2016 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed.

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 be 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. It had not been recognized in European Law as at the balance sheet date.

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

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

The changes are expected to be 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. It had not been recognized in European Law as at the balance sheet date.

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

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

The changes are expected to be 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. It had not been recognized in European Law as at the balance sheet date.

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

This standard clarifies 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 be 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. It had not been recognized in European Law as at the balance sheet date.

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

This standard determines that the amount of recognition of gains or losses resulting from a transaction with an associate or joint venture depends on whether the assets disposed of or acquired constitute a business.

The first-time application originally planned for 2016 has since been postponed indefinitely as the IASB now plans to reconsider such transactions in connection with a research project on the equity method. The first-time application of the revisions to the standard published on 11 September 2014 is not expected to have any material impact on the consolidated financial statements. As of the reporting date, the revisions had not yet been endorsed in European law.

Equity Method in Separate Financial Statements – Amendments to IAS 27.

This standard permits the equity method to be used as an additional accounting option for shares in subsidiaries, joint ventures and associates in separate financial statements, provided the reporting company prepares the separate financial statements in compliance with IFRS.

The changes are expected to become effective for the first time in the 2016 financial year and do not impact on the consolidated financial statements. It had not been recognized in European Law as at the balance sheet date.

Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28.

This standard contains clarification concerning the application of the consolidation exemption of subsidiaries in accordance with IFRS 10 and concerning the corresponding disclosure requirements in accordance with IFRS 12. This affects parent companies that meet the requirements of an investment entity within the meaning of this standard.

The changes are expected to be 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. It had not been recognized in European Law as at the balance sheet date.

Disclosure Initiative – Amendments to IAS 1.

This standard comprises various clarifications on evaluating the materiality of disclosure requirements and on disclosure and structure issues.

The changes are expected to be effective for the first time in the 2016 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 balance sheet date.

IFRS 15 Revenue from Contracts with Customers.

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

The changes are expected to be effective for the first time in the 2018 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements. It had not been recognized in European Law as at the balance sheet date.

IFRS 9 Financial Instruments (2014).

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 assets, 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 guidance on macro hedge accounting is not yet final and therefore not part of this standard.

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

Changes in recognition.

Due to technical improvements, some data in the Notes could be determined more precisely for the first time in the financial year. For the purpose of improved clarity, the relevant prior year values were adjusted accordingly. The said changes impact only on the disclosures in the Notes and have no effect on the balance sheet and the income statement.

Changes.

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

- The changes to the yield curve for certain counterparties, which already took place as at 31 December 2014, led to a reduction in equity of EUR – 10 million and in trading assets of EUR – 14 million as at 30 June 2014. Deferred income tax assets increased by EUR 2 million. In addition, net trading gains/losses decreased by EUR – 6 million and deferred income tax expenses by EUR 2 million.
- In previous years, the OTC interest rate derivatives with savings banks had been measured using a yield curve that applies only to derivatives with collateral agreements, even though such agreements were not available for this counterparty. The effect of the retroactive adjustment reduced equity as at 1 January 2014 by EUR – 7 million, trading assets by EUR – 12 million and trading liabilities by EUR – 2 million. Deferred income tax assets rose by EUR 3 million. As at 30 June 2014, due to the retroactive adjustment, equity decreased by EUR – 8 million, net trading gains/losses by EUR – 2 million and deferred income tax liabilities by EUR 1 million. Equity as at 31 December 2014 declined by EUR – 8 million, trading liabilities by EUR – 2 million and trading assets by EUR – 12 million. Deferred income tax assets rose by EUR 2 million.

- Following the first-time inclusion of an unincorporated entity effective 1 July 2014 in the consolidated financial statements the previous method for calculating deferred taxes was retained, i.e. the deferred tax liabilities set aside for the equity investments at the parent company were not reversed but replaced with the deferred income taxes on the assets and debt of the consolidated entity. The retroactive correction resulted in an increase of EUR 40 million in equity as at 31 December 2014 and led to an increase of EUR 48 million in deferred tax assets and of EUR 8 million in deferred tax liabilities due to the netting of deferred taxes at the single-company level. Deferred tax expense dropped by EUR 4 million.

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 126 subsidiaries, including 14 structured entities (previous year: 130 subsidiaries including 14 structured entities), were included in the consolidated interim financial statements.

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

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

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

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

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

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

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

The following subsidiaries within the LBBW Immobilien Management GmbH subgroup were deconsolidated during the period under review, as they were merged with LBBW Immobilien Luxembourg S.A. as at 1 January 2015:

- Château de Beggen Participations S.A.
- Parc Helfent Participations S.A.
- Alpha Real Estate (Luxembourg) S.à.r.l.
- BETA REAL ESTATE (Luxembourg) S.à.r.l.

Seven joint ventures (previous year: eight joint ventures) and five associates (previous year: six associates) were accounted for using the equity method in the consolidated interim financial statements.

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

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

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

LBBW sold its shares in the following joint venture as at 30 April 2015 and no longer accounts for them using the equity method:

- LHI Leasing GmbH

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

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

Associates are included in the consolidated interim financial statements using the equity method from the time when the Group exercises a material influence and the associate satisfies quantitative or qualitative materiality criteria. The inclusion using the equity method ends at the time when there is longer any possibility for exercising a controlling influence or the associate no longer meets quantitative or qualitative materiality criteria.

The following associates within the subgroup LBBW Immobilien Management GmbH are no longer accounted for using the equity method:

- EGH Projektgesellschaft Heidelberg GmbH

A total of 135 subsidiaries (previous year: 143 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These comprise mainly real estate and shelf companies, as well as start-up financing in the area of equity investments. The interests in these entities are either measured at fair value or carried at amortized cost.

Segment reporting.

The segment reporting of the LBBW Group for the first half of 2015 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 comprises business with SMEs, with a focus on the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate, key accounts and business with the public sector. On the financing side, the solutions offered range from classic through structured to off-balance-sheet financing. Services are also offered in the areas of 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. The segment includes the following material subsidiaries: LBBW Immobilien Management GmbH, Süd-Kapitalbeteiligungs-Gesellschaft mbH, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH.
- The Financial Markets segment offers products for the management of interest rate, currency, credit and liquidity risks. Financing solutions are also offered on the primary market in the field of equity and debt, along with asset management services and custodian bank services. Besides all sales activities with banks, sovereigns, insurance companies and pension funds, the segment also includes trading activities in connection with the customer business. The Corporates segment includes all results from financial market transactions with corporate customers. As a significant subsidiary, LBBW Asset Management Investmentgesellschaft mbH is allocated to the Financial Markets segment.
- The Retail/Savings Bank segment includes all activities in the private customer business involving retail, investment, private banking and wealth management customers. The product range covers classic checking accounts, real estate financing, investment advice, and specialized services – particularly for wealth management customers – such as financial planning, asset management, securities account management and foundation management. Business activities connected with the Bank's function as the central bank for savings banks are also included in this segment.
- The Credit Investment segment essentially pools the Group's credit substitute business. 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 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 financial statements, costs incurred in association with the regulatory requirements and the costs of strategic projects for the Bank as a whole.
- The Reconciliation/Consolidation column includes matters related solely to consolidation. In addition, this segment reconciles internal financial control data with external financial reporting.

Valuation methods.

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

As a rule, the income and expenses of the LBBW Group are allocated to the individual segments in which they arise. There is therefore no significant income resulting from transactions between the segments.

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

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

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

Net gains/losses from financial investments are reported in a single item along with net income/expenses from investments accounted for using the equity method and 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.

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

A segment's return on equity (RoE) is calculated according to the ratio of annualized net consolidated profit/loss before tax to the maximum planned average equity tied up or to average equity tied up in the current reporting period. For the Group, RoE is calculated from the ratio of annualized consolidated profit/loss before tax to average equity on the balance sheet adjusted for the effects on earnings effects reported directly in equity. 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 2015, marginal methodological improvements and more differentiated offsetting procedures led to a more refined income, cost, and volume allocation to segments. The prior year amounts were adjusted to the new reporting to preserve comparability.

Furthermore, the segment reporting took into consideration the retrospective adjustments to the income statement and the balance sheet in accordance with IAS 8.42.

Segment results by business area.

1 Jan. – 30 June 2015 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/Recon-ciliation/ Consoli-dation	LBBW Group
Net interest income	574	225	165	– 17	– 128	819
Allowances for losses on loans and advances	– 6	1	– 1	0	– 6	– 12
Net commission income	128	48	111	0	– 32	255
Net gains/losses from financial instruments measured at fair value through profit or loss	15	79	1	6	– 4	97
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	68	0	0	0	10	78
Other operating income/expenses[1]	53	– 6	14	0	– 2	58
Total operating income/expenses (after allowances for losses on loans & advances)	**832**	**346**	**291**	**– 10**	**– 163**	**1 295**
Administrative expenses	– 392	– 207	– 244	– 16	– 101	– 960
Operating result	**440**	**139**	**47**	**– 26**	**– 264**	**335**
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 64	0	– 64
Net consolidated profit/loss before tax	**440**	**139**	**47**	**– 90**	**– 264**	**271**
Income tax						– 90
Net consolidated profit/loss						**182**
Segment assets (EUR billion)	78.8	113.8	31.9	14.2	40.0	278.6
Risk weighted assets[2] (EUR billion)	46.0	15.3	8.8	0.8	9.7	80.6
Tied-up equity[2] (EUR billion)	4.2	1.4	0.8	0.1	6.3	12.8
RoE[2] (in %)	**19.8**	**16.1**	**11.6**			**4.2**
CIR (in %)	**51.0**	**60.1**	**83.6**			**78.1**

1) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
2) Information in accordance with CRR/CRD IV following full implementation.

1 Jan. – 30 June 2014 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/Recon- ciliation/ Consoli- dation[3]	LBBW Group[3]
Net interest income	594	177	173	– 41	50	954
Allowances for losses on loans and advances	– 44	0	– 2	0	1	– 45
Net 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	– 87	23
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]	55	11	– 2	0	6	71
Total operating income/expenses (after allowances for losses on loans & advances)	**727**	**301**	**277**	**29**	**– 45**	**1 288**
Administrative expenses	– 370	– 195	– 236	– 21	– 80	– 902
Operating result	**356**	**106**	**41**	**8**	**– 125**	**387**
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	**356**	**90**	**41**	**– 111**	**– 125**	**251**
Income tax						– 98
Net consolidated profit/loss						**153**
Segment assets (EUR billion)	75.2	101.6	32.5	14.9	42.0	266.2
Risk weighted assets[2] (EUR billion)	47.4	15.3	9.4	1.3	8.8	82.2
Tied-up equity[2] (EUR billion)	4.4	1.6	0.9	0.3	6.0	13.1
RoE[2] (in %)	**16.2**	**11.5**	**9.0**			**3.8**
CIR (in %)	**47.8**	**64.7**	**84.5**	**0.0**		**69.3**

1) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
2) Information in accordance with CRR/CRD IV 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 2015	1 Jan.– 30 June 2014	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014[3]	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014[3]
Net interest income	29	59	– 158	– 9	– 128	50
Allowances for losses on loans and advances	– 6	1	0	0	– 6	1
Net commission income	0	1	– 32	– 24	– 32	– 23
Net gains/losses from financial instruments measured at fair value through profit or loss	– 11	– 10	7	– 77	– 4	– 87
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	– 1	13	11	– 5	10	8
Other operating income/expenses[1]	– 2	6	0	0	– 2	6
Total operating income/expenses (after allowances for losses on loans and advances)	**9**	**70**	**– 172**	**– 115**	**– 163**	**– 45**
Administrative expenses	– 101	– 80	0	0	– 101	– 80
Operating result	**– 92**	**– 10**	**– 172**	**– 115**	**– 264**	**– 125**
Net consolidated profit/loss before tax	**– 92**	**– 10**	**– 172**	**– 115**	**– 264**	**– 125**
Segment assets (EUR billion)	42.0	42.0	– 2.1	0.0	40.0	42.0
Risk weighted assets[2] (EUR billion)	11.6	10.7	– 1.9	– 2.0	9.7	8.8
Tied-up equity[2] (EUR billion)	6.5	6.2	– 0.2	– 0.2	6.3	6.0

1) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
2) Information in accordance with CRR/CRD IV following full implementation.
3) Restatement of prior year amounts (see Note 2).

Reconciliation of segment results with the consolidated income statement.

In the first half of 2015, the total of »Reconciliation/Consolidation« on the net consolidated profit/loss before tax amounted to EUR – 172 million (previous year: EUR – 115 million) and is essentially due to the following factors:

- In internal management reporting, the net interest income is calculated on the basis of the market interest method. Differences compared with the income statement are therefore the result of net interest income for prior periods and IFRS-specific measurements not included in internal management reporting (e.g. net result from the repurchase of own issues).
- The valuation methods used in internal management reporting for part of the trading book holdings differ from those of IFRS accounting.
- Effects arise resulting from IFRS-specific matters connected with hedge accounting and the fair value option. These are largely derivative financial instruments serving as economic hedges but that cannot be included in the IFRS accounting of hedging transactions.

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 partners are reported under »Interest expense« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Trading derivatives	5 038	4 979
Lending and money market transactions	1 623	1 919
Hedging derivatives	660	790
Fixed-income securities and debentures	263	559
Early termination fees	34	24
Other	186	298
Interest income	**7 804**	**8 569**
Leasing business	188	205
Equity investments and affiliates	17	22
Equities and other non-fixed-income securities	15	9
Current income	**220**	**236**
Interest and current income	**8 024**	**8 805**
Trading derivatives	– 4 923	– 4 807
Hedging derivatives	– 748	– 893
Deposits	– 850	– 937
Securitized liabilities	– 358	– 489
Leasing business	– 36	– 32
Subordinated capital	– 143	– 134
Other	– 147	– 559
Interest expense	**– 7 206**	**– 7 851**
Total	**819**	**954**

The decline in net interest income is mainly due to persistently low interest rates and intense competition among banks. The development of the Euro yield curve also weighed on derivatives business and investments in equity.

For financial assets in the LaR category for which valuation allowances were recognized, interest income of EUR 15 million (previous year: EUR 23 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 income of EUR 2 million (previous year: interest expense of EUR – 2 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 2015	1 Jan.– 30 June 2014
Additions to allowances for losses on loans and advances	– 205	– 387
Direct loan write-offs	– 21	– 14
Net gains/losses from provisions for lending business	– 5	– 26
Recoveries on loans and advances already written off	8	5
Reversal of allowances for losses on loans and advances	213	381
Other expenses for the lending business	– 3	– 4
Total	**– 12**	**– 45**

The decline in allowances for losses on loans and advances is essentially attributable to reduced net additions to specific valuation allowances and the lower need for provisions for lending business.

6. Net fee and commission income.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Securities and custody business	110	96
Payments business	52	50
Brokerage business	40	55
Loans and guarantees[1]	70	76
Other	41	32
Fee and commission income	**313**	**309**
Securities and custody business	– 35	– 31
Payments business	– 11	– 10
Brokerage business	– 4	– 3
Loans and guarantees[1]	– 4	– 7
Leasing business	– 1	– 2
Other	– 4	– 2
Fee and commission expenses	**– 58**	**– 55**
Total	**255**	**254**

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

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

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

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Net trading gains/losses	86	123
Net gains/losses from financial instruments designated at fair value	22	– 102
Net gains/losses from hedge accounting	– 10	1
Total	**97**	**23**

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 2015	1 Jan.– 30 June 2014
Credit transactions	– 739	55
Interest rate transactions	741	– 95
Equity transactions	96	80
Gains/losses from foreign exchange/commodity products	– 7	13
Currency gains/losses	26	15
Economic hedging derivatives	– 30	56
Total	**86**	**123**

The decline in net trading gains/losses results primarily from a fall in net measurement gains/losses from credit derivatives. In addition, there was a shift in earnings between lending and interest transactions due to the capital-backed products executed at the end of the previous year.

The result was also weighed down by derivative financial instruments serving as economic hedges that cannot be included in IFRS hedge accounting.

The result was positively influenced by trends in interest rates and credit spreads, which resulted in lower valuation discounts for counterparty risks (CVA).

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 2015	1 Jan.– 30 June 2014
Realized gains/losses	– 3	– 19
Unrealized gains/losses	25	– 83
Total	**22**	**– 102**

Positive measurement effects chiefly resulting from maturities and partial repayments led to an increase in unrealized profit and loss. Economic hedging derivatives in net trading gains/losses had the opposite effect.

The change in the fair value of the financial liabilities classified here includes measurement losses of EUR – 12 million (previous year: EUR – 14 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. The effect on profit or loss of hedging transactions not satisfying the effectiveness requirements of IAS 39 is reported under »Net trading gains/losses«.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Portfolio fair value hedge	– 9	– 2
of which hedged items	– 216	90
of which hedging instruments	206	– 92
Micro fair value hedge	– 1	3
of which hedged items	– 127	164
of which hedging instruments	125	– 162
Total	**– 10**	**1**

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. This item also includes net gains/losses on the disposal of investments accounted for using the equity method. As well as this, it includes reversals of impairment losses on debt instruments following rating-based write-downs to amortized cost.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Net gains/losses on disposal	18	16
of which securities	15	2
of which equity investments	3	14
Impairment	– 8	– 8
Reversals of impairment losses	0	1
Net gains/losses from financial investments (AfS)	**10**	**9**
Net gains/losses on disposal	– 2	29
of which securities	– 2	29
Impairment	0	– 55
Reversals of impairment losses	0	60
Net gains/losses from reimbursement rights (guarantee)	0	– 7
Net gains/losses from financial investments (LaR)	**– 2**	**27**
Net income/expenses from the disposal of investments accounted for using the equity method	**52**	**0**
Total	**60**	**36**

The year-on-year decline in profit contributions from the sale of equity investments was offset by net gains in securities; consequently, net gains/losses from financial investments (AfS) were at the previous year's level.

The negative trend in net gains/losses from financial investments in the LaR category is attributable, in particular, to the positive sales transactions included in the previous year in the wake of the reduction in volume and risk of portfolios no longer forming part of the core business (credit substitute business). The full sale of the guarantee portfolio in the previous year means that no net gains/losses from reimbursement rights (guarantee) will arise in future.

Moreover, the result was boosted by the sale of LHI Leasing GmbH and of an investment in an associate.

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

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Current income	37	8
Impairment	– 26	– 12
Reversals of impairment losses	6	0
Net gains/losses from investments in associates	**17**	**– 4**
Current expenses	0	– 1
Current income	2	0
Reversals of impairment losses	0	1
Net gains/losses from shares in joint ventures	**1**	**0**
Total	**19**	**– 4**

The increase in this item resulted, in particular, from higher profit contributions from a venture capital company and was largely due to LBBW's share in the profit from the sale of an investment.

10. Other operating income/expenses.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Disposal of inventories	41	144
Reversal of other provisions	30	41
Reversal of impairment on inventories	0	2
Revenues from property services	10	9
Management of other property portfolios	1	2
Operating leases	12	15
Miscellaneous operating income	68	61
Other operating income	**162**	**274**
Disposal of inventories	– 38	– 130
Additions to other provisions	– 11	– 26
Management of other property portfolios	– 1	– 1
Operating leases	– 2	– 2
Miscellaneous operating expenses	– 57	– 58
Other operating expenses	**– 109**	**– 217**
Total	**53**	**57**

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 2015	1 Jan.– 30 June 2014
Income from investment property	28	17
Expenses from investment property	– 6	– 4
Net gains/losses from fair value measurement	– 23	1
Net gains/losses from currency translation	6	0
Total	**5**	**14**

While additions to the scope of consolidation in the second half of 2014 and increased rental income for investment properties boosted the result, negative measurement effects, in particular, led to a decrease in the item because a decline in fair value was recorded for the real estate property of a subsidiary consolidated for the first time as at 1 July 2014.

12. Administrative expenses.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Staff costs	– 507	– 497
Other administrative expenses	– 408	– 365
Depreciation and write-downs of property and equipment[1]	– 31	– 22
Amortization and write-downs of intangible assets[1]	– 15	– 18
Total	**– 960**	**– 902**

1) This includes scheduled and unscheduled write-downs.

Staff costs essentially rose as a result of pay-scale effects and allocations to pensions.

Other administrative expenses of EUR – 408 million (previous year: EUR – 365 million) include contributions for the bank levy of EUR – 80 million (previous year: EUR – 41 million). These expenses have risen due to the first-time recognition of a European bank levy and due to the different recognition date in the year under review compared with the previous year due to changes in the bank levy regime. The increase in other administrative expenses moreover results from the reorganization of the German Deposit Protection Fund of Sparkassen-Finanzgruppe (for further information see Note 43).

13. Income tax.

EUR million	1 Jan.– 30 June 2015	1 Jan.– 30 June 2014
Income tax from previous years	– 3	24
Income tax in the reporting period	– 46	– 31
Deferred income tax	– 41	– 91
Total	**– 90**	**– 98**

The income tax expense came to EUR – 90 million (previous year: EUR – 98 million). The notional effective group tax rate calculated for the reporting period is 33 % (previous year: 39 %).

Notes to the balance sheet.

14. Cash and cash equivalents.

EUR million	30 June 2015	31 Dec. 2014
Balances with central banks	10 015	1 803
Cash	107	133
Total	**10 122**	**1 936**

The significant increase in balances with central banks, essentially non-German central banks, is due to greater cash investments.

15. Loans and advances to banks.

Breakdown by business type.

EUR million	30 June 2015	31 Dec. 2014
Public-sector loans	24 316	28 058
Current account claims	1 393	982
Securities repurchase transactions	9 191	4 277
Other loans	3 135	3 072
Borrower's note loans	520	764
Overnight and term money	147	195
Mortgage loans	104	109
Other receivables	1 340	967
Total	**40 146**	**38 424**
of which to central counterparties	2 253	780

Breakdown by region.

EUR million	30 June 2015	31 Dec. 2014
Banks within Germany	30 097	31 333
Banks outside Germany	10 049	7 091
Total	**40 146**	**38 424**

The rise in securities repurchase transactions is mainly the result of a higher volume of business with central counterparties and major banks with international operations.

16. Loans and advances to customers.

Breakdown by business type.

EUR million	30 June 2015	31 Dec. 2014
Other loans	28 925	29 336
Mortgage loans	30 332	30 030
Public-sector loans	17 513	20 332
Receivables from finance leases	5 785	4 991
Transmitted loans	3 323	3 396
Securities repurchase transactions	13 418	11 513
Current account claims	3 589	3 688
Overnight and term money	4 492	3 804
Borrower's note loans	2 457	2 428
Other receivables	3 044	3 677
Total	**112 877**	**113 195**
of which to central counterparties	1 999	2 778

Breakdown by region.

EUR million	30 June 2015	31 Dec. 2014
Customers within Germany	76 305	79 066
Customers outside Germany	36 572	34 129
Total	**112 877**	**113 195**

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:

EUR million	Specific/collective valuation allowance: Loans and advances to banks	Specific/collective valuation allowance: Loans and advances to customers	Specific/collective valuation allowance: of which from finance leases	Portfolio valuation allowance: Loans and advances to banks	Portfolio valuation allowance: Loans and advances to customers	Portfolio valuation allowance: of which from finance leases
Balance as at 31 December 2014	**2**	**1 453**	**119**	**7**	**132**	**16**
Utilization	0	– 174	– 12	0	0	0
Additions	0	155	19	3	47	3
Reversals	0	– 150	– 11	– 3	– 61	– 5
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 15	0	0	0	0
Changes resulting from exchange rate fluctuations and other changes	2	– 1	0	0	1	1
Balance as at 30 June 2015	**3**	**1 269**	**115**	**7**	**118**	**15**

EUR million	Specific/collective valuation allowance: Loans and advances to banks	Specific/collective valuation allowance: Loans and advances to customers	Specific/collective valuation allowance: of which from finance leases	Portfolio valuation allowance: Loans and advances to banks	Portfolio valuation allowance: Loans and advances to customers	Portfolio valuation allowance: of which from finance leases
Balance as at 31 December 2013	2	2 017	148	7	175	27
Adjustment of prior year values	0	0	1	0	0	0
Balance as at 1 January 2014	**2**	**2 017**	**149**	**7**	**175**	**27**
Utilization	0	– 576	– 47	0	0	0
Additions	1	407	33	5	74	4
Reversals	– 1	– 350	– 17	– 5	– 115	– 13
Changes in the scope of consolidation	0	– 4	0	0	0	0
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 44	– 1	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	3	2	0	– 2	– 2
Balance as at 31 December 2014	**2**	**1 453**	**119**	**7**	**132**	**16**

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

EUR million	30 June 2015	31 Dec. 2014
Trading assets	76 071	76 031
Financial assets designated at fair value	981	1 001
Positive fair values from hedging derivatives	2 654	2 839
Total	**79 706**	**79 871**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets: 30 June 2015	Trading assets: 31 Dec. 2014	Financial assets designated at fair value: 30 June 2015	Financial assets designated at fair value: 31 Dec. 2014
Debentures and other fixed-income securities	20 173	19 999	290	288
Bonds and debentures	17 879	18 324	290	288
Money market instruments	2 295	1 675	0	0
Equities and other non-fixed-income securities	836	808	217	223
Investment units	556	609	204	200
Equities	280	199	0	10
Other securities	0	0	13	13
Other	28 370	24 317	474	490
Other money market transactions	23 539	18 323	21	21
Borrower's note loans	3 732	4 883	426	442
Other loans and receivables			26	27
Miscellaneous	1 100	1 111	0	0
Positive fair values from derivative financial instruments	26 691	30 907		
Total	**76 071**	**76 031**	**981**	**1 001**

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«. By contrast, the positive fair values from trading derivatives decreased on account of the current interest rate trend.

Positive fair values from hedging derivatives.

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

EUR million	30 June 2015	31 Dec. 2014
Positive fair values from portfolio fair value hedges	1 898	2 121
Positive fair values from micro fair value hedges	755	719
Positive fair values from cash flow hedges	1	0
Total	**2 654**	**2 839**

19. Financial investments.

EUR million	30 June 2015	31 Dec. 2014
Debentures and other fixed-income securities	30 806	27 924
Bonds and debentures	30 525	27 445
Money market instruments	281	479
Equities and other non-fixed-income securities	3	1
Equities	0	1
Other securities	3	0
Equity investments	929	908
Shares in affiliates	159	217
Total	**31 896**	**29 050**

The rise in bonds and debentures is mainly due to the purchase of government bonds, especially European names.

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

EUR million	30 June 2015	31 Dec. 2014
Associates	235	296
Joint ventures	7	6
Total	**242**	**302**

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

Assets and liabilities held for sale and disposal groups are generally measured in accordance with of IFRS 5. Assets that are subject to the exemptions specified in IFRS 5.5 were measured according to the provisions of the respective standard. Consequently, the fair value measurement of the relevant assets of this balance sheet item uses the same methods, parameters and approaches as all other assets of the LBBW Group that are measured at fair value.

Following the realignment of the LBBW Group and the further portfolio adjustments it is aiming for in this process, LBBW conducted or concluded negotiations on the sale of non-current assets and disposal groups in the period under review.

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

- In the 2014 financial year, LBBW entered into negotiations for the sale of a company accounted for using the equity method and a share in a company accounted for using the equity method. The sales were transacted in Q2 2015. This affects the Corporates reporting segment.
- In addition, negotiations were entered into in the 2014 financial year about the same of individual properties. The sale of these properties took place one after the other in the first half of 2015. The sale of the last property is projected for H2 2015. This affects the Corporates Items reporting segment.
- In the period under review LBBW entered into negotiations concerning the sale of an unconsolidated investment. Negotiations are expected to be concluded and the sale of the non-current asset completed by the end of 2015. This affects the Corporates Items reporting segment.

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

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

EUR million	30 June 2015	31 Dec. 2014
Assets		
Financial investments	29	0
Shares in investments accounted for using the equity method	0	76
Investment property	1	16
Property and equipment	0	1
Total	**30**	**93**

After the reporting date, all the criteria under IFRS 5 for the recognition of a continued non-consolidated equity interest were satisfied. The negotiations are expected to be completed and the non-current asset sold by the end of 2015. This concerns the Corporate Items reporting segment.

22. Intangible assets.

EUR million	30 June 2015	31 Dec. 2014
Goodwill	379	379
Software	75	77
Advance payments and acquisition cost of intangible assets in development or preparation	46	28
Other intangible assets	4	4
Total	**504**	**489**

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.

As a rule, goodwill is tested for impairment in the fourth quarter of each financial year by comparing the recoverable amount of each business segment or segment reporting goodwill with its carrying amount. The carrying amount is determined on the basis of the equity attributed to the business segment or segment. The recoverable amount is the higher of the fair value of the business segment or segment less sales costs and the value in use. The impairment test conducted at year-end showed that the recoverable amount for all business segments was higher than their corresponding carrying amount, so that no impairment was necessary.

As at 30 June 2015, there are no triggering events indicating any impairment of goodwill or customer relationships.

23. Investment property.

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 surpluses 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 facts including the quality of the property, the type of property and the macro- and micro-location.

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

EUR million	2015	2014
Balance as at 31 December	**705**	**481**
Additions	129	4
Disposals	– 6	– 4
Changes in the scope of consolidation	0	148
Transfer to non-current assets held for sale or disposal groups	0	– 16
Currency translation differences	15	53
Changes in fair value from assets	– 23	– 37
Transfers out of/into inventories and property and equipment	– 63	80
Other reclassifications	3	– 4
Balance as at 30 June/31 December	**759**	**705**

See Note 35 et seq. for additional quantitative information.

24. Property and equipment.

EUR million	30 June 2015	31 Dec. 2014
Land and buildings	492	438
Leased assets under operating leases	73	75
Operating and office equipment	100	104
Technical equipment and machinery	18	18
Leased assets under finance leases	3	4
Advance payments and assets under construction	6	5
Total	**692**	**644**

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 2015	31 Dec. 2014
Inventories	383	380
Receivables from tax authorities	25	30
Receivables from investment income received in the same period	6	9
Other miscellaneous assets	802	619
Total	**1 216**	**1 038**

The increase in other miscellaneous assets is mainly the result of payments not received by the reporting date.

26. Deposits from banks.

Breakdown by business type.

EUR million	30 June 2015	31 Dec. 2014
Transmitted loans	23 131	23 079
Securities repurchase transactions	15 664	11 834
Borrower's note loans	6 256	8 133
Overnight and term money	2 564	2 856
Public-sector registered covered bonds issued	1 322	1 738
Current account liabilities	1 497	1 920
Mortgage-backed registered covered bonds issued	308	468
Other liabilities	4 104	2 286
Total	**54 847**	**52 314**
of which to central counterparties	8 596	5 798

Breakdown by region.

EUR million	30 June 2015	31 Dec. 2014
Banks within Germany	48 784	46 954
Banks outside Germany	6 063	5 360
Total	**54 847**	**52 314**

27. Deposits from customers.

Breakdown by business type.

EUR million	30 June 2015	31 Dec. 2014
Current account liabilities	31 393	31 925
Overnight and term money	8 660	8 815
Borrower's note loans	6 159	6 828
Securities repurchase transactions	14 119	7 337
Public-sector registered covered bonds issued	5 075	5 532
Savings deposits	7 154	7 337
Mortgage-backed registered covered bonds issued	1 121	1 077
Other liabilities	784	1 023
Total	**74 464**	**69 874**
of which to central counterparties	12 995	5 929

Breakdown by region.

EUR million	30 June 2015	31 Dec. 2014
Customers within Germany	56 094	58 158
Customers outside Germany	18 371	11 716
Total	**74 464**	**69 874**

28. Securitized liabilities.

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

EUR million	30 June 2015	31 Dec. 2014
Issued debentures	38 678	42 876
Mortgage-backed covered bonds	6 124	4 535
Public-sector covered bonds	4 916	7 456
Other bonds	27 637	30 886
Other securitized liabilities	3 062	1 355
Total	**41 740**	**44 231**

Repayments and maturities of other bonds exceeded the muted new business, as a result of which the portfolio decreased in the first six months of the year. The decline in public-sector covered bonds is mainly attributable to maturities.

The issue of mortgage-backed covered bonds at the start of the year had the opposite effect, leading to an increase in this item.

See Note 41 for further 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 2015	31 Dec. 2014
Trading liabilities	74 739	66 204
Financial liabilities designated at fair value	4 507	4 963
Negative fair values from hedging derivatives	3 758	4 077
Total	**83 005**	**75 244**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Money market transactions	36 142	26 575	84	78
Negative fair values from trading derivatives and economic hedging derivatives	25 533	29 874		
Securitized liabilities	12 438	9 397	2 249	2 475
Delivery obligations from short sales of securities	590	324		
Borrower's note loans	33	33	989	1 184
Subordinated liabilities			698	673
Other financial liabilities	2	0	488	553
Total	**74 739**	**66 204**	**4 507**	**4 963**

The rise in trading liabilities is due in particular to the increase in the number of money market transactions. In addition, securitized liabilities rose on account of increased issuing of short-dated paper, essentially commercial paper and certificates of deposit. By contrast, the interest rate development in the negative fair values of trading derivatives led to the opposite trend.

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 2015	31 Dec. 2014
Negative fair values from portfolio fair value hedges	2 345	2 502
Negative fair values from micro fair value hedges	1 412	1 575
Total	**3 758**	**4 077**

30. Provisions.

EUR million	30 June 2015	31 Dec. 2014
Provisions for pensions	2 855	2 875
Provisions for litigation and recourse risks	209	231
Provisions for lending business	83	79
Other personnel-related provisions	83	97
Other provisions	144	173
Total	**3 375**	**3 455**

31. Other liabilities.

EUR million	30 June 2015	31 Dec. 2014
Liabilities from		
Other taxes	71	194
Employment	12	44
Deliveries and services	48	82
Non-controlling interests	1	3
Finance leases	5	5
Advances received	71	63
Other miscellaneous liabilities	819	396
Total	**1 027**	**787**

Other miscellaneous liabilities include liabilities from payments not yet transferred and various deferral items, including the guarantee charge for the risk shield and the German Deposit Protection Fund.

The reduced obligations under investment income 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 2015	31 Dec. 2014
Subordinated liabilities	4 822	4 510
Typical silent partnership contributions	1 274	1 458
Capital generated from profit-participation rights	116	261
Total	**6 212**	**6 229**

While the entire balance sheet item decreased as a result of maturities, the increase in subordinated liabilities is due to a new issue by LBBW in June 2015.

33. Equity.

EUR million	30 June 2015	31 Dec. 2014
Share capital	3 484	3 484
Capital reserve	8 240	8 240
Retained earnings	1 097	948
Other income	194	111
Unappropriated profit/loss	181	438
Shareholders' equity	**13 196**	**13 222**
Equity attributable to non-controlling interest	21	19
Total	**13 217**	**13 241**

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 equity investments held by 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 %).

Equity includes accumulated actuarial gains and losses amounting to EUR – 655 million (previous year: EUR – 681 million), as well as taxes recognized directly in equity totaling EUR 320 million (previous year: EUR 345 million).

Notes on financial instruments.

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

34. Fair value measurement.

The fair value is defined in accordance with IFRS 13 as the price at which an asset or liability could be exchanged at the measurement date in an orderly transaction between market participants.

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

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

If no prices quoted on active markets are available, valuation procedures, prices for similar assets or liabilities, prices for identical assets or liabilities on non-active markets are used. Input parameters used for valuation procedures relate to parameters observable on the markets, if available. The application of these models and the use of these parameters requires assumptions and assessments on the part of the management, the extent of which depends on price transparency with regard to the financial instrument and its market and the complexity of the instrument. A significant amount of subjective assessment is necessary especially if no parameters observable on the markets are available.

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

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

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

Financial instruments	Valuation models	Material parameters
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean reversion
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options	Black-Scholes, local volatility model	Equity prices, share volatility, dividends, interest rates (swap, repo)
Currency options	Garman-Kohlhagen (modified Black-Scholes)	FX rates, yield curves, FX volatility
Commodity options	Garman-Kohlhagen (modified Black-Scholes)	Commodity rates, yield curves, volatility
Credit derivatives	Intensity model, Copula model, credit correlation model	Credit spreads, yield curves and index tranche prices for the Copula models, correlation
Money market transactions	Net present value method	Credit spreads, yield curves
Securities repurchase transactions	Net present value method	Yield curves
Borrower’s note loans, loans	Net present value method	Credit spreads, yield curves
Securities, forward security transactions	Net present value method	Securities prices, credit spreads, yield curves
Own bearer bonds and borrower’s note loans issued	Net present value method	Yield curves, own credit spread
Investments and shares in affiliates	Net asset value method, discounted cash flow method, income value method	Capitalization rate, projected figures
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and failure rates, losses

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

Class	Financial instruments
Assets carried at fair value	
Trading assets	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, commodity options, forward rate agreements, securities, forward security agreements, money market transactions, borrower’s note loans
Financial assets designated at fair value	Securities, forward security agreements, money market transactions, borrower’s note loans, loans
Positive fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Financial investments (AfS)	Securitizations, securities, forward security agreements, money market transactions, investments, shares in affiliates
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, equity/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 measured 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 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 non-observable parameters on a minor scale.

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

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

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 (hereinafter referred to as CVA) were calculated on net positions.

Fair values are usually available from market services providers for securitizations and are measured on the basis of these prices and classified in Level II (see fair value hierarchy). The fair values of securitizations for which current market prices are not sufficiently available (Level III) are calculated using valuation models. 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 prepayment 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 calculated 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 take into account parameters observed on the market. Valuation adjustments are currently made within the LBBW Group, particularly for the following issues:

- Recognition of credit risks in relation to receivables and counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives.
- Weaknesses in the models and/or parameters used, for example, so-called model valuation adjustments for specific 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 derived from rating information obtained from external sources, classification is in Level II. Rating information obtained from internal sources requires classification in Level III. The fair values of receivables with a default rating are determined on the basis of expected future cash flows. The carrying amount is stated as the fair value of short-term assets and liabilities (e.g. current account assets and liabilities).

35. Fair value of financial instruments.

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

Assets.

	30 June 2015		31 Dec. 2014	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**10 122**	**10 122**	**1 936**	**1 936**
Assets carried at fair value				
Trading assets	76 071	76 071	76 031	76 031
Derivatives	26 691	26 691	30 907	30 907
Currency-related derivatives	5 182	5 182	4 068	4 068
Interest rate-related derivatives	20 887	20 887	26 261	26 261
Credit derivatives	148	148	192	192
Share/index derivatives	420	420	301	301
Commodity-related and other derivatives	54	54	86	86
Equity instruments	836	836	808	808
Securities	20 173	20 173	19 999	19 999
Receivables	28 370	28 370	24 317	24 317
Financial assets designated at fair value	981	981	1 001	1 001
Equity instruments	217	217	223	223
Securities	290	290	288	288
Loans and receivables	474	474	490	490
Positive fair values from hedging derivatives	2 654	2 654	2 839	2 839
Interest rate derivatives	2 486	2 486	2 746	2 746
Cross-currency interest rate swaps	168	168	93	93
Financial investments (AfS)	25 474	25 474	22 979	22 979
Equity instruments	1 086	1 086	1 121	1 121
Securities	24 388	24 388	21 858	21 858
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	40 136	41 263	38 415	40 026
Public-sector loans	24 315	25 314	28 056	29 428
Securities repurchase transactions	9 191	9 188	4 277	4 477
Other receivables	6 630	6 761	6 082	6 121
Loans and advances to customers after allowances for losses on loans and advances	111 489	118 229	111 610	118 377
Public-sector loans	17 501	20 019	20 302	23 194
Mortgage loans	30 111	33 413	29 754	33 103
Securities repurchase transactions	13 418	13 434	11 513	11 526
Other receivables	50 459	51 363	50 041	50 554
of which finance leases	5 654	5 895	4 856	5 227
Financial investments (LaR)	6 422	6 427	6 071	6 090
Equity instruments	5	5	5	5
Securitizations	568	573	66	66
Government bonds	5 517	5 511	5 551	5 562
Other securities	332	337	449	457
Non-current assets held for sale and disposal groups	**29**	**29**	**0**	**0**

Equity and liabilities.

EUR million	30 June 2015 Carrying amount	Fair value	31 Dec. 2014 Carrying amount	Fair value
Liabilities measured at fair value				
Trading liabilities	74 739	74 739	66 204	66 204
Derivatives	25 533	25 533	29 874	29 874
Currency-related derivatives	5 851	5 851	4 584	4 584
Interest rate-related derivatives	18 506	18 506	24 099	24 099
Credit derivatives	458	458	495	495
Share/index derivatives	642	642	630	630
Commodity-related and other derivatives	77	77	67	67
Delivery obligations from short sales of securities	590	590	324	324
Deposits	36 176	36 176	26 608	26 608
Securitized liabilities	12 438	12 438	9 397	9 397
Other financial liabilities	2	2	0	0
Financial liabilities designated at fair value	4 507	4 507	4 963	4 963
Deposits	1 271	1 271	1 473	1 473
Securitized liabilities	2 748	2 748	2 937	2 937
Other financial liabilities	488	488	553	553
Negative fair values from hedging derivatives	3 758	3 758	4 077	4 077
Interest rate derivatives	3 697	3 697	4 005	4 005
Cross-currency interest rate swaps	61	61	72	72
Liabilities carried at amortized cost				
Deposits from banks	54 847	56 601	52 314	54 561
Securities repurchase transactions	15 664	15 661	11 834	12 030
Borrower's note loans	6 256	6 519	8 133	8 491
Other liabilities	32 927	34 421	32 347	34 040
of which finance leases	0	305	0	295
Deposits from customers	74 464	76 060	69 874	71 786
Current account liabilities	31 393	31 509	31 925	32 037
Borrower's note loans	6 159	6 553	6 828	7 320
Registered covered bonds	6 196	7 128	6 609	7 728
Securities repurchase transactions	14 119	14 121	7 337	7 343
Other liabilities	16 598	16 749	17 175	17 358
Securitized liabilities	41 740	42 609	44 231	45 352
Other liabilities – of which finance leases	5	5	5	5
Subordinated capital	6 212	6 270	6 229	6 453
Subordinated liabilities	4 822	4 986	4 510	4 723
Capital generated from profit-participation rights	116	141	261	319
Silent partners' contributions	1 274	1 143	1 458	1 411

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

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, tradeable 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 equity instruments such as investments and shares in affiliates 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 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Cash and cash equivalents	**107**	**126**	**10 015**	**1 801**	**0**	**9**
Assets carried at fair value						
Trading assets	9 189	7 888	66 392	67 543	490	600
Derivatives	400	299	25 817	30 021	474	587
Currency-related derivatives	0	0	5 079	3 933	102	134
Interest rate-related derivatives	0	0	20 521	25 812	366	449
Credit derivatives	0	0	148	192	0	0
Share/index derivatives	373	258	42	40	5	3
Commodity-related and other derivatives	27	41	28	45	0	0
Equity instruments	279	199	557	609	0	0
Securities	8 508	7 389	11 665	12 610	0	0
Receivables	2	0	28 352	24 304	16	13
Financial assets designated at fair value	0	0	933	951	48	50
Equity instruments	0	0	194	198	23	25
Securities	0	0	265	263	25	25
Receivables	0	0	474	490	0	0
Positive fair values from hedging derivatives	0	0	2 654	2 839	0	0
Interest rate derivatives	0	0	2 486	2 746	0	0
Cross-currency interest rate swaps	0	0	168	93	0	0
Financial investments (AfS)	16 286	12 401	8 680	10 015	508	563
Equity instruments	587	579	3	0	496	542
Securities	15 699	11 822	8 678	10 015	12	21
Investment property	0	0	0	0	759	705
Assets carried at amortized cost						
Loans and advances to banks after allowances for losses on loans and advances	0	0	18 278	15 746	22 986	24 279
Public-sector loans	0	0	6 039	9 306	19 274	20 122
Securities repurchase transactions	0	0	9 188	4 477	0	0
Other receivables	0	0	3 050	1 964	3 711	4 157
Loans and advances to customers after allowances for losses on loans and advances	0	0	23 871	26 800	94 358	91 577
Public-sector loans	0	0	5 681	7 983	14 339	15 211
Mortgage loans	0	0	63	438	33 350	32 665
Securities repurchase transactions	0	0	13 434	11 526	0	0
Other receivables	0	0	4 694	6 853	46 670	43 701
of which finance leases	0	0	272	0	5 624	5 227
Financial investments (LaR)	36	163	5 837	5 844	553	83
Equity instruments	0	0	0	0	5	5
Securitizations	0	0	25	38	548	28
Government bonds	0	0	5 511	5 512	0	50
Other securities	36	163	301	294	0	0
Non-current assets held for sale and disposal groups	**0**	**0**	**0**	**0**	**30**	**16**

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 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Liabilities measured at fair value						
Trading liabilities	1 163	829	73 210	64 920	367	456
Derivatives	613	516	24 554	28 903	367	456
Currency-related derivatives	0	0	5 838	4 568	12	16
Interest rate-related derivatives	0	0	18 158	23 667	348	432
Credit derivatives	0	0	456	490	2	4
Share/index derivatives	549	457	88	170	5	3
Commodity-related and other derivatives	63	59	14	8	0	0
Delivery obligations from short sales of securities	549	313	42	11	0	0
Deposits	0	0	36 176	26 608	0	0
Securitized liabilities	0	0	12 438	9 397	0	0
Other financial liabilities	1	0	1	0	0	0
Financial liabilities designated at fair value	0	0	3 717	3 995	790	968
Deposits	0	0	1 233	1 420	38	53
Securitized liabilities	0	0	2 103	2 129	645	808
Other financial liabilities	0	0	381	446	107	107
Negative fair values from hedging derivatives	0	0	3 758	4 077	0	0
Interest rate derivatives	0	0	3 697	4 005	0	0
Cross-currency interest rate swaps	0	0	61	72	0	0
Liabilities carried at amortized cost						
Deposits from banks	0	0	55 661	53 750	941	811
Securities repurchase transactions	0	0	15 661	12 030	0	0
Borrower's note loans	0	0	6 519	8 473	0	18
Other liabilities	0	0	33 481	33 247	941	793
of which finance leases	0	0	0	0	305	295
Deposits from customers	0	0	75 392	71 084	668	702
Current account liabilities	0	0	31 509	32 037	0	0
Borrower's note loans	0	0	6 527	7 295	26	25
Registered covered bonds	0	0	7 128	7 728	0	0
Securities repurchase transactions	0	0	14 121	7 343	0	0
Other liabilities	0	0	16 106	16 681	643	677
Securitized liabilities	0	0	40 541	43 075	2 067	2 277
Other liabilities – of which finance leases	0	0	0	0	5	5
Subordinated capital	0	0	6 219	6 403	51	50
Subordinated liabilities	0	0	4 936	4 673	50	50
Capital generated from profit-participation rights	0	0	140	319	1	0
Silent partners' contributions	0	0	1 143	1 411	0	0

Transfers to levels.

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

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

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

Assets.

EUR million	Transfers from Level I to Level II 30 June 2015	Transfers from Level I to Level II 31 Dec. 2014	Transfers from Level II to Level I 30 June 2015	Transfers from Level II to Level I 31 Dec. 2014
Assets carried at fair value				
Trading assets	85	1 296	595	153
Securities	85	1 296	595	153
Financial investments (AfS)	960	5 769	1 506	386
Securities	960	5 769	1 506	386

In the first half of 2015, 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 III 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 2015	Trading assets				
	Derivatives				Receivables
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives	
Carrying amount as at 31 December 2014	**134**	**449**	**0**	**3**	**13**
Gains and losses recognized in net consolidated profit/loss	28	– 68	0	2	– 1
of which net interest income	0	0	0	0	0
of which net trading income	27	– 68	0	2	– 1
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0
Income and expenses recognized in Other income[1]	0	0	0	0	0
Additions through acquisitions	0	0	0	0	12
Disposals through sales	0	– 14	0	0	0
Repayments/offsetting	– 59	0	0	0	– 8
Changes from foreign currency translation	0	0	0	0	0
Transfers	0	0	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0	0
Carrying amount as at 30 June 2015	**102**	**366**	**0**	**5**	**16**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	21	– 68	0	2	– 1
of which net interest income	0	0	0	0	0
of which net trading income	20	– 68	0	2	– 1
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0

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

	Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets held for sale and disposal group	Total
	Equity instruments	Securities	Equity instruments	Securities			
	25	**25**	**542**	**21**	**705**	**16**	**1 933**
	1	0	6	0	– 20	0	– 53
	0	0	0	0	0	0	1
	0	0	0	0	0	0	– 40
	1	0	0	0	0	0	0
	0	0	6	0	0	0	6
	0	0	0	0	– 20	0	– 20
	0	0	45	0	0	0	45
	0	0	12	0	129	0	152
	– 1	0	– 6	– 10	– 4	– 15	– 50
	– 2	0	– 78	0	0	0	– 149
	0	0	0	0	12	0	13
	0	0	5	0	– 62	0	– 57
	0	0	– 29	0	0	29	0
	23	**25**	**496**	**12**	**759**	**30**	**1 834**
	1	0	7	0	– 20	0	– 59
	0	0	0	0	0	0	1
	0	0	0	0	0	0	– 47
	1	0	0	0	0	0	0
	0	0	7	0	0	0	7
	0	0	0	0	– 20	0	– 20

31 Dec. 2014	Trading liabilities				
	Derivatives				Receivables
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives	
Carrying amount as at 31 December 2013	**107**	**446**	**3**	**22**	**12**
Gains and losses recognized in net consolidated profit/loss	27	34	0	1	1
of which net trading income	27	34	0	1	1
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0
Income and expenses recognized in Other income[1)]	0	0	0	0	0
Additions through acquisitions	0	0	0	0	5
Disposals through sales	0	– 1	0	0	0
Repayments/offsetting	0	– 20	– 3	– 20	– 5
Changes in the scope of consolidation	0	0	0	0	0
Changes from foreign currency translation	0	0	0	0	0
Transfers	0	0	0	0	0
Transfers to Level III	0	0	0	0	0
Transfers from Level III	0	– 10	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0	0
Carrying amount as at 31 December 2014	**134**	**449**	**0**	**3**	**13**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	27	34	0	1	1
of which net trading income	27	34	0	1	1
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0

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

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets held for sale and disposal group	Total
Equity instruments	Securities	Equity instruments	Securities			
41	**43**	**938**	**31**	**481**	**0**	**2 124**
2	12	– 86	– 4	16	0	3
0	1	0	0	0	0	64
2	11	0	0	9	0	22
0	0	– 86	– 4	– 15	0	– 105
0	0	0	0	22	0	22
0	0	3	0	0	0	3
0	0	116	0	4	0	125
– 2	– 33	– 60	– 24	– 5	0	– 125
– 3	0	0	– 1	0	0	– 52
0	0	– 279	0	149	0	– 130
0	0	5	0	0	0	5
0	0	0	0	76	0	76
0	3	11	19	0	0	33
– 13	0	– 106	0	0	0	– 128
0	0	0	0	– 16	16	0
25	**25**	**542**	**21**	**705**	**16**	**1 933**
1	12	– 19	0	6	0	63
0	1	0	0	0	0	64
1	11	0	0	0	0	12
0	0	– 19	0	– 16	0	– 35
0	0	0	0	22	0	22

Equity and liabilities.

30 June 2015	Trading liabilities				Financial liabilities designated at fair value			Total
	Derivatives				Deposits	Securitized liabilities	Other financial liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-based derivatives				
Carrying amount as at 31 December 2014	**16**	**432**	**4**	**3**	**53**	**808**	**107**	**1 423**
Gains and losses recognized in net consolidated profit/loss	– 4	– 63	– 1	2	– 2	17	0	– 52
of which net interest income	1	1	0	0	– 1	– 3	0	– 1
of which net trading income	– 5	– 64	– 1	2	0	0	0	– 69
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 1	20	0	19
Disposals through sales	0	– 17	0	0	0	0	0	– 17
Repayments/offsetting	0	– 4	– 1	0	– 13	– 180	0	– 198
Carrying amount as at 30 June 2015	**12**	**348**	**2**	**5**	**38**	**645**	**107**	**1 157**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 4	– 63	– 1	2	– 2	17	0	– 52
of which net interest income	1	1	0	0	– 1	– 3	0	– 1
of which net trading income	– 5	– 64	– 1	2	0	0	0	– 69
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 1	20	0	19

31 Dec. 2014	Trading liabilities				Financial liabilities designated at fair value			Total
	Derivatives				Deposits	Securitized liabilities	Other financial liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-based derivatives				
Carrying amount as at 31 December 2013	**19**	**483**	**22**	**22**	**158**	**822**	**0**	**1 526**
Adjustment of prior year values	0	0	0	0	0	12	0	12
Carrying amount as at 1 January 2014	**19**	**483**	**22**	**22**	**158**	**833**	**0**	**1 538**
Gains and losses recognized in net consolidated profit/loss	– 3	54	– 10	0	3	20	4	68
of which net interest income	0	2	0	0	0	0	0	2
of which net trading income	– 3	52	– 10	0	0	0	0	39
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	3	20	4	27
Disposals through sales	0	0	1	0	0	0	0	1
Repayments/offsetting	0	– 9	– 6	– 19	– 6	– 45	0	– 85
Transfers	0	0	0	0	– 102	0	103	1
Transfers from Level III	0	– 96	– 3	0	0	0	0	– 99
Carrying amount as at 31 December 2014	**16**	**432**	**4**	**3**	**53**	**808**	**107**	**1 423**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 3	54	– 10	0	3	20	4	68
of which net interest income	0	2	0	0	0	0	0	2
of which net trading income	– 3	52	– 10	0	0	0	0	39
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	3	20	4	27

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		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Assets carried at fair value				
Trading assets	3.6	14.9	– 3.9	– 4.4
Derivatives	3.3	14.8	– 3.6	– 4.3
Interest rate-related derivatives	2.7	13.8	– 3.0	– 3.3
Credit derivatives	0.0	0.0	0.0	– 0.1
Share/index-related derivatives	0.1	0.1	– 0.2	– 0.2
Currency related derivatives	0.5	0.9	– 0.4	– 0.7
Receivables	0.3	0.1	– 0.3	– 0.1
Financial assets designated at fair value	0.2	0.3	– 0.2	– 0.3
Equity instruments	0.0	0.1	0.0	– 0.1
Securities	0.2	0.2	– 0.2	– 0.2
Financial investments (AfS)	17.4	13.1	– 15.8	– 12.1
Equity instruments	17.4	13.1	– 15.8	– 12.1
Total	**21.2**	**28.3**	**– 19.9**	**– 16.8**

Equity and liabilities.

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Liabilities measured at fair value				
Trading liabilities	2.9	5.6	– 2.6	– 13.5
Derivatives	2.9	5.6	– 2.6	– 13.5
Interest rate-related derivatives	2.3	4.9	– 2.0	– 12.8
Credit derivatives	0.2	0.2	– 0.1	– 0.2
Share/index-related derivatives	0.2	0.2	– 0.1	– 0.1
Currency related derivatives	0.3	0.3	– 0.3	– 0.4
Financial liabilities designated at fair value	0.5	0.9	– 0.5	– 0.9
Securitized liabilities	0.4	0.8	– 0.5	– 0.9
Other financial liabilities	0.1	0.1	0.0	0.0
Total	**3.4**	**6.5**	**– 3.1**	**– 14.4**

Significant non-observable Level III parameters.

The significant non-observable parameters of the financial instruments and investment property measured at fair value and classified as Level III are shown in the following tables:

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

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

Assets.

30 June 2015 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 % / +10 %
Credit derivatives	Correlation price model	Credit correlation	70 % – 89 %	abs. – 30 % / +10 %
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 % / +15 %
Currency related derivatives	Option price model	Currency correlation	55 %	abs. – 30 % / +30 %
Receivables	Net present value method	Credit spread (bp)	65 – 210	rel. – 30 % / +30 %
Financial assets designated at fair value				
Equity instruments	Net present value method	Credit spread (bp)	1 000	rel. – 30 % / +30 %
Securities	Price method	Price	5 %	rel. – 100 % / +100 %
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.86 % – 3.80 % --- 0.29 – 1.23	n/a --- individually per instrument --- rel. 5 % / – 5 %
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Vacancy rate / default on receivables after the contractual period (as a % of the target rent) ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % – 1.6 % ---- 5.95 % – 8.70 % --- 0 % – 5 % ---- 0 – 16 EUR / m² ---- 1 % – 5 %	n/a

31 Dec. 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	– 12% – 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	72% – 90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Currency related derivatives	Option price model	Currency correlation	32%	abs. – 30% / +30%
Receivables	Net present value method	Credit spread (bp)	95 – 170	rel. – 30% / +30%
Financial assets designated at fair value				
Equity instruments	Net present value method	Credit spread (bp)	1 000	rel. – 30% / +30%
Securities	Price method --- Net present value method	Price --- Credit spread (bp)	5% --- 1000	abs. – 5%/+5% --- rel. – 30%/+30%
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.53% – 4.62% --- 0.29 – 1.23	n/a --- individually per instrument --- rel. +5% / – 5%
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Vacancy rate / default on receivables after the contractual period (as a % of the target rent) ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5% – 1.6% ---- 6.0% – 8.8% ---- fully rented or 4.0% – 5.0% ---- EUR 0 – 16 / m^2 ---- 1.0% – 5.0%	n/a

Equity and liabilities.

30 June 2015 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 46% – 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70% – 89%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Currency related derivatives	Option price model	Currency correlation	55%	abs. – 30% / +30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21% – 99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	21% – 99% --- 55%	rel. – 20% / + 10% --- abs. – 30% / + 30%
Other financial liabilities	Option price model	Interest rate correlation	21% – 99%	rel. – 20% / +10%

31 Dec. 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	– 12% – 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	72% – 90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Currency related derivatives	Option price model	Currency correlation	32%	abs. – 30% / +30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	23% – 99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	23% – 99% --- 32%	rel. – 20% / + 10% --- abs. – 30% / + 30%
Other financial liabilities	Option price model	Interest rate correlation	23% – 99%	rel. – 20% / +10%

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

Day one profit or loss.

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

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 is considered by LBBW to be the fair value.

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

The following table shows the performance of the day one profit for the first half of 2015 compared with year-end 2014, which was accrued to the use of major unobservable parameters for financial instruments recognized at fair value.

EUR million	2015	2014
Balance as at 1 January	1	2
Gains/losses recognized in the income statement during the reporting period (reversals)	– 1	– 1
Balance as at 30 June/31 December	**0**	**1**

37. Reconciliation of carrying amounts to categories.

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

30 June 2015 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	40 136					40 136
Loans and advances to customers after allowances for losses on loans and advances	111 489					111 489
Financial assets measured at fair value through profit or loss[1)]			76 071	981		77 052
Financial investments	6 422	25 474				31 896
Non-current assets held for sale and disposal groups[1)]	0	29	0	0		29
Deposits from banks					54 847	54 847
Deposits from customers					74 464	74 464
Securitized liabilities					41 740	41 740
Financial liabilities measured at fair value through profit or loss[2)]			74 739	4 507		79 247
Subordinated capital					6 212	6 212

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

31 Dec. 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	38 415					38 415
Loans and advances to customers after allowances for losses on loans and advances	111 610					111 610
Financial assets measured at fair value through profit or loss[1)]			76 031	1 001		77 032
Financial investments	6 071	22 979				29 050
Deposits from banks					52 314	52 314
Deposits from customers					69 874	69 874
Securitized liabilities					44 231	44 231
Financial liabilities measured at fair value through profit or loss[2)]			66 204	4 963		71 167
Subordinated capital					6 229	6 229

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

38. Reclassifications.

In the course of the financial markets crisis in 2008, the IASB made changes to IAS 39 and IFRS 7 (Reclassification of Financial Assets) that were endorsed by the EU. 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 2015 Carrying amount	30 June 2015 Fair value	31 Dec. 2014 Carrying amount	31 Dec. 2014 Fair value	1 July 2008 Nominal amount	1 July 2008 Carrying amount
Held for trading reclassified as loans and receivables	**19**	**19**	**25**	**26**	**935**	**913**
of which securitization transactions	0	0	0	0	134	128
of which other securities	19	19	25	26	801	785
Available for sale reclassified as loans and receivables	**37**	**38**	**164**	**167**	**29023**	**27373**
of which securitization transactions	0	0	1	1	14643	13302
of which other securities	37	38	163	166	14380	14071
Total	**56**	**58**	**189**	**193**	**29958**	**28286**

The nominal volume of the securities reclassified from the held-for-trading category was EUR 19 million as at 30 June 2015 (31 December 2014: EUR 26 million), all of which related to other securities.

Securities reclassified as available for sale had a nominal volume of EUR 38 million as at the reporting date (31 December 2014: EUR 161 million), all of which again related to other securities.

The reclassified portfolios therefore contributed EUR 1 million (30 June 2014: EUR 9 million) to the results in the first half of 2015.

Had there been no reclassification, the contribution to results would have been positive at EUR 1 million (30 June 2014: EUR 11 million). The fair value changes of reclassified AfS securities would not have had an effect on other comprehensive income (30 June 2014: easing of EUR 123 million).

In the first half of 2015, original interest payments in the amount of EUR 1 million (30 June 2014: EUR 11 million) were collected from reclassified portfolios.

At the time of 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 28778 million.

39. Breakdown of derivatives volume.

30 June 2015	Nominal volumes – remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	100 315	49 289	39 305	10 430	199 339	5 350	5 912
Interest rate-related derivatives	134 238	175 546	347 047	352 413	1 009 244	23 373	22 202
Credit derivatives	742	4 610	15 183	3 035	23 569	148	458
Share/index-related derivatives	1 233	6 839	6 654	1 535	16 261	420	642
Commodity-related and other derivatives	970	1 087	64	0	2 121	54	77
Total	**237 498**	**237 370**	**408 252**	**367 413**	**1 250 533**	**29 345**	**29 291**

31 Dec. 2014	Nominal volumes – remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Positive	Negative
Currency-related derivatives	92 607	50 103	32 952	10 418	186 081	4 161	4 657
Interest rate-related derivatives	127 702	153 045	319 553	310 483	910 783	29 007	28 104
Credit derivatives	2 354	5 755	16 760	2 432	27 300	192	495
Share/index-related derivatives	908	6 216	5 377	1 401	13 902	301	630
Commodity-related and other derivatives	996	1 342	37	0	2 375	86	67
Total	**224 567**	**216 461**	**374 679**	**324 735**	**1 140 441**	**33 746**	**33 952**

The rise in interest-rate related derivatives is essentially attributable to the increase in forward rate agreements, interest rate swaps and exchange-traded interest rate products.

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

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

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

30 June 2015	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	4 297	3 227
Securities	4 297	3 227
Financial investments (AfS)	10 116	6 432
Securities	10 116	6 432
Assets carried at amortized cost		
Loans and advances to banks	17 278	17 272
Public-sector loans	17 258	17 252
Other receivables	20	20
Loans and advances to customers	5 863	5 860
Public-sector loans	325	325
Mortgage loans	2 009	2 008
Other receivables	3 529	3 527

31 Dec. 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	5 080	3 141
Securities	5 080	3 141
Financial investments (AfS)	10 475	4 585
Securities	10 475	4 585
Assets carried at amortized cost		
Loans and advances to banks	17 162	17 171
Public-sector loans	17 139	17 148
Other receivables	23	23
Loans and advances to customers	5 904	5 907
Public-sector loans	345	345
Mortgage loans	1 952	1 953
Other receivables	3 607	3 609

41. Information on issuing activities.

30 June 2015 EUR million	Amount	Volume	Primary sale[1]	Repayments
Covered bonds	27	2 056	2 052	3 703
Money market transactions	612	93 283	93 285	90 091
Other bearer bonds	4 199	275 436	75 366	78 002
Total	**4 838**	**370 774**	**170 703**	**171 795**

1) Primary sale also can include volume from issuing programs of previous years.

31 Dec. 2014 EUR million	Amount	Volume	Primary sale[1]	Repayments
Covered bonds	72	1 762	1 759	5 242
Money market transactions	421	58 220	58 220	54 343
Other bearer bonds	6 088	554 853	285 760	286 948
Other bonds	0	0	0	112
Total	**6 581**	**614 835**	**345 739**	**346 645**

1) Primary sale also can includes volume from issuing programs of previous years.

In accordance with IAS 39, own debentures held by the Group and repurchased debentures amounting to a nominal EUR 5 414 million (previous year: EUR 6 981 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 2015 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	108	0	0
Loans and advances to customers	1 459	1	123	174	37	62
Allowances for losses on loans and advances	0	0	– 40	0	– 4	0
Financial assets measured at fair value through profit or loss	2 368	0	3	113	0	0
Financial investments	31	0	158	80	16	5 517
Other assets	0	0	1	0	0	0
Total assets	**4 047**	**1**	**243**	**474**	**49**	**5 578**
Deposits from banks	7 162	0	3	0	0	0
Deposits from customers	36	3	179	268	7	6 098
Financial liabilities measured at fair value through profit or loss	647	0	2	90	1	0
Subordinated capital	90	0	0	7	0	0
Total equity and liabilities	**7 935**	**3**	**183**	**365**	**8**	**6 098**
Contingent liabilities and loan commitments	**93**	**0**	**11**	**21**	**15**	**0**

31 Dec. 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	188	0	0	129	0	0
Loans and advances to customers	4 121	2	227	179	89	55
Allowances for losses on loans and advances	0	0	– 45	0	– 4	0
Financial assets measured at fair value through profit or loss	3 054	0	5	127	5	0
Financial investments	31	0	216	52	23	5 501
Other assets	0	0	1	0	0	0
Total assets	**7 394**	**2**	**404**	**487**	**113**	**5 556**
Deposits from banks	6 908	0	5	3	0	0
Deposits from customers	146	3	197	450	7	6 081
Financial liabilities measured at fair value through profit or loss	1 511	0	2	95	1	0
Subordinated capital	92	0	0	7	0	0
Total equity and liabilities	**8 657**	**3**	**204**	**555**	**8**	**6 081**
Contingent liabilities and loan commitments	**343**	**0**	**11**	**16**	**28**	**0**

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

Contingent liabilities and other obligations.

EUR million	30 June 2015	31 Dec. 2014
Contingent liabilities	5 589	5 640
Sureties and guarantee agreements	5 531	5 574
Other	58	66
Other obligations	21 122	24 308
Irrevocable loan commitments	20 279	23 432
Other	844	876
Total	**26 711**	**29 948**

Within the scope of necessary debt restructuring, a special-purpose vehicle ICON Brickell LLC (»ICON«) was established in the syndicate. LBBW is an indirect participant in ICON via Yankee Properties LLC (»Yankee«). ICON's business purpose of selling the financed apartments has meanwhile been fulfilled. LBBW and the other ICON partners have extended a guarantee (law of the federal state of Florida) for the obligations of ICON. This is based on payment obligations and on all other covenants and undertakings of Yankee towards ICON. As a result, unlimited claims could still (i.e. until the guarantee is surrendered) be referred to LBBW.

Guarantee fund.

LBBW is a member of the Sicherungsreserve der Landesbanken und Girozentralen (Guarantee Fund of the Landesbanken and Central Savings Banks) and of the associated institutions. Other obligations reported as at 30 June 2015 include a payment obligation amounting to EUR 109 million (previous year: EUR 109 million) on the basis of the last apportionment calculation by the German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV) in 2014.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which came into force on 3 July 2015, governs the future financial resources of statutory and bank-related guarantee systems, including the bank-related guarantee system of the Savings Banks Finance Group.

The deposit guarantee systems ensure that their available funding will, until close of business on 3 July 2024, amount at least to a target rate of 0.8% of covered deposits pursuant to section 8 (1) EinSiG of the CRR credit institutions belonging to it (section 17 (2) sentence 1 EinSiG).

As a matter of principle, the target rate will be reached by means of a linear allocation of contributions until the year 2024. Amounts payable to the guarantee system will be recalculated every year in line with the target volume of the contribution year (taking into account changes in covered deposits, among other factors).

In addition, 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 2015	31 Dec. 2014
Legal disputes	1	4
Total	**1**	**4**

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 the specific valuation allowances created are shown below.

Unlike the previous year, the item Financial assets measured at fair value through profit or loss only includes transactions assigned to trading assets or to assets carried at fair value and which are not derivatives. Derivatives are shown in a separate row. This change in procedure has been taken into account in the previous year's figures.

The exposure of the LBBW Group to the three branches with registered offices in Ireland, Italy, Portugal and Spain has fallen to EUR 5.4 billion compared with the previous year (previous year: EUR 5.7 billion). In addition to a major decline in AfS financial investments in public-sector bodies with registered offices in Italy, slight decreases were also recorded for Spain and Portugal.

To banks.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Receivables	0.4	0.7	10.5	10.0	1.3	0.5	3.1	5.2
Financial assets measured at fair value through profit or loss (excluding derivatives)	0.0	81.5	76.4	17.7	1.0	2.3	452.4	434.9
Derivatives (net)	– 45.7	– 50.0	35.0	38.0	– 1.0	– 1.4	– 107.6	– 100.0
Financial investments (AfS)	0.0	0.0	38.2	39.2	0.0	0.0	70.7	72.8
Revaluation reserve	0.0	0.0	2.1	2.5	0.0	0.0	4.7	5.3
Total	**– 45.3**	**32.2**	**160.1**	**104.9**	**1.3**	**1.4**	**418.6**	**412.9**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.0	0.3	0.0	0.0	0.7	1.5
CDS liability items	0.0	0.0	– 0.1	– 0.3	0.0	0.0	0.0	– 0.7
Nominals of CDS assets	0.0	0.0	91.0	140.0	0.0	0.0	22.0	232.0
Nominals of CDS liabilities	0.0	0.0	– 85.0	– 135.0	0.0	0.0	– 20.0	– 230.0

To corporates.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Receivables	378.4	365.6	220.6	175.0	22.4	20.1	641.0	652.1
Allowances for losses on loans and advances (specific loan loss provisions)	0.0	0.0	0.0	0.0	0.0	0.0	– 35.2	– 34.0
Financial assets measured at fair value through profit or loss (excluding derivatives)	38.7	90.0	3.4	0.6	0.0	0.0	0.1	0.9
Derivatives (net)	0.0	6.7	9.0	10.7	0.0	0.0	59.7	69.3
Financial investments (AfS)	9.6	9.5	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	2.7	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments (LaR)	19.7	19.6	0.0	0.0	0.0	0.0	0.0	0.0
Total	**446.4**	**491.4**	**233.0**	**186.3**	**22.4**	**20.1**	**665.6**	**688.3**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.3	0.8	0.0	0.0	0.5	1.0
CDS liability items	0.0	0.0	– 0.1	– 0.5	0.0	0.0	– 0.2	– 0.5
Nominals of CDS assets	0.0	0.0	68.6	116.1	0.0	0.0	92.5	121.5
Nominals of CDS liabilities	0.0	0.0	– 25.0	– 76.6	0.0	0.0	– 57.0	– 95.0

To public sector.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
Receivables	0.0	0.0	0.0	0.0	0.0	0.0	2.2	4.1
Financial assets measured at fair value through profit or loss (excluding derivatives)	0.1	0.0	0.0	0.0	0.3	0.0	1.0	0.0
Derivatives (net)	0.0	– 0.1	– 0.4	– 0.5	– 0.3	– 0.4	0.0	0.0
Financial investments (AfS)	0.0	0.0	2 500.9	2 660.4	275.5	283.5	762.3	776.9
Revaluation reserve	0.0	0.0	– 283.7	– 289.7	– 6.4	– 9.0	– 48.0	– 57.0
Total	**0.1**	**– 0.1**	**2 500.5**	**2 659.9**	**275.5**	**283.1**	**765.4**	**781.0**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.1	– 1.3	– 1.9	– 1.7	– 1.9	0.5	0.8
CDS liability items	0.0	– 0.1	0.9	1.5	1.4	1.5	– 0.5	– 0.8
Nominals of CDS assets	53.9	49.3	280.3	351.6	74.0	68.6	80.0	137.8
Nominals of CDS liabilities	– 62.8	– 57.5	– 280.9	– 340.8	– 75.4	– 69.0	– 81.8	– 134.9

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

45. Counterparty risk.

The disclosure obligations in accordance with IFRS 7.36 and 7.37 are met with the following tables.

Maximum counterparty risk together with risk-reducing measures.

30 June 2015 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (prtection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**9 771**	**0**	**0**	**0**	**9 771**
Assets carried at fair value					
Trading assets	122 514	63 469	13 739	583	44 723
Financial assets designated at fair value	820	0	0	25	795
Positive fair values from hedging derivatives	4 515	4 278	0	15	221
Financial investments (AfS)	24 615	0	0	0	24 615
interest-bearing assets	22 018	0	0	0	22 018
non-interest-bearing assets	2 597	0	0	0	2 597
Assets carried at amortized cost					
Loans and advances to banks	50 832	20 618	0	1 527	28 687
Loans and advances to customers	110 903	14 930	0	36 636	59 338
of which finance leases	4 304	0	0	385	3 919
Financial investments (LaR)	6 421	0	0	0	6 421
interest-bearing assets	6 402	0	0	0	6 402
non-interest-bearing assets	19	0	0	0	19
Non-current assets held for sale and disposal groups	11	0	0	0	11
Total	**330 402**	**103 295**	**13 739**	**38 786**	**174 583**
Loan commitments and other agreements	44 990	0	0	3 421	41 570
Total exposure	**375 393**	**103 295**	**13 739**	**42 207**	**216 152**

31 Dec. 2014 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**920**	**0**	**0**	**0**	**920**
Assets carried at fair value					
Trading assets	125 035	64 759	15 863	1 387	43 027
Financial assets designated at fair value	788	0	0	25	763
Positive fair values from hedging derivatives	4 649	4 398	0	28	223
Financial investments (AfS)	22 151	0	15	0	22 136
interest-bearing assets	19 452	0	15	0	19 437
non-interest-bearing assets	2 700	0	0	0	2 700
Assets carried at amortized cost					
Loans and advances to banks	44 520	11 186	0	1 762	31 572
Loans and advances to customers	108 014	10 657	0	37 421	59 936
of which finance leases	4 595	0	0	459	4 137
Financial investments (LaR)	6 011	0	0	0	6 011
interest-bearing assets	5 992	0	0	0	5 992
non-interest-bearing assets	19	0	0	0	19
Total	**312 088**	**91 000**	**15 878**	**40 623**	**164 588**
Loan commitments and other agreements	50 959	0	0	3 263	47 696
Total exposure	**363 047**	**91 000**	**15 878**	**43 886**	**212 284**

Statements on the value of the portfolio can be obtained from the information on the portfolio quality by internal rating class and the CVaR by industry in the risk and opportunity report.

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 impairment requirement is determined.

As at 30 June 2015, this applied to gross exposure of EUR 577 million (previous year: EUR 569 million). Of this figure, 76% are less than one month in arrears.

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

30 June 2015 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	179	0	2	0	3	4	188
Loans and advances to customers	258	27	15	12	2	70	385
of which finance leases	3	1	0	0	0	0	4
Total	**437**	**27**	**18**	**12**	**5**	**74**	**573**
Loan commitments and other agreements	0	3	0	0	0	0	4
Total exposure	**437**	**31**	**18**	**12**	**5**	**74**	**577**

31 Dec. 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	4	0	3	3	6	0	15
Loans and advances to customers	329	55	39	2	16	88	528
of which finance leases	7	1	0	0	0	0	8
Total	**333**	**55**	**41**	**5**	**21**	**88**	**544**
Loan commitments and other agreements	0	4	22	0	0	0	26
Total exposure	**333**	**59**	**63**	**5**	**21**	**88**	**569**

Portfolio quality – impaired assets.

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

EUR million	30 June 2015	31 Dec. 2014
Assets carried at fair value		
Financial investments (AfS)	1	1
interest-bearing assets	1	1
Assets carried at amortized cost		
Loans and advances to banks	9	16
Loans and advances to customers	2 271	2 548
of which finance leases	95	112
Total	**2 280**	**2 565**
Loan commitments and other agreements	186	208
Total exposure	**2 466**	**2 773**

Impaired assets decreased by EUR 0.3 billion compared with 31 December 2014.

The share of the portfolio of assets that are neither impaired nor in arrears is 99.2 % (previous year: 99.1 %).

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

	30 June 2015		31 Dec. 2014	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	365	14.8	448	16.2
2) Arrears/infringement > 90 days[1)]	248	10.1	308	11.1
3) Improbable repayment[2)]	1 853	75.1	2 017	72.7
Total exposure	**2 466**	**100.0**	**2 773**	**100.0**

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

Forbearance.

As at 30 June 2015, LBBW Group holds assets with a carrying amount of EUR 1.3 billion for which forbearance measures have been adopted. Modifications in relation to the terms and conditions were mainly granted. LBBW has received guarantees of EUR 0.2 billion for these assets.

46. Equity and total amount at risk.

EUR million	30 June 2015	31 Dec. 2014
Equity	**16 550**	**16 315**
Core capital (Tier I)	13 018	12 972
of which: common equity Tier I capital (CET I)	12 135	12 015
of which additional Tier I capital (AT I)	883	957
Supplementary capital (Tier II)	3 531	3 343
Total amount at risk	**80 606**	**82 182**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	63 940	65 500
Risk exposure value for settlement and delivery risks	0	1
Total exposure amount for position, foreign exchange and commodity risk	9 668	9 061
Total risk exposure amount for operational risks	4 787	5 065
Total amount of risk due to CVA	2 212	2 554
Total capital ratio (in %)	**20.5**	**19.9**
Tier I capital ratio (in %)	**16.2**	**15.8**
Common equity Tier I ratio (in %)	**15.1**	**14.6**

Since the entry into force of the CRR/CRD (Capital Requirements Regulation / Capital Requirements Directive) as at 1 January 2014, IFRS carrying amounts have been used to calculate equity and the total amount at risk.

Common equity Tier I (CET 1) of the LBBW Group increased as a result of earnings retention. The additional Tier I capital (AT I) fell due to the maturing of silent partners' contributions and due to the changes in deductibles and the changes in the way they are included on account of the transitional provisions in accordance with CRR. Supplementary capital (T 2) was strengthened in June 2015 through the issue of a new subordinated bond as part of a EUR 500 million MTN program. The amortization of elements of supplementary capital on the basis of the number of days that have passed and the changes in deductibles and the way in which they are included on account of the transitional provisions had the opposite effect.

The profits retained in accordance with the profit appropriation decision constitute CET I capital and thus increase all capital ratios. By contrast, the reduction in AT I capital only has an effect on the core capital ratio and the total ratio, and the issue of supplementary capital only has a positive effect on the total ratio.

The reduction in the aggregate risk amount essentially results from the decline in the risk weighted exposure amounts for the credit risk due to repayments and maturities. The total risk exposure amount for operational risks decreased due to annual recalculation. The total exposure amount for position, foreign exchange and commodity risks had the opposite effect to the above-mentioned two on account of the positive business performance in this area.

47. Events after the balance sheet date.

No significant events have occurred since 1 July 2015 which LBBW expects to affect its net assets, financial position and results of operations in any material way.

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, 11 August 2015

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

Dr. MARTIN SETZER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Review report.

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

We have reviewed the condensed interim consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz – comprising the condensed income statement, statement of total comprehensive income, balance sheet, statement of changes in equity, condensed cash flow statement, and the selected notes to the consolidated interim financial statements – together with the interim group management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz, for the period from 1 January to 30 June 2015 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 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

KOCHOLL	**EISELE**
Wirtschaftsprüfer	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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