Reliable performance.
The Half-yearly financial report 2016.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Net interest income	769	819
Allowances for losses on loans and advances	– 1	– 12
Net fee and commission income	252	255
Net gains/losses from financial instruments measured at fair value through profit or loss	11	97
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	191	78
Other operating income/expenses	51	58
Total operating income/expenses (after allowances for losses on loans and advances)	**1 273**	**1 295**
Administrative expenses	– 882	– 854
Guarantee commission for the State of Baden-Württemberg	– 51	– 64
Expenses for bank levy and deposit guarantee system	– 77	– 106
Net income/expenses from restructuring	– 5	0
Consolidated profit/loss before tax	**258**	**271**
Income taxes	– 70	– 90
Net consolidated profit/loss	**188**	**182**
Key figures in %	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Return on equity (RoE)	4.0	4.2
Cost/income ratio (CIR)	81.5	69.5
Balance sheet figures (EUR billion)	30 June 2016	31 Dec. 2015
Total assets	259.7	234.0
Equity	13.1	13.6
Ratios in accordance with CRR/CRD IV (with transitional rules)	30 June 2016	31 Dec. 2015
Risk weighted assets (EUR billion)	76.9	74.5
Common equity Tier 1 (CET 1) capital ratio (in %)	15.4	16.4
Total capital ratio (in %)	20.7	21.9
Ratios in accordance with CRR/CRD IV (after full implementation)	30 June 2016	31 Dec. 2015
Risk weighted assets (EUR billion)	76.9	74.5
Common equity Tier 1 (CET 1) capital ratio (in %)	14.7	15.6
Total capital ratio (in %)	20.2	21.4
Employees	30 June 2016	31 Dec. 2015
Group	10 988	11 120

Rating (12 August 2016)

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

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

Figures may be subject to rounding differences

2016

Foreword by the Board of Managing Directors.

Dear customers, dear business partners of the LBBW Group,

At EUR 258 million as at 30 June 2016, our consolidated profit before tax remained stable in the first half the year once again. It is slightly lower than in the same period of the previous year and, thus, matches our expectations for the full year. Given the still difficult environment in the banking sector, this testifies to the Bank's orientation to sustainable success. This has recently also been acknowledged by Fitch Ratings, which has upgraded our viability rating. At the end of the first half, we have now been operating profitably for 18 consecutive quarters.

To date, the German economy has been in a sound condition, although uncertainties at a European and global economic level have increased. This is reflected in financial markets being prone to a heightened volatility. Many customers are therefore nervous and exercising restraint in capital markets business and in cash investments in particular. However, with its expertise and highly diversified investor base, LBBW remains a sought-after partner for capital market finance. Elsewhere as well, the underlying conditions for the banking sector remain challenging. There is no end in sight to the environment of low and negative interest rates. In the first half of the year, the European Central Bank stepped up its extraordinary monetary-policy measures again with the implementation of its corporate bond purchasing program and a further cut in its deposit rate for banks to – 0.4%. In the wake of the Brexit referendum, yields on ten-year German sovereign bonds dipped into negative territory for the first time.

Competitive pressure remains very strong in the German banking market. The digital transformation of banking business is continuing to make great strides in the retail customer segment in particular. And not least of all, mounting regulation and prudential requirements are posing persistent challenges for the sector. In this connection, the results of the recent stress test have again confirmed LBBW's very solid capital base.

Even in the adverse scenario, the Bank has an adequate capital ratio by sector standards. We see this as confirmation for our balanced business model and risk-conscious strategy.

Against this backdrop, we will be continuing our investments in our future viability and resolutely driving the corresponding projects within our Bank forward.

In response to changing customer preferences in retail business in particular, we are continuing to expand our range of digital services for our customers. Thus, for example, we launched a new service, the investment app »AssetGo«, in June 2016. In addition, our Bank was materially involved in the development of the German savings bank organization's »paydirekt« Internet payment system, which was launched at the end of April. At the same time, we are adjusting our branch system accordingly and will be modifying or merging over 30 branches in 2016. In this way, we will be making our services more modern and efficient to meet customers' needs, while simultaneously lowering costs.

At the same time, we are continuing to spend heavily on IT to create the technical basis to accommodate the changes in banking business. This serves the dual purpose of offering our customers attractive products in the future and of addressing the need to implement increasingly complex and comprehensive regulatory requirements. Thus, for example, preparations and tests are currently ongoing for the migration to our new core banking system in 2017.

We are also making progress in the reorientation of our capital markets business. Here we will be developing our hitherto primarily product-oriented approach into an integrated customer service model. The associated organizational adjustments were implemented with effect from 1 July 2016. With this new approach, we will be able to offer institutional investors relatively attractive returns despite the low-interest environment and simultaneously ease the pressure on our balance sheet. Accordingly, we will be responding to both market-related and regulatory changes in our capital markets business.

We wish to thank you most sincerely for the trust that you, our customers and business partners, have continued to place in us over the last few months. This is confirmation for us and our employees, providing us with incentive to continue our efforts to consistently improve the quality and range of our services and thus to create the basis for ensuring that we remain in the future the capable and reliable partner that you want us to be. We would also like to express our gratitude to our owners for their support for the measures that we have been taking to ensure our Bank's continued viability in the future.

Yours sincerely,

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

RAINER NESKE
from 1 July 2016

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Interim Group management report.

Business report for the Group.

Economic development in the first half of 2016.

Conditions in the first half of the year were mixed. Although the economy got off to an impressive start to the new year – with GDP rising by 0.7 % in Germany and by 0.6 % in the eurozone over the previous quarter in both cases – this was accompanied by persistent concerns over the duration of the upswing. For one thing, GDP growth slowed in China and the United States and, for another, oil prices and the leading equity indices entered the year considerably lower.

The mounting economic risks and the sustained low inflation prompted the ECB to ease its monetary policy again in March. It lowered its main refinancing rate by 5 basis points to 0 % and the deposit rate, at which commercial banks are able to invest liquidity with the ECB, to – 0.40 %. In addition, the ECB widened its monthly asset purchasing program by EUR 20 billion to EUR 80 billion. In addition to sovereign bonds, covered bonds and asset-backed securities, it also began buying corporate bonds in June. The purchasing program is to continue until March 2017 at the earliest and may also be extended beyond this. In addition, the ECB Council introduced »Targeted Longer-Term Refinancing Operations II« (TLTRO-II), four refinancing operations each with a term of four years. They have been structured in such a way as to ensure that the participating banks can benefit from lower refinancing rates depending on their ensuing lending volumes.

In the further course of the first half of the year, economic trends were heavily overshadowed by political risks. Although Greece managed to come to a swift agreement with its eurozone creditors and the International Monetary Fund on the terms for further aid, attention increasingly shifted to the difficult state of the Italian banking system. According to a recent estimate by the International Monetary Fund, Italian banks have non-performing and delinquent loans worth a total of EUR 360 billion on their books. And almost exactly at the end of the first half, the unexpected majority vote in favor of an exit by the United Kingdom from the EU unleashed considerable turbulence in the markets, placing a question mark over the otherwise good outlook for the eurozone economy.

These developments were also reflected in the financial markets. In particular, yields on 10-year Bunds hit unprecedented lows. After dropping to less than 0.1 % in the wake of the ECB's decision to additionally ease its monetary policy, they even dipped into negative territory towards the middle of the year immediately after the UK referendum. At the end of June, they hit a low of – 0.13 % on a closing-price basis. 2-year and 5-year Bunds, which had been trading at negative yields throughout the entire first half of the year, also reached lows of – 0.65 % and – 0.61 %, respectively, at the end of the second quarter. Against this backdrop, the euro oscillated between USD 1.08 and USD 1.16. Although it came under pressure from political risks and the easing by the ECB of its monetary policy, it benefited at times from the US Fed's growing aversion to its original intention of swiftly continuing to increase its rate in the course of 2016 in the light of the macroeconomic environment after the initial hike at the end of 2015. As things stand in mid-2016, it looks as though the Fed will be taking its time in order to weigh up the risks before continuing to tighten its monetary policy. The equity markets were also highly volatile in this environment. After entering the first half of the year at 10 743 points, the DAX was trading at 9 680 at the end of June. The Dow Jones Industrials, the benchmark index for the US stock markets, started the year at 17 425 points, closing the first half at 17 929 points. At times, however, the indices dropped substantially below 9 000 points in the case of the DAX and below 16 000 points in the case of the Dow Jones Industrials.

Business performance of the LBBW Group in the first half of 2016. Results of operations, net assets and financial position.

Slight decline in profit before tax in a challenging environment. Central financial performance indicators generally satisfactory.

In the first half of 2016, the banking sector again faced difficult underlying conditions. Driven by intense competition, a further decline in interest rates, a continuing increase in regulation and, not least of all, the challenges posed by the digital transformation, the banking industry is currently undergoing a massive change. At the same time, the economic consequences of Brexit for the European economy and the banking landscape cannot be reliably estimated yet. Backed by a solid business model, however, LBBW is looking ahead and focusing on a significant and target-oriented realignment of the Group. This is already visible in numerous areas in the form of spending to ensure the Bank's continued viability, e.g. the expansion of the range of digital services, the work commenced on the BW|morgen project, the preparations for a new core bank system and the reorientation of capital markets business.

At EUR 258 million at the end of the first six months of the current year, **consolidated profit before tax** was on balance only slightly below the previous year's figure of EUR 271 million and fully in line with the forecast. At the same time, pressure was exerted by net interest income, which fell short of the forecast due to lower interest rates, and net gains/losses from financial instruments measured at fair value through profit or loss. By contrast, allowances for losses on loans and advances were substantially lower than planned thanks to the good quality of LBBW's loan books together with continued stable economic conditions in Germany, while net gains/losses from financial investments were also well up on the forecast.

Although consolidated profit before tax exceeded the forecast slightly, the **cost/income ratio (CIR)** increased by 12.0 percentage points to 81.5% as at 30 June 2016. As a result, it was substantially higher than the forecast, this chiefly being due to the shortfall in net interest income and net gains/losses from financial instruments measured at fair value over the forecast together with spending on the Bank's continued viability, which caused administrative expenses to increase. LBBW calculates CIR as 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 and net income/expenses from investments accounted for using the equity method. At 4.0%, the **return on equity (RoE)** was almost unchanged over the previous year (previous year: 4.2%) and was thus slightly up on the forecast. RoE as a performance indicator is calculated on the basis of consolidated profit/loss before tax and the average committed regulatory capital.

At EUR 259.7 billion as at 30 June 2016, **total assets** were up EUR 25.7 billion on the end of 2015 and, thus, slightly higher than forecast. The increase in total assets is primarily due to larger holdings of money-market transactions measured at fair value and the increase in cash deposited with foreign central banks. As well as this, there was an increase in loans and advances to customers and banks.

LBBW's **leverage ratio** of 4.3 % (fully loaded in accordance with CRR/CRD IV) as at the reporting date was largely unchanged over the end of 2015, thus remaining well above the current regulatory minimum of 3.0 %.

As at 30 June 2016, LBBW's **liquidity coverage ratio (LCR)** under the Commission delegated regulation (EU) 2015/16 pertaining to liquidity coverage ratios stood at 96.8 %, an improvement of 15.0 percentage points over the end of 2015 (previous year 81.8 %). Accordingly, the statutory minimum for 2016 of 70 % was significantly exceeded.

Risk weighted assets rose slightly by EUR 2.4 billion in the period under review to EUR 76.9 billion. This primarily reflects a moderate increase in business activities since the end of last year, leading to higher total assets.

The LBBW Group's **capital ratios** as at the reporting date remained well in excess of the regulatory capital requirements (CRR/CRD IV fully loaded). Specifically, the **common equity Tier 1 ratio**[1)] came to 14.7 % (31 December 2015: 15.6 %) and the **total capital ratio**[1)] to 20.2 % (31 December 2015: 21.4 %). Like all institutions under ECB supervision, LBBW has had to meet capital requirements specific to each institution since 2015. The individual requirements, which are above the statutory requirements of the CRR, are usually set annually on the basis of the ECB's Supervisory Review and Evaluation Process (SREP). The ECB informed LBBW in November 2015 that it is required to maintain a common equity Tier 1 ratio of 9.75 % at all times. The ratio is scheduled for review in autumn 2016 and will take account of the results of the EBA stress test. Published on 29 July 2016, the results of the stress test confirm LBBW's very solid capital base. Even in the adverse scenario, the Bank has an adequate capital ratio by sector standards.

The LBBW Group's risk-bearing capacity is likewise at a comfortable level. Utilization of **aggregate risk cover (ARC)** stood at 51.1 % as at the reporting date and was thus slightly higher than the figure at the end of 2015.

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

1) According to internal calculations.

Results of operations.

LBBW continued the series of positive earnings contributions for the fifth consecutive year, posting solid consolidated profit before tax in the first half of 2016. The LBBW Group's income statement is shown in condensed form below (reference should be made to the notes for details of the figures for the individual segments):

	1 Jan. 2016 – 30 June 2016 EUR million	1 Jan. 2015 – 30 June 2015 EUR million	Change EUR million	Change in %
Net interest income	769	819	– 49	– 6.0
Allowances for losses on loans and advances	– 1	– 12	11	– 92.6
Net fee and commission income	252	255	– 3	– 1.3
Net gains/losses from financial instruments measured at fair value through profit or loss[1]	11	97	– 86	– 88.7
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	191	78	113	> 100
Other operating income/expenses[2]	51	58	– 8	– 12.9
Total operating income/expenses (after allowances for losses on loans and advances)	**1 273**	**1 295**	**– 23**	**– 1.7**
Administrative expenses	– 882	– 854	– 28	3.3
Guarantee commission for the State of Baden-Württemberg	– 51	– 64	13	– 20.6
Expenses for bank levy and deposit guarantee system	– 77	– 106	29	– 27.7
Net income/expenses from restructuring	– 5	0	– 5	-
Consolidated profit/loss before tax	**258**	**271**	**– 13**	**– 4.9**
Income taxes	– 70	– 90	20	– 22.4
Net Consolidated profit/loss	**188**	**182**	**7**	**3.7**

Rounding differences may occur in this and subsequent tables for computational reasons.
1) 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.
2) Net income/expenses from investment property is shown as part of other operating income/expenses.

At EUR 769 million, **net interest income** was a slight EUR 49 million lower than the previous year's figure of EUR 819 million. This decline was caused not least of all by the extremely low interest rates as a result of the ECB's monetary policies, which were particularly reflected in a reduction in net interest income especially in the trading books and on the investment of LBBW's own funds together with the intense competition in the banking sector. In this connection, LBBW is continuing to focus on low-risk new business. On the other hand, accounting effects, e.g. in connection with hedge accounting, had a positive effect on net interest income.

Benefitting from the continued stable economic conditions in LBBW's core markets together with the persistently high quality of its loan books, net allocations to **allowances for losses on loans and advances** came to EUR – 1 million, compared with EUR – 12 million in the previous year, thus remaining at an extremely low level. Looking ahead over the year as a whole, requirements for allowances for losses on loans and advances are expected to remain significantly below the long-term average thanks to the continued stable economic situation.

At EUR 252 million, **net fee and commission income** in the first half of 2016 was virtually unchanged over the end of the previous year (EUR 255 million). Sustained by LBBW's strong position in arranging structured capital market issues, securities syndication business, which is reported within securities and custodian business, improved in particular. At the same time, net commission income from lending business contracted slightly, while the other commission types were largely stable compared with the previous year.

Net gains/losses from financial instruments measured at fair value through profit or loss dropped significantly over the previous year by EUR – 86 million to EUR 11 million. Net gains on trading book positions improved but came under pressure from impairments for counterparty risks (primarily valuation adjustments). In particular, the measurement of derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting exerted a negative effect. In addition to the aforementioned strains, actual net gains/losses from hedge accounting were also lower.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method rose encouragingly from EUR 113 million to EUR 191 million. Net gains/losses from securities also improved sharply; against the backdrop of highly volatile market conditions, use was made of suitable market opportunities. In addition to positive contributions from the sale of bonds, this increase was driven by subsequent purchase price adjustments in connection with equity instruments sold in the previous year. The execution of the sale of cellent AG at the beginning of 2016 also yielded a net gain from the sale of equity investments. Moreover, net income/expenses from equity investments improved as a result of the redemption of shares in VISA Europe Limited by Visa Inc, United States in the 2nd quarter. On the other hand, net income/expenses from investments accounted for using the equity method dropped sharply after being boosted in the previous year by a gain attributable to LBBW from the sale of an equity investment.

Compared with the previous year, **other operating income** including **net income/expenses from investment property** fell by a total of EUR – 8 million to EUR 51 million. This year, only a small amount has been allocated to the provisions in contrast to the previous year in which provisions had been reversed. On the other hand, net income/expenses from investment property improved after coming under strain in the previous year from the fair value measurement of individual investment properties.

Reflecting extensive investments to ensure LBBW's continued viability, **administrative expenses** climbed by a moderate EUR – 28 million over the same period of the previous year to EUR – 882 million. Personnel expenses rose by EUR – 10 million chiefly as a result of pay-scale effects. Spending on a new core bank system, which is to go into operation next year and will form the basis for greater digitization and process optimization, caused other administrative expenses to increase by EUR – 19 million. Depreciation of property and equipment and intangible assets dropped slightly to EUR – 45 million (previous year: EUR – 46 million).

Expenses for the bank levy and deposit guarantee system fell by EUR 29 million to EUR – 77 million compared with the previous year. Reported expenses for the bank levy refer to the full calendar year and are based on the notification already received from the FMSA; on the other hand, the expenses for the first half of 2015 are derived from a best-possible estimate. As no notification has yet been received for the DSGV deposit guarantee system, the expected amount based on the full-year figure for 2015 was recognized in full through profit and loss in the first half-year.

Restructuring expenses of EUR – 5 million arose in the first half of the year (previous year: EUR 0 million). An amount of EUR – 18 million was allocated to restructuring provisions for personnel adjustments in connection with the restructuring of the Financial Markets segment. Contrasting with this, provisions of EUR 13 million for material expenses in connection with EU restructuring were reversed as the reason for these provisions had ceased to exist.

LBBW finances the special-purpose entity Sealink, which it 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 remain payable even after the sale of the guarantee portfolio in 2014. The scope of the guarantee dropped following a reduction in the inventories within the special-purpose entity Sealink. Accordingly, the **guarantee commission** payable to the State of Baden-Württemberg fell by EUR 13 million to EUR – 51 million.

At the end of the first six months of the current year, **consolidated profit before tax** came to EUR 258 million, slightly down by EUR – 13 million on the previous year's figure of EUR 271 million. **Tax expense** dropped substantially by EUR 20 million to EUR – 70 million. As a result, **net consolidated profit** at the end of the first half of 2016 stood at EUR 188 million, up from EUR 182 million in the same period of the previous year.

Net assets and financial position.

Assets	30 June 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	 in %
Cash and cash equivalents	9 313	1 167	8 145	> 100.0
Loans and advances to banks	36 606	30 245	6 361	21.0
Loans and advances to customers	110 715	108 785	1 929	1.8
Allowances for losses on loans and advances	– 1 022	– 1 128	106	– 9.4
Financial assets measured at fair value through profit or loss	71 621	64 765	6 856	10.6
Financial investments and shares in investments accounted for using the equity method	27 115	25 469	1 646	6.5
Portfolio hedge adjustment attributable to assets	941	569	372	65.4
Non-current assets and disposal groups held for sale	19	153	– 134	– 87.3
Intangible assets	581	541	40	7.3
Investment property	637	649	– 13	– 1.9
Property and equipment	644	670	– 26	– 3.9
Current income tax assets	94	114	– 20	– 17.8
Deferred income tax assets	1 157	1 027	130	12.6
Other assets	1 274	989	285	28.9
Total assets	**259 693**	**234 015**	**25 679**	**11.0**

Equity and liabilities	30 June 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	 in %
Deposits from banks	45 646	44 248	1 398	3.2
Deposits from customers	62 906	62 540	367	0.6
Securitized liabilities	33 352	29 424	3 928	13.4
Financial liabilities at fair value through profit or loss	93 690	74 063	19 627	26.5
Portfolio hedge adjustment attributable to liabilities	652	569	83	14.5
Provisions	3 838	3 401	438	12.9
Current income tax liabilities	71	62	9	14.1
Deferred income tax liabilities	31	27	4	16.7
Other liabilities	1 130	709	421	59.3
Subordinated capital	5 283	5 329	– 46	– 0.9
Equity	13 093	13 643	– 550	– 4.0
Share capital	3 484	3 484	0	0.0
Capital reserve	8 240	8 240	0	0.0
Retained earnings	903	1 062	– 159	– 15.0
Other income	258	413	– 155	– 37.5
Unappropriated profit/loss	187	425	– 238	– 55.9
Equity attributable to non-controlling interest	20	19	2	10.0
Total equity and liabilities	**259 693**	**234 015**	**25 679**	**11.0**
Guarantee and surety obligations	5 729	5 410	318	5.9
Irrevocable loan commitments	20 669	21 796	– 1 127	– 5.2
Business volume	**286 091**	**261 221**	**24 870**	**9.5**

Substantial increase in consolidated total assets.

At EUR 286.1 billion as at 30 June 2016, **business volume** rose markedly by EUR 24.9 billion compared with 31 December 2015. The slight decline of EUR – 1.1 billion in irrevocable loan commitments during the period under review was more than made up for by a substantial increase in total assets.

The increase in total assets was primarily due to greater volumes of cash held with foreign central banks as well as an increase in loans and advances to banks and financial assets measured at fair value through profit and loss. The LBBW Group's **total assets** rose by EUR 25.7 billion to EUR 259.7 billion in the first half of 2016.

Lending.

The **cash reserve** increased by EUR 8.1 billion to EUR 9.3 billion in the period under review. This was mainly due to the higher cash deposits held with foreign central banks as at the reporting date.

At EUR 36.6 billion, **loans and advances to banks** rose by EUR 6.4 billion. The main cause of this was the increase of EUR 4.6 billion in the volume of securities repurchasing business particularly with central counterparties and large, internationally active banks. The increase of EUR 1.8 billion in other receivables was primarily due to reporting-date-related current receivables under the sale of securities. In addition, there was a slight increase of EUR 0.7 billion in current account receivables from central banks.

Similarly, **loans and advances to customers** climbed by EUR 1.9 billion, coming to EUR 110.7 billion on the reporting date. Specifically, the volume of securities repurchasing business rose by EUR 1.5 billion particularly as a result of increased business with central counterparties. Driven by brisk new business with large European countries, overnight and term deposits rose by EUR 0.9 billion, accompanied by a further EUR 0.6 billion increase in promissory note loans. At the same time, other loans contracted by EUR – 1.1 billion chiefly as a result of repayments of the Sealink Funding Limited junior loan as well as investment loans.

Financial assets measured at fair value through profit or loss increased in the first half of 2016 by EUR 6.9 billion to EUR 71.6 billion. With interest rates continuing to decline, the positive market values of trading derivatives rose appreciably by EUR 6.1 billion, with market values of interest-rate derivatives increasing in particular. In addition, other money market business widened by EUR 3.2 billion. On the other hand, the portfolio of bonds and debentures held for trading shrank by EUR – 2.7 billion due to maturities. Similarly, the volume of promissory notes held for trading dropped by EUR – 0.9 billion as a result of maturities and sales which exceeded the volume of new business.

Financial investments and shares in investments accounted for using the equity method grew by EUR 1.6 billion to EUR 27.1 billion. In connection with the targeted management of portfolios, particularly in the light of regulatory requirements, there was a reallocation of US and German sovereign bonds and a net increase in covered bonds.

Funding.

Compared with the end of 2015, **deposits from banks** rose by EUR 1.4 billion in the first half of 2016 to EUR 45.6 billion. This was particularly due to the EUR 2.6 billion increase in other liabilities. Reflecting the increased net presentation, securities repurchasing transactions declined by EUR – 0.8 billion.

All told, **deposits from customers** rose slightly by EUR 0.4 billion over the end of 2015 to EUR 62.9 billion. At the same time, the volume of securities repurchasing transactions climbed by a total of EUR 3.0 billion, materially driven by the increased business with central counterparties. At the same time, overnight and term deposits rose by a further EUR 1.9 billion, underpinned for the most part by business with institutional investors. On the other hand, current account liabilities declined by EUR – 3.8 billion due to reduced deposits from public-sector customers.

Securitized liabilities climbed by EUR 3.9 billion over 31 December 2015 to EUR 33.4 billion. In the case of other debentures, new issues of bonds and debentures substantially exceeded redemptions and maturities, causing the portfolio to rise by a total of EUR 2.8 billion in the first six months of the year. In addition, there was an increase of EUR 2.4 billion in mortgage-backed covered bonds as a result of new issues in conjunction with low maturities. By contrast, public-sector covered bonds dropped by EUR – 1.8 billion as a result of maturities.

Financial liabilities measured at fair value through profit or loss increased by EUR 19.6 billion to EUR 93.7 billion particularly as a result of the increase in trading liabilities. This was particularly due to greater money-market business, which resulted in an increase of EUR 11.4 billion in other money-market transactions. Likewise, the continued decline in interest rates caused a substantial increase of EUR 5.5 billion in the negative market values of trading derivatives. This particularly affected the market values of interest-rate derivatives. Moreover, securitized liabilities held in the trading portfolio increased by EUR 1.8 billion due to a net increase in certificates of deposit.

Equity.

LBBW's **equity** dropped by EUR – 0.5 billion over 31 December 2015 to EUR 13.1 billion. The reduction in the discount rate for provisions for pensions from 2.18% to 1.39% resulted in actuarial losses, which caused retained earnings to decline by EUR – 0.3 billion.

Financial position.

Throughout the entire first half of 2016, the Group's **financial position** was orderly thanks to its good liquidity situation. Funding available on the market continued to substantially exceed LBBW's funding requirements. The LiqV liquidity indicator, which is only determined at the Bank level, stood at 1.45 as at 30 June 2016 (previous year: 1.43).

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 2015 as at 30 June 2016. 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 2015. The following table provides a brief overview:

Risk category	Describes possible...
Counterparty default risks	...Losses arising from the default or deterioration in the credit rating of business partners. ...Defaults by sovereign borrowers or restrictions on payments. ...Losses arising from shortfall in proceeds from the liquidation of collateral.
Market price risks	...Losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility. ...Problem of not being able to quickly close out larger positions at market value.
Liquidity risks	...Problems meeting payment obligations in the short term.
Operational risks	...Losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
Investment risks	...Losses in the value of Group companies and equity investments not included in the above risk categories.
Reputation risks	...Losses caused by damage to the Bank's reputation.
Business risks	...Losses due to less favorable business performance than expected or from strategic errors, provided that they do not relate to 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. In this connection, the structural aspects 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 banking supervision, which monitors the 30 most important banks.

One of the core tasks of the ECB is to carry out an independent evaluation and review of banks' capital and liquidity resources. The central tool used here is the so-called Supervisory Review and Evaluation Process (SREP). In addition to workshops, data queries and requests for information on various focus areas, stress tests are also an important supervisory tool. In the first half of 2016, the EBA conducted a stress test (see also the report on results of operations, net assets and financial position).

On 6 January 2016, the ECB also stated its supervisory priorities in 2016 for all banks. The key issue will be the risks in connection with the banks' business models and profitability. The degree of consideration given to the other four topics (credit risk, capital adequacy, risk governance and data quality, as well as liquidity) depends on the specific risk profile of the respective bank and country-specific factors.

LBBW is subject to the regulations on the Minimum Requirements for Risk Management (MaRisk). On 18 February 2016, the German Federal Financial Supervisory Authority (BaFin) presented the draft of the 5th amendment to MaRisk for consultation by the associations. The consultation phase will be concluded at the end of July, with the final version to be published in the fourth quarter of 2016. The institutions subject to direct ECB supervision must continue to observe the MaRisk requirements. The main reasons for the amendments are the papers issued by the Basel Committee on Banking Supervision as well as relevant publications by the Financial Stability Board (FSB) and the European Banking Authority (EBA). The primary focus is on requirements with respect to risk data aggregation and risk reporting as well as outsourcing. The specific action required to be taken by LBBW was identified in a gap analysis. Work has already commenced on implementing the findings of this analysis.

Risk situation of the LBBW Group.

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

There was virtually no change in the aggregate amount of economic capital committed compared with the end of 2015. The increase in counterparty risks is particularly offset by the decline in market price risks and business and reputation risks. The increase in counterparty risks is primarily due to methodological revisions as a result of which the risk of a change in the credit value adjustments has been supplemented in the risk calculation. Market price risk for the purposes of identifying risk-bearing capacity continues to be calculated on the basis of the maximum of VaR and long-term VaR. The latter is based on a longer observation period of five years. The reduction in economic capital for market price risk is particularly due to a shift in the observation period for long-term VaR and the associated lower volatilities. The methodology for identifying business and reputation risks has been fundamentally revised. The decline in other risks is mainly due to this revised methodology.

Aggregate risk cover (ARC) at the end of the first half of 2016 was down by EUR – 0.8 billion compared to the end of 2015. This decline is particularly due to maturing subordinate capital and the interest-related increase in actuarial losses on provisions for pensions.

In summary, the LBBW Group's risk-bearing capacity and stress resistance were safeguarded at all times throughout the first half of 2016.

The economic capital limit was maintained at all times at the Group level. Utilization of aggregate risk cover stood at 51 % as at 30 June 2016.

LBBW Group – risk-bearing capacity.

	30 June 2016		31 Dec. 2015	
EUR million	Absolute[1]	Utilization	Absolute[1]	Utilization
Aggregate risk cover	15 400	51 %	16 255	48 %
Economic capital limit[2]	12 800	61 %	12 800	61 %
Correlated totale economic capital	7 863		7 813	
of which:				
interrisk correlations	– 472		– 435	
counterparty risks	4 436		3 837	
market price risks	1 891		2 009	
investment risks	110		134	
operational risks	739		775	
development risks	63		74	
real estate risks	207		205	
other risks[3]	889		1 214	

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

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

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 2015.

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

Development of exposure.

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

Development of exposure.

EUR million	30 June 2016	31 Dec. 2015
Gross exposure	**349 925**	**319 179**
Netting/collateral	100 393	77 883
Credit derivatives (protection buy)	13 404	13 601
Classic credit collateral	44 349	44 031
Net exposure	**191 779**	**183 665**

Gross exposure amounts to around EUR 350 billion as at the reporting date, i.e. around EUR 31 billion or 10% higher than at the end of 2015. This growth is partially due to changes in the market value of interest-rate derivatives. The simultaneous increase in the mitigating effects of netting and collateral agreements means that this higher figure does not fully feed through to net exposure. Net exposure rose by around EUR 8 billion or 4% to EUR 192 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 the risk situation are based on the management approach. Differences over the valuation methods applied for accounting purposes are due to factors described in the 2015 risk and opportunity report.

Portfolio quality.

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

Portfolio quality.

Net exposure	EUR million 30 June 2016	in % 30 June 2016	EUR million 31 Dec. 2015	in % 31 Dec. 2015
1(AAAA)	47 718	24.9 %	43 013	23.4 %
1(AAA) – 1(A–)	81 759	42.6 %	81 646	44.5 %
2 – 5	44 134	23.0 %	39 577	21.5 %
6 – 8	10 710	5.6 %	11 641	6.3 %
9 – 10	3 034	1.6 %	3 149	1.7 %
11 – 15	1 361	0.7 %	1 306	0.7 %
16 – 18 (Default)[1]	1 673	0.9 %	1 898	1.0 %
Other	1 390	0.7 %	1 436	0.8 %
Total	**191 779**	**100.0 %**	**183 665**	**100.0 %**

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

The investment-grade portion (ratings 1(AAAA) to 5) widened slightly to 90.5 % (31 December 2015: 89.4 %) chiefly as a result of increased exposure to central banks. The top rating class 1(AAAA) particularly includes German non-central public-sector entities. On the other hand, exposure to non-investment-grade ratings (ratings 6 to 15) decreased primarily as a result of migrations to investment-grade credit ratings. Net exposure to the default rating classes (16 – 18) continued to drop slightly due to repayments and derecognitions and, at 0.9 %, accounts for only a small portion of the aggregate portfolio. This clearly underscores the good quality of the LBBW Group's 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 that corresponds to the organizational back office responsibilities regarding the corporates portfolio.

At the Group level, CVaR is close to the previous year's level, although there have been substantial shifts within the individual sectors due to the revised methodologies during the period under review.

Sectors.

EUR million	Net exposure 30 June 2016	CVaR 30 June 2016	Default 30 June 2016	Net exposure 31 Dec. 2015	CVaR 31 Dec. 2015	Default 31 Dec. 2015
Financials	**79 856**	**1 009**	**37**	**68 426**	**698**	**46**
of which transactions under specific state liability[1]	16 393	47	0	9 710	49	0
Corporates	**71 003**	**2 293**	**1 552**	**70 865**	**2 483**	**1 757**
Automotive	11 279	421	92	11 061	404	101
Chemicals and pharmaceuticals	5 653	137	64	5 517	143	59
Commercial real estate (CRE)	7 297	397	332	7 357	509	384
Retail and consumer	8 559	227	133	9 181	261	182
Industry and construction	15 199	460	309	14 324	456	343
of which construction	5 856	206	114	5 690	234	125
Telecommunications and media	3 128	74	51	2 767	68	53
Transport and logistics	3 815	117	97	3 555	125	103
Utilities and energy	9 372	269	347	10 142	280	372
of which utilities and disposal companies	3 886	111	53	4 331	139	45
Housing	2 803	89	50	2 936	122	74
Other	3 898	102	79	4 025	116	86
Public sector	**36 418**	**598**	**0**	**39 320**	**517**	**1**
Private individuals	**4 501**	**107**	**83**	**5 054**	**139**	**95**
Total	**191 779**	**4 007**	**1 673**	**183 665**	**3 837**	**1 898**

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

With a net exposure of EUR 80 billion as at the reporting date, financials were the largest of the four main sectors. The increase of around EUR 11 billion over the end of 2015 is chiefly due to the increase in deposits with central banks. As a result, there was also an increase in transactions under specific state liability.

With net exposure of EUR 71 billion, the portfolio of corporates is very largely stable. However, different trends arose within the individual sectors, with industry and construction, for example, exhibiting somewhat elevated business activity. As in the previous year, automotive and commercial real estate were the most important corporates sectors in terms of concentration aspects. For this reason, they will continue to be monitored closely in the interests of managing sector concentrations. In the automotive sector, various trends such as regulatory changes to drive systems or autonomous driving are currently coming to the fore and will result in shifts within OEMs and component suppliers in the medium to long term. For this reason, the automotive portfolio is also being continuously monitored in order to identify opportunities and risks at an early stage. In view of the diversification in our strategic locations, we do not see any excessive risk of concentration in the commercial real estate portfolio.

The decline of around EUR 3 billion in net exposure to the public sector to EUR 36 billion is attributable almost evenly to German and non-German public-sector entities. In particular, exposure to individual German states and the United States is lower.

In the case of private individuals there was a decline in net exposure and CVaR. This portfolio has a particularly high level of granularity.

Regions.

The share of German business in net exposure stands at 68.4 % as at the reporting date. There is no change in the basic breakdown by region, although the larger deposits with central banks led to minor regional shifts as at the reporting date. The focus on the stable and low-risk core markets in private, SME and large customer business and LBBW's function as a central bank for the savings banks will continue to secure a dominant German share in the future.

Foreign exposure was particularly spread across Western Europe and North America. Exposure to Eastern Europe, Latin America and Africa primarily entailed export finance but accounted for only a subordinate share of net exposure.

Regions.

Net exposure in %	Share 30 June 2016	Share 31 Dec. 2015
Germany	68.4 %	71.3 %
Western Europe (excluding Germany)	19.6 %	18.2 %
North America	9.0 %	7.2 %
Asia/Pacific	1.7 %	1.8 %
Eastern Europe	0.6 %	0.8 %
Latin America	0.5 %	0.7 %
Africa	0.1 %	0.0 %
Total	**100.0 %**	**100.0 %**

The risk-mitigation strategy, which involves concentrating solely on customer-related foreign trade finance, led to a further decline in the already small volume of business in Russia. With respect to this country's immediate neighbors, new business was minimized in Belarus and fully suspended in Ukraine.

Against the backdrop of rising risks and market volatility, business opportunities in Brazil and Turkey were confined to low-risk transactions.

Conditions in China in 2016 have been characterized by a further slowdown in growth and a substantially heightened risk of defaults in the corporate sector among other things. Direct exposure to China is valued at EUR 0.8 billion and therefore does not constitute a significant country concentration in risk terms. However, China has become a very important sales market for some of our borrowers. In particular, certain corporate customers in the automotive and mechanical engineering sectors have some degree of indirect exposure to China as a country risk. However, as most of these borrowers have an above-average rating, we assume that they will be able to resist any substantial slowdown in economic growth in China.

Italian banks' large volumes of non-performing loans are giving rise to recapitalization requirements for which the current measures seem to be insufficient. Under its run-off strategy, LBBW has already massively reduced its exposure to the Italian banking market.

The consequences of the United Kingdom's expected withdrawal from the European Union for Europe, the German banks and LBBW largely depend on the outcome of the future Brexit negotiations, which are expected to be very long and involved. For this reason, it is not yet possible to fully assess the impact. LBBW has analyzed the potential effects and, as things currently stand, assumes that they will be manageable.

Size classes.

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

Size classes.

Net exposure	Number 30 June 2016	Net exposure in % 30 June 2016	Number 31 Dec. 2015	Net exposure in % 31 Dec. 2015
up to EUR 10 million	605 595	11.2 %	663 172	12.1 %
up to EUR 50 million	1 116	13.1 %	1 110	13.5 %
up to EUR 100 million	219	8.1 %	210	8.2 %
up to EUR 500 million	262	31.5 %	257	32.9 %
up to EUR 1 billion	35	13.0 %	29	11.3 %
over EUR 1 billion	20	23.1 %	18	22.0 %
Total	**607 247**	**100.0 %**	**664 796**	**100.0 %**

The size classes with a net exposure of up to EUR 100 million account for 32 % of net exposure (previous year 34 %). The large number of customers is due in particular to the retail portfolio.

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

The number of commitments with a net exposure of over EUR 1 billion increased on balance from 18 to 20 names compared with the previous year, causing the share in the portfolio to widen by around one percentage point to 23 %. As at 30 June 2016, 48 % of this size class was accounted for by public-sector entities (particularly German regional bodies) and a further 41 % by financials. Corporates contributed the remaining 11 %. As at the reporting date, large exposures had good to very good ratings (rating class of 3 or better). They will continue to be monitored closely in the interests of managing sector concentrations.

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, favorable economic conditions in Germany may offer opportunities for improving the quality of the portfolio, thus resulting in persistently low impairment requirements. Business potential can be tapped and margins widened by optimizing the business model and if the intense competition in the German banking market subsides.

Market price risks.

Risk situation of the LBBW Group.

In the first half of 2016, the LBBW Group's exposure to market price risks declined.

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 2016	31 Dec. 2015
LBBW Group	**212**	**236**	**182**	**182**	**228**
Swap risk	70	102	53	63	99
Credit spread risk	190	208	159	159	189
Equity risks	6	10	3	6	3
Currency risks	3	5	2	4	4

There was a slight decline in the Bank's trading book, while the drop in the banking book was more pronounced. The decline in the banking book is largely due to the execution of risk-reduced interest-rate derivatives and lower volatility in the markets of selected sovereign bonds.

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

The internal risk model for calculating LBBW's exposure to market price risks has been approved by the regulatory authorities for equity risks as well as for general interest rate risks in the trading book without funds (CRR portfolio). The risks identified in this way are weighted and applied towards capital backing requirements. Backtesting of the internal risk model for the previous 250 trading days produced two exceptions for the LBBW Group and none for the CRR portfolio. Additional backtesting on the basis of 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 at 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 2016. This was mainly due to the accumulation of securities positions in the banking book. Scenarios simulating an increase in credit spreads have the greatest significance in stress testing. In addition, scenarios that simulate an increase in interest rates have high significance but a smaller impact than at the end of last year. The stress test scenarios were reviewed, revised and adjusted in the light of 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 2016	31 Dec. 2015
Trading book	**26**	**35**	**20**	**22**	**23**
Swap risk	19	32	12	17	14
Credit spread risk	21	30	16	18	21
Equity risks	6	9	3	6	3
Currency risks	3	5	2	4	4

Opportunities.

The portfolios of the LBBW Group depend to a considerable extent on the market development of credit spreads. A narrowing of the relevant credit spreads from todays perspective has a positive effect on the LBBW Group result. The extent of this effect depends on the performance of the LBBW Group's holdings.

Liquidity risks.

Risk situation of the LBBW Group.

The LBBW Group continued to have ample liquidity at all times in the first half of 2016. Customer deposit business showed the desired steady performance and capital market placements – both covered and uncovered – attracted lively interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and degree of diversification. LBBW has so far not utilized the ECB's long-term tender.

Funding needs and counterbalancing capacity broke down as follows as at 30 June 2016:

Overview of needs and counterbalancing capacity.

EUR billion as at 30 June 2016	3 months	12 months
Funding needs from the business portfolio (deterministic cash flow)	11.7	13.3
Material call risks (stochastic cash flow)	14.6	30.5
Liquidity buffer	24.2	30.7
Funding potential in the market	37.6	49.7

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

All limits defined by the Board of Managing Directors for maximum funding needs based on maturities from the business portfolio were adhered to during first half of 2016. The targeted stress resistance was also fulfilled. The liquidity risk stress scenarios – rating downgrade, financial market crisis, and market crisis with downgrade – structured in accordance with the guidelines of MaRisk (BTR 3.2) show that the remaining funding potential via the market, plus the liquidity buffer, always exceeds the potential funding needs under stress scenarios for this period. The counterbalancing capacity was consistently large enough to absorb any short-term high liquidity outflows.

Results of the economic stress scenarios.

Scenario EUR billion as at 30 June 2016	Funding needs	Counterbalancing capacity (central banks and market)
Rating downgrade	27.9	45.1
Financial market crisis	29.4	54.3
Market crisis with downgrade	29.2	50.6

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 2016, the liquidity ratio for LBBW (Bank) was 1.45 (31 December 2015: 1.43). The prescribed current minimum of 0.7 for the new European liquidity coverage ratio (LCR), which has applied since October 2015, was observed. The LCR stood at 0.97 for the Group as at 30 June 2016 (31 December 2015: 0.82).

Opportunities.

The LBBW Group's liquidity situation is comfortable. LBBW is offered more funds on the money and capital markets than currently required to fund the Group. The broad and well-diversified funding basis would make it possible for LBBW to raise much more in terms of funding resources at any time. In particular, there is no indication of any worsening of the liquidity situation as a result of the low interest-rate phase. Investors are currently still very interested in the LBBW Group's funding products. At the moment there are thus 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 2015, particularly in connection with the legal risks arising from customer transactions in complex derivatives and developments in consumer protection law, continue to apply. The LBBW Group's processes and instruments for identifying, recording and managing operational risks undergo regular review in the light of new regulatory requirements and are modified where necessary. Appropriate resources are used to take account of new requirements and to collect the necessary data. In addition, various committees are engaged in a regular exchange of ideas.

IT risk management increasingly dwelled on risks arising from threats from cyberspace as well as inside attacks, particularly the unauthorized use of privileged rights. 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 2015.

Other material risks.

The business risk is the risk of unexpected declines in earnings and negative deviations from forecasts which are not caused by other defined risks. This particularly shows up in lower commission income or net interest spreads as well as in increased costs.

Reputation risk is the risk of a loss or foregone profit due to (impending) damage to/deterioration of LBBW's reputation in the eyes of owners, customers, employees, business partners or the wider public.

The methodology for identifying both types of risks has been thoroughly revised on the basis of the Bank's specific parameters. The declines in other risks are mainly due to this revised methodology.

With respect to the other material risks, namely

- investment risks
- development risks and
- pension risks

the statements made in the risk report in the LBBW Group's Combined Management Report 2015 continue to hold true. There were no material changes in the first half of 2016.

Outlook.

Anticipated economic performance.

At the middle of the year, the economic outlook for Germany and the eurozone is subject to considerable uncertainty. This is primarily due to the planned exit of the United Kingdom from the European Union. At this stage, it is not known when the exit will occur and under what conditions. The resultant uncertainty has prompted LBBW to scale back its forecasts for this year and next. GDP growth in Germany is now expected to come to 1.5% in 2016 and 1.3% in 2017. All figures are adjusted for calendar effects, i.e. the variation in the number of working days. Eurozone GDP should expand by 1.3% in 2016 and by 1.1% in 2017. This marks a decline of 0.2 percentage points over the previous forecast for all figures. The reason for this is that investment will initially be postponed until there is clarity on the specific circumstances under which the UK will be leaving the EU.

Ignoring this uncertainty, the general outlook for Germany and the eurozone is reasonably satisfactory. The threat of the debt crisis has receded thanks to the measures taken by the ECB and the improvement in the economy. At the same time, the unemployment rate is gradually declining. Both trends will endure. Consumer spending is being buoyed by benign inflation in the wake of low oil prices, although inflation rates are likely to increase towards the end of the year due to baseline effects and should rise from an annual mean of 0.2% in 2016 to 1.5% in 2017 in Germany. Eurozone inflation will probably rise from 0.1% to 1.0% in this period for the same reasons.

Global conditions will remain challenging this year and next. Worldwide GDP should grow by 3.0% in 2016, accelerating only slightly to 3.1% in 2017. The recovery that we expect to see in Russia and Brazil will probably be tempered by the simultaneous slowdown in China. Even so, with GDP growth of 6.0% in 2017, China will remain the leading global growth driver, whereas the United States, whose economy is roughly the same size, will expand at only around half this rate, i.e. 2.5%.

Inflation rates in the industrialized nations depend materially on oil prices, which we assume will rise to USD 47.50 per barrel of North Sea Brent by the end of 2016. In this case and assuming that inflation picks up and growth accelerates, the US Fed is likely to lift its key rates by 25 basis points to 0.75% by mid-2017. As the markets will factor in the signal effect that this produces, LBBW expects to see a slight increase in capital market yields. Yields on 10-year German sovereign bonds should rise to 0% by the end of 2016. Despite this, the current situation characterized by historically very low yields is likely to continue. Given the persistent economic and deflation risks, the ECB will not tighten the monetary reins this year or next. In this environment, the euro will also remain largely unchanged against the US dollar. LBBW forecasts an end-of-year exchange rate of USD 1.09 per euro.

Industry and competitive situation.

There has not been any material change in LBBW's expectations for the German banking industry since the end of 2015. The challenging industry and competitive situation characterized by regulatory strains, low interest rates and intense competition is likely to continue in the second half of 2016. Similarly, there will be no let-up in the foreseeable future in the underlying challenges which digitization poses for the industry. Consequently, the pressure on banks' cost and earnings position as well as their business models looks set to persist. For this reason, measures to reduce costs and improve efficiency will continue to have high priority for most banks. The robust condition of the domestic market should remain a positive factor for the German banking industry despite the heightened uncertainties and risks at the European and global economic level.

The adoption of the new regulatory framework and the implementation of the increasingly complex and comprehensive requirements and rules stipulated by the regulatory authorities will remain a daunting task for the industry for some time to come. This applies to both the operational challenges and the strain on costs and equity. Moreover, there are still uncertainties with respect to banking regulation. The same is also true of the influence exerted by the results of this year's bank stress test in the context of the ECB's Supervisory Review and Evaluation Process (SREP).

Company forecast.

General conditions.

The comments made in the Group Management Report 2015 on the forecast for LBBW were based on the budget prepared at the end of 2015. They assumed continued low interest rates and stable economic conditions in Germany with moderate GDP growth. The regulatory setting was expected to remain challenging, entailing not only rising capital and liquidity requirements but also mounting complexity due to the implementation of the many different rules.

The statements on the forecast for LBBW contained in the Group Management Report 2015 were reviewed at the middle of 2016 in the light of LBBW's current forecasts for the remaining months of the year. This resulted in a number of changes to the views expressed. On a positive note, the good quality of LBBW's loan portfolio in connection with the continued stable economic conditions in Germany, particularly in the core market of Baden-Württemberg, will be reflected in allowances for losses on loans and advances that are considerably lower than planned. On the other hand, the low interest rates and intense competition in business activities with private and corporate customers will exert pressure.

The main changes are set out below.

Outlook for LBBW.

On the basis of LBBW's strategic orientation, which is unchanged over the end of 2015, the main financial performance indicators at the Group level are expected to be as follows compared with the budget for the period until the end of 2016:

LBBW does not expect any notable deviation in total assets from the budget for the rest of 2016. Risk weighted assets should also be in line with the budget, which assumes growth in customer business. With respect to the capital ratios, LBBW expects both the total capital ratio and the common equity Tier 1 capital ratio to fall slightly short of the budgeted figures at the end of the year. This is primarily due to interest rates which are expected to remain below the forecast, resulting in a further cut in the discount rate for retirement benefit provisions and thus exerting pressure on retained earnings, which form part of common equity Tier 1 capital. Even on this assumption, however, LBBW will continue to have an ample capital base at the end of the year. Accordingly, it should considerably exceed the CRR/CRD IV minimum requirements. The bank-specific requirement of a current 9.75% stipulated by the European Central Bank as part of the SREP (Supervisory Review and Evaluation Process) should also be exceeded significantly again. With regard to the leverage ratio, which is a regulatory figure independent of risk, LBBW expects to achieve the budgeted level, thus again remaining substantially above the minimum 3 % stipulated by the Basel Committee. The same thing applies to the liquidity coverage ratio, which should again be perceptibly higher than the stipulated minimum of 70%, As part of the management of its economic capital, LBBW assumes that the utilization of the aggregate risk cover will be moderately better than planned at the end of 2016. In this way, LBBW will be able to additionally improve its already ample risk-bearing capacity and achieve its goal of maintaining solid capitalization at all times.

LBBW has been profitable for five consecutive years. This year as well, LBBW expects to be able to report substantial consolidated profit before tax only slightly short of the budget in a still difficult market environment. However, income is likely to come under pressure from the extremely low interest rates, which are short of the budget due to recent developments, in combination with intense competition and lower-than-expected demand for finance. On the other hand, however, LBBW should benefit from the good quality of its loan portfolio in a stable economic environment, particularly in its core market of Baden Württemberg in the forecast period, something which should result in considerably lower allowances for losses on loans and advance than planned. Moreover, net gains/losses from financial investments should exceed the budget considerably due to their strong performance in the first half of the year. Despite the steady rise in regulatory requirements and ongoing investments in the Group's continued viability, LBBW does not expect administrative expenses to differ notably from the budget. The cost/income ratio should exceed the budgeted figure at the end of the year, while the return on equity should more or less match the forecast.

The material opportunities and risks for LBBW's earnings forecast reported at the end of 2015 continue to apply. An additional risk could arise from the United Kingdom's decision to leave the European Union in view of the uncertainty surrounding the timing and the conditions.

LBBW expects disparate performance by the individual segments over the remainder of 2016. All told, however, the operating segments will post substantial profits, which should more or less match the budget. Profit in the Credit Investment segment should be marginally up on the budget. The following section describes the material changes for the individual segments compared with the forecasts contained in the Group Management Report 2015.

LBBW assumes that profit before tax in the Corporates segment will be moderately higher than the budget at the end of 2016. The strain caused by the low interest rates and intense competition as well as the lower-than-expected demand for finance will be offset by the good quality of the loan portfolio, in particular. Accordingly, the expected slight shortfall in income over the budget should be more than made up for by the allowances for loans on losses and advances, which will be well down on the forecast. The cost/income ratio should not materially exceed the budget despite the lower-than-expected income. At the same time, administrative expenses should match the budget. The return on equity is expected to be marginally higher than the budgeted figure at the end of the year, while reported and risk weighted assets will be slightly lower as the stronger demand for finance in 2016 will probably not be sufficient to make up for muted trends that emerged in the final quarter of 2015 in particular.

In the Retail/Savings Banks segment, LBBW expects profit before tax at the end of 2016 to be moderately higher than budgeted, too. The environment of low interest rates is likely to exert pressure on deposit business in particular, while the good quality of the loan portfolio and the stable economic situation should cause allowances for losses on loans and advances to fall well short of the budget. Net gains/losses from financial investments should exceed the budget considerably due to their strong performance in the first half of the year. On the other hand, LBBW expects administrative expenses to exceed the budget slightly particularly in connection with the projects aimed at ensuring its continued viability, the migration to the new core banking system and the restructuring of retail business to create an efficient multi-channel bank. The cost/income ratio at the end of 2016 is expected to be slightly higher than budgeted. LBBW does not expect any material deviations from the budget for total assets. Risk weighted assets are likely to be significantly higher than budgeted due to methodology adjustments that are at present not being pursued further.

At the end of 2016, profit before tax in the Financial Markets segment is likely to fall perceptibly short of the budget due to the recognition of restructuring provisions. All told, income as well as administrative expenses should be in line with the budget. Accordingly, the cost/income ratio and the return on equity should not materially differ from the budget at the end of the year. LBBW also assumes that reported and risk weighted assets will be in line with the budget.

Profit before tax in the Credit Investment segment is expected to be slightly up on the budget. Reported and risk weighted assets are likely to fall slightly short of the budget.

LBBW is well-positioned with its customer-oriented business model, its sustained ample capital base and its good risk structure. Despite the anticipated difficulties of the market environment with extremely low interest rates and intense competition accompanied by a further rise in regulatory requirements, LBBW is able to act from a position of strength and thus, for example, systematically continue to pursue the projects for ensuring its continued viability, which aim to achieve both higher quality and improved efficiency. The same thing applies to the migration to the new core banking system, which, among other things, will form the basis for the ongoing digitization of its business processes. In this way, LBBW will remain a reliable and secure partner for its broad customer base, which will be expanded on a regional level in particular.

Condensed interim consolidated financial statements.

CONTENTS

Condensed income statement

for the period 1 January to 30 June 2016.

EUR million	Notes	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Net interest income	4	769	819
Allowances for losses on loans and advances	5	– 1	– 12
Net fee and commission income	6	252	255
Net gains/losses from financial instruments measured at fair value through profit or loss	7	11	97
Net gains/losses from financial investments	8	180	60
Net income/expenses from investments accounted for using the equity method	9	11	19
Other operating income/expenses	10	51	58
Administrative expenses	11	– 882	– 854
Guarantee commission for the State of Baden-Württemberg		– 51	– 64
Expenses for bank levy and deposit guarantee		– 77	– 106
Net income/expenses from restructuring	12	– 5	0
Consolidated profit/loss before tax		**258**	**271**
Income taxes	13	– 70	– 90
Net consolidated profit/loss		**188**	**182**
of which attributable to non-controlling interests after tax		1	0
of which attributable to shareholders after tax		187	181

Total comprehensive income

for the period 1 January to 30 June 2016.

EUR million	Notes	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Net consolidated profit/loss		**188**	**182**
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax		– 424	38
Income taxes	13	129	– 12
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		25	105
Transferred to income statement		– 179	– 13
Income taxes	13	– 3	– 13
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax		0	11
Transferred to income statement		0	– 15
Currency translation differences			
Changes before tax		3	7
Transferred to income statement		– 1	0
Total net consolidated profit/loss in equity		**– 449**	**109**
of which from non-current assets held for sale and disposal groups		– 74	17
Net consolidated total comprehensive income		**– 261**	**291**
of which attributable to non-controlling interests after tax		1	0
of which attributable to shareholders after tax		– 262	290

Balance sheet

as at 30 June 2016.

Assets.

EUR million	Notes	30 June 2016	31 Dec. 2015
Cash and cash equivalents	14	9 313	1 167
Loans and advances to banks	15	36 606	30 245
Loans and advances to customers	16	110 715	108 785
Risk provision	17	– 1 022	– 1 128
Financial assets at fair value through profit or loss	18	71 621	64 765
Financial investments	19	26 887	25 230
Shares in investments accounted for using the equity method	20	228	239
Portfolio hedge adjustment attributable to assets		941	569
Non-current assets and disposal groups held for sale	21	19	153
Intangible assets	22	581	541
Investment property	23	637	649
Property and equipment	24	644	670
Current income tax assets		94	114
Deferred income tax assets		1 157	1 027
Other assets	25	1 274	989
Total assets		**259 693**	**234 015**

Equity and liabilities.

EUR million	Notes	30 June 2016	31 Dec. 2015
Deposits from banks	26	45 646	44 248
Deposits from customers	27	62 906	62 540
Securitized liabilities	28	33 352	29 424
Financial liabilities at fair value through profit or loss	29	93 690	74 063
Portfolio hedge adjustment attributable to liabilities		652	569
Provisions	30	3 838	3 401
Current income tax liabilities		71	62
Deferred income tax liabilities		31	27
Other liabilities	31	1 130	709
Subordinated capital	32	5 283	5 329
Equity	**33**	**13 093**	**13 643**
Share capital		3 484	3 484
Capital reserve		8 240	8 240
Retained earnings		903	1 062
Other income		258	413
Unappropriated profit/loss		187	425
Shareholders' equity		13 073	13 624
Equity attributable to non-controlling interest		20	19
Total equity and liabilities		**259 693**	**234 015**

Statement of changes in equity

for the period 1 January to 30 June 2016.

EUR million	Share capital	Capital reserve	Retained earnings	Revaluation reserve
Equity as at 1 January 2015	**3 484**	**8 240**	**949**	**49**
Allocation to retained earnings	0	0	438	0
Distribution to shareholders	0	0	– 314	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**
Changes in the scope of consolidation	0	0	0	4
Actuarial gains/losses	0	0	– 28	0
Changes in AfS financial instruments	0	0	0	212
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**	**– 28**	**212**
Net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 28**	**212**
Other changes in equity	0	0	– 5	0
Equity as at 31 December 2015	**3 484**	**8 240**	**1 062**	**344**
Equity as at 1 January 2016	**3 484**	**8 240**	**1 062**	**344**
Allocation to retained earnings	0	0	425	0
Distribution to shareholders	0	0	– 290	0
Actuarial gains/losses	0	0	– 294	0
Changes in AfS financial instruments	0	0	0	– 157
Currency translation differences	0	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**– 294**	**– 157**
Net consolidated profit/loss	0	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 294**	**– 157**
Other changes in equity	0	0	0	0
Equity as at 30 June 2016	**3 484**	**8 240**	**903**	**187**

The composition of equity is presented in Note 33.

Measurement gains/losses from investments accounted for using the equity method	Currency translation reserve	Unappropriate d profit/loss	Shareholders' equity	Equity attributable to non-controlling interests	Total
47	**15**	**438**	**13 222**	**19**	**13 241**
0	0	– 438	0	0	0
0	0	0	– 314	0	– 314
0	0	0	26	0	26
0	0	0	79	0	79
– 3	0	0	– 4	0	– 4
0	7	0	7	0	7
– 3	**7**	**0**	**109**	**0**	**109**
0	0	181	181	0	182
– 3	**7**	**181**	**290**	**0**	**291**
0	0	0	– 4	1	– 2
44	**22**	**181**	**13 196**	**21**	**13 217**
0	0	0	4	0	4
0	0	0	– 28	0	– 28
0	0	0	212	0	212
– 6	0	0	– 5	0	– 5
0	9	0	9	0	9
– 6	**9**	**0**	**187**	**0**	**187**
0	0	244	244	– 3	240
– 6	**9**	**244**	**431**	**– 3**	**427**
0	0	0	– 5	2	– 4
38	**31**	**425**	**13 624**	**19**	**13 643**
38	**31**	**425**	**13 624**	**19**	**13 643**
0	0	– 425	0	0	0
0	0	0	– 290	0	– 290
0	0	0	– 294	0	– 294
0	0	0	– 157	0	– 157
0	2	0	2	0	2
0	**2**	**0**	**– 449**	**0**	**– 449**
0	0	187	187	1	188
0	**2**	**187**	**– 262**	**1**	**– 261**
0	0	0	0	1	1
38	**32**	**187**	**13 073**	**20**	**13 093**

Condensed cash flow statement

for the period 1 January to 30 June 2016.

EUR million	Notes	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Cash and cash equivalents at the beginning of the period	**14**	**1 167**	**1 936**
Cash flow from operating activities		8 498	8 277
Cash flow from investing activities		34	141
Cash flow from financing activities		– 380	– 258
Changes in cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		– 7	25
Cash and cash equivalents at the end of the period	**14**	**9 313**	**10 122**

The sale of a fully-consolidated subsidiary led to a reduction in particular of loans and advances to banks of EUR 12 million, loans and advances to customers of EUR 88 million and deposits from banks of EUR 81 million in the first half of the year. The net inflow of payments (sales price less outgoing cash and cash equivalents) amounts to EUR 14 million.

Selected notes to the consolidated interim financial statements

for the first half of the 2016 financial year.

Basis of group accounting.

Landesbank Baden-Baden-Württemberg (LBBW (Bank)), as the parent company of the Group, is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The commercial register numbers at the responsible district court are as follows: district court of Stuttgart HRA 12704, district court of Mannheim HRA 104440 (for Karlsruhe) and HRA 4356 (for Mannheim) and district court of Mainz HRA 40687.

The consolidated interim financial statements of LBBW as at 30 June 2016 were prepared in accordance with section 37w of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in conjunction with section 37y no. 2 of the Securities Trading Act pursuant to the International Financial Reporting Standards (IFRS) and their interpretations (SIC, IFRIC) as they are applied in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and binding for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

Accounting policies.

1. Accounting principles.

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2016 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 2015.

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 2015. 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 2016.

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

2. Changes.

IFRS applied for the first time.

The following IFRS were applied for the first time in the 2016 financial year:

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 first-time application had no material impact on the consolidated financial statements.

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 first-time application had no material impact on the consolidated financial statements.

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

This standard allows fruit-bearing plants, such as grape vines, to be recognized as assets in the balance sheet under certain circumstances. The first-time application had no impact on the consolidated financial statements.

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 first-time application had no material impact on the consolidated financial statements.

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 first-time application had no material impact on the consolidated financial statements.

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 also in compliance with IFRS. The first-time application had no impact on the consolidated financial statements.

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 first-time application had no material impact on the consolidated financial statements.

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

IFRS 14 Regulatory Deferral Accounts.

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

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

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 2017 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Disclosure Initiative – Amendments to IAS 7.

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

The changes are expected to be effective for the first time in the 2017 financial year. The impact of first-time application of this standard is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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

This standard clarifies that deferred tax assets relating to deductible temporary differences must also be capitalized; these differences arise from unrealized losses on debt instruments from the »available for sale (AfS)« category.

The changes are expected to be effective for the first time in the 2017 financial year. The impact of first-time application of this standard is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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

These standards contain the new guidance on the realization of revenue and supersede IAS 18 »Revenue« and IAS 11 »Construction Contracts« and some related interpretations. They comprise 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 impact of first-time application of these standards is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 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. The new guidance on micro hedge accounting plans for a closer orientation towards risk management. The new guidance on macro hedge accounting is still being coordinated and therefore not part of this standard.

The changes are expected to be effective for the first time in the 2018 financial year. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

LBBW implements the provisions of IFRS 9 within the scope of an independent project. The project started on schedule in 2015 with the identification of the bank-specific need for action. The focus will shift increasingly in the current financial year to complexity-driven adjustments to the process and IT landscape. In view of the new parameters set for write-downs on financial assets, the transition from an »incurred loss model« to an »expected loss model« is associated with an increase overall in allowances for losses on loans and advances. The plan is to continue applying the rules from IAS 39 in relation to hedge accounting.

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

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

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

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

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

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

IFRS 16 Leases.

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

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

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 116 subsidiaries, including 13 structured entities (previous year: 121 subsidiaries including 13 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.

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

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

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

Subsidiaries are consolidated from the time when the Group acquires a controlling influence and the subsidiary meets quantitative or qualitative materiality criteria. The consolidation ends at the time when there is no longer any possibility for exercising a controlling influence or the 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 subsidiary was deconsolidated in the period under review, as the shares in the company were sold as at 1 March 2016.

- EAST Portfolio s.r.o.

The following subsidiaries within the subgroup LBBW Immobilien Management GmbH were deconsolidated on account of the merger with a fully-consolidated subsidiary within the subgroup LBBW Immobilien Management GmbH:

- Turtle Beteiligungs-Portfolio GmbH
- Turtle Beteiligungs-Hannover-City GmbH
- Turtle Beteiligungs-Ehningen II GmbH
- Turtle Ehningen II GmbH & Co. KG

Eight 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.

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.

LBBW Immobilien Management GmbH sold its shares in the following associates as at 22 March 2016 and ended its measurement using the equity method:

- Bauland Kruft Süd GmbH

A total of 118 subsidiaries (previous year: 123 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 2016 is drawn up in accordance with the provisions of IFRS 8. Following the management approach, segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions about the allocation of resources and the assessment of the performance of the segments on this basis.

Classification of segments.

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

The following material adjustment was made to the segment structure in the 2016 financial year:

- In conjunction with the reorientation of the capital markets business, the former product-oriented approach was developed into a holistic customer advisory approach. As a result, the international business activities were transferred from the Corporates segment to the Financial Markets segment.

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

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

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

Valuation methods.

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

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

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

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

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

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

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

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

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

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

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

A segment's return on equity (RoE) is calculated according to the ratio of annualized consolidated profit/loss before tax to the maximum planned average equity tied up or to average equity tied up in the current reporting period. For the Group, RoE is calculated from the ratio of annualized consolidated profit/loss before tax to average equity on the balance sheet adjusted for the effects on earnings reported directly in equity. The cost/income ratio (CIR) is calculated based on the ratio of administrative expenses to total operating income/expenses (after allowances for losses) excluding allowances for losses on loans and advances and net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method.

Methodological enhancements led to a refined allocation of costs to the segments in the first half of 2016. The previous year's amounts were adjusted to the new reporting to preserve comparability.

Segment results by business area.

1 Jan. – 30 June 2016 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	534	77	143	– 17	32	769
Allowances for losses on loans and advances	7	– 1	6	0	– 13	– 1
Net fee and commission income	113	47	104	0	– 13	252
Net gains/losses from financial instruments measured at fair value through profit or loss	3	157	0	4	– 153	11
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	14	0	31	0	147	191
Other operating income/expenses	52	11	0	0	– 12	51
Total operating income/expenses (after allowances for losses on loans & advances)	**722**	**292**	**285**	**– 14**	**– 12**	**1 273**
Administrative expenses	– 363	– 209	– 257	– 5	– 49	– 882
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 51	0	– 51
Expenses for bank levy and deposit guarantee	– 15	– 15	– 3	– 2	– 42	– 77
Net income/expenses from restructuring	– 1	– 18	0	0	13	– 5
Consolidated profit/loss before tax	**344**	**50**	**24**	**– 71**	**– 89**	**258**
Income taxes						– 70
Net consolidated profit/loss						**188**
Segment assets (EUR billion)	75.0	100.3	31.4	13.1	39.9	259.7
Risk weighted assets[1)] (EUR billion)	42.0	15.4	7.9	0.6	10.9	76.9
Tied-up equity[1)] (EUR billion)	3.8	1.4	0.7	0.1	6.9	12.8
RoE[1)] (in %)	16.3	5.5	6.7			4.0
CIR (in %)	51.7	71.4	103.9			81.5

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

1 Jan. – 30 June 2015 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	561	224	165	– 17	– 116	819
Allowances for losses on loans and advances	– 18	13	– 1	0	– 6	– 12
Net fee and commission income	125	52	110	0	– 32	255
Net gains/losses from financial instruments measured at fair value through profit or loss	17	77	1	6	– 4	97
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	68	0	0	0	10	78
Other operating income/expenses	47	– 8	14	0	5	58
Total operating income/expenses (after allowances for losses on loans & advances)	**800**	**359**	**290**	**– 10**	**– 143**	**1 295**
Administrative expenses	– 350	– 196	– 241	– 13	– 55	– 854
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 64	0	– 64
Expenses for bank levy and deposit guarantee	– 13	– 12	– 3	– 4	– 74	– 106
Consolidated profit/loss before tax	**437**	**151**	**45**	**– 90**	**– 272**	**271**
Income taxes						– 90
Net consolidated profit/loss						**182**
Segment assets (EUR billion)	72.6	81.1	31.7	13.7	35.0	234.0
Risk weighted assets[1] (EUR billion)	41.8	14.0	8.3	0.7	9.7	74.5
Tied-up equity[1] (EUR billion)	4.0	1.6	0.8	0.1	6.3	12.8
RoE[1] (in %)	20.8	15.4	11.2			4.2
CIR (in %)	46.7	56.6	82.9			69.5

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

Details on Corporate Items, Reconciliation and Consolidation.

EUR million	Corporate Items		Reconciliation/Consolidation		Corporate Items/ Reconciliation/ Consolidation	
	1 Jan.– 30 June 2016	1 Jan.– 30 June 2015	1 Jan.– 30 June 2016	1 Jan.– 30 June 2015	1 Jan.– 30 June 2016	1 Jan.– 30 June 2015
Net interest income	44	43	– 11	– 159	32	– 116
Allowances for losses on loans and advances	– 13	– 6	0	0	– 13	– 6
Net fee and commission income	0	0	– 13	– 33	– 13	– 32
Net gains/losses from financial instruments measured at fair value through profit or loss	– 10	– 11	– 143	7	– 153	– 4
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	149	– 1	– 2	11	147	10
Other operating income/expenses	– 12	5	0	0	– 12	5
Total operating income/expenses (after allowances for losses on loans and advances)	**158**	**30**	**– 170**	**– 173**	**– 12**	**– 143**
Administrative expenses	– 49	– 55	0	0	– 49	– 55
Expenses for bank levy and deposit guarantee	– 42	– 74	0	0	– 42	– 74
Net income/expenses from restructuring	13	0	0	0	13	0
Consolidated profit/loss before tax	**81**	**– 99**	**– 170**	**– 173**	**– 89**	**– 272**
Segment assets (EUR billion)	37.0	35.6	2.9	– 0.6	39.9	35.0
Risk weighted assets[1)] (EUR billion)	12.3	11.2	– 1.4	– 1.4	10.9	9.7
Tied-up equity[1)] (EUR billion)	7.0	6.5	– 0.1	– 0.2	6.9	6.3

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

Reconciliation of segment results to the consolidated income statement.

In the 2016 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax declined to EUR – 170 million (previous year: EUR – 173 million) and is essentially due to the following factors:

- In internal management reporting, the net interest income is calculated on the basis of the market interest method. Differences compared with the income statement are therefore the result of net interest income for prior periods and IFRS-specific measurements not included in internal management reporting (e.g. net result from the repurchase of own issues and effects from the purchase price allocation in connection with the takeover of Sachsen LB).
- The valuation methods used in internal management reporting for part of the trading book holdings in the previous year 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 expense also include the interest and dividend income and the associated refinancing expenses of financial instruments held for trading and designated at fair value. In addition, the payments to typical silent partners are reported under »Interest expense« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Trading derivatives	5 239	5 038
Lending and money market transactions	1 361	1 623
Hedging derivatives	734	660
Fixed-income securities and debentures	141	263
Early termination fees	44	34
Other	201	186
Interest income	**7 721**	**7 804**
Leasing business	156	188
Equity investments and affiliates	20	17
Equities and other non-fixed-income securities	8	15
Current income	**184**	**220**
Interest and current income	**7 904**	**8 024**
Trading derivatives	– 5 256	– 4 923
Hedging derivatives	– 713	– 748
Deposits	– 570	– 850
Securitized liabilities	– 280	– 358
Leasing business	– 23	– 36
Subordinated capital	– 111	– 143
Other	– 183	– 147
Interest expense	**– 7 135**	**– 7 206**
Total	**769**	**819**

The decline was largely due to the continued extremely low level of interest rates, not least because of the ECB's interest rate policy. This was reflected in particular in falling net interest income, above all in the trading books and equity investment, as well as in the strong competitive pressure in the banking sector.

For financial assets in the LaR category for which valuation allowances were recognized, interest income of EUR 11 million (previous year: EUR 15 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, net interest income of EUR 1 million (previous year: EUR 2 million) was recognized from the netting of treasury and intragroup debentures in accordance with IAS 39.39 et seq.

Against the background of negative interest rates, capital commitment also led to contrary effects, which impacted on interest income in the amount of EUR – 30 million (previous year: EUR – 6 million) in the first half of the financial year under review and on interest expense in the amount of EUR 24 million (previous year: EUR 12 million). Negative and positive effects of EUR – 319 million on interest income and EUR 306 million on interest expense (previous year: EUR – 56 million and EUR 48 million) also arose in the same period in connection with derivative financial instruments; these were immaterial taken in context of total net interest of EUR 5 973 million and expense of EUR – 5 969 from derivative financial instruments (previous year: EUR 5 697 million and EUR – 5 671 million).

5. Allowances for losses on loans and advances.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Additions to allowances for losses on loans and advances	– 145	– 205
Direct loan write-offs	– 28	– 21
Net gains/losses from provisions for lending business	5	– 5
Recoveries on loans and advances already written off	9	8
Reversal of allowances for losses on loans and advances	159	213
Other expenses for the lending business	– 2	– 3
Total	**– 1**	**– 12**

6. Net fee and commission income.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Securities and custody business	126	110
Payments business	50	52
Brokerage business	38	40
Loans and guarantees[1)]	57	70
Other	41	41
Fee and commission income	**312**	**313**
Securities and custody business	– 34	– 35
Payments business	– 11	– 11
Brokerage business	– 4	– 4
Loans and guarantees[1)]	– 4	– 4
Leasing business	– 1	– 1
Other	– 6	– 4
Fee and commission expenses	**– 61**	**– 58**
Total	**252**	**255**

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 2016	1 Jan. – 30 June 2015
Net trading gains/losses	132	86
Net gains/losses from financial instruments designated at fair value	– 95	22
Net gains/losses from hedge accounting	– 26	– 10
Total	**11**	**97**

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 2016	1 Jan. – 30 June 2015
Credit transactions	– 111	– 739
Interest rate transactions	336	741
Equity transactions	– 115	96
Gains/losses from foreign exchange/commodity products	31	– 7
Currency gains/losses	18	26
Economic hedging derivatives	– 27	– 30
Total	**132**	**86**

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

Adjusted for these shifts in earnings, the increase in net trading gains/losses was generated primarily from a higher valuation result in interest rate transactions.

The negative effect was slightly lower due to derivative financial instruments serving as economic hedges that cannot be included in IFRS hedge accounting.

The interest and credit spread development, which led to higher haircuts on counterparty credit risks (CVA) impacted negatively on the result.

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

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

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Realized gains/losses	1	– 3
Unrealized gains/losses	– 95	25
Total	**– 95**	**22**

The sharp decline in unrealized gains and losses is mainly attributable to negative measurement effects that were particularly sensitive to the low level of interest rates. Economic hedging derivatives in net trading gains/losses had the opposite effect.

Unrealized gains and losses included expenses of EUR – 1 million (previous year: EUR – 12 million) for financial liabilities designated here in connection with taking into account the bank's own creditworthiness.

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 2016	1 Jan. – 30 June 2015
Portfolio fair value hedge	– 22	– 9
of which hedged items	528	– 216
of which hedging instruments	– 550	206
Micro fair value hedge	– 3	– 1
of which hedged items	150	– 127
of which hedging instruments	– 153	125
Total	**– 26**	**– 10**

8. Net gains/losses from financial investments.

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

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Net gains/losses on disposal	182	18
of which securities	98	15
of which equity investments	84	3
Impairment	– 2	– 8
Net gains/losses from financial investments (AfS)	**180**	**10**
Net gains/losses on disposal	0	– 2
of which securities	0	– 2
Net gains/losses from financial investments (LaR)	**0**	**– 2**
Net income/expenses from the disposal of investments accounted for using the equity method	**0**	**52**
Total	**180**	**60**

Net gains/losses from the disposal of securities and equity investments improved in comparison with the previous year. In addition to positive contributions from bond sales, subsequent purchase price adjustments in connection with the sale of equity instruments the year before contributed to the rise.

The completion of the sale of cellent AG at the start of 2016 led to a positive result from the sale of equity investments. Income from investments also improved on the back of the buyback in the second quarter of VISA Europe Limited shares by the US-based Visa Inc.

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

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Current income	1	37
Impairment	0	– 26
Reversals of impairment losses	9	6
Net gains/losses from investments in associates	**10**	**17**
Current expenses	– 1	0
Current income	2	2
Net gains/losses from shares in joint ventures	**1**	**1**
Total	**11**	**19**

The decline in this item resulted, in particular, from the normalization of profit contributions from venture capital companies.

10. Other operating income/expenses.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Disposal of inventories	80	41
Reversal of other provisions	25	30
Revenues from property services	8	10
Income from cost refunds by third parties	19	15
Management of other property portfolios	1	1
Operating leases	13	12
Fixed assets and intangible assets	1	14
Rental income from investment property	24	28
Income from the fair value measurement of investment property	3	9
Income from foreign currency translation on investment property	3	6
Miscellaneous operating income	33	39
Other operating income	**209**	**205**
Disposal of inventories	– 70	– 38
Additions to other provisions	– 28	– 11
Management of other property portfolios	0	– 1
Operating leases	– 2	– 2
Operating expenses for leased properties	– 6	– 5
Expenses from the fair value measurement of investment property	– 4	– 32
Miscellaneous operating expenses	– 47	– 58
Other operating expenses	**– 158**	**– 146**
Total	**51**	**58**

The income and expenses from the disposal of inventories primarily resulted from the sale of land and buildings, as well as development measures. The successfully concluded project developments drove up the profit contributions over the previous year.

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

Net gains/losses from investment property designated at fair value improved due to the absence of a negative performance compared with the previous year.

11. Administrative expenses.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Staff costs	– 517	– 507
Other administrative expenses	– 321	– 302
Depreciation and write-downs of property and equipment[1]	– 26	– 31
Amortization and write-downs of intangible assets[1]	– 19	– 15
Total	**– 882**	**– 854**

1) This includes scheduled and unscheduled write-downs.

Pay-scale adjustments to wages and salaries led to a slight increase in staff costs.

Other administrative expenses continued to be influenced by expenses incurred for compliance with regulatory requirements and project expenses in connection with the restructuring of the IT architecture.

12. Net income/expenses from restructuring.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Reversal of provisions for restructuring measures	13	0
Additions of restructuring provisions	– 19	0
Total	**– 5**	**0**

EUR – 18 million was designated to the provisions for restructuring measures for personnel measures taken in conjunction with the restructuring of the Financial Markets segment. Counter to this, provisions for material expenses in connection with the EU restructuring of EUR 13 million were reversed, as the basis for these provisions no longer existed.

13. Income taxes.

EUR million	1 Jan. – 30 June 2016	1 Jan. – 30 June 2015
Income taxes from previous years	7	– 3
Income taxes in the reporting period	– 72	– 46
Deferred income taxes	– 4	– 41
Total	**– 70**	**– 90**

The income tax expense came to EUR – 70 million (previous year: EUR – 90 million). The notional effective group tax rate calculated for the reporting period is 27 % (previous year: 33 %).

Notes to the balance sheet.

14. Cash and cash equivalents.

EUR million	30 June 2016	31 Dec. 2015
Balances with central banks	9 204	1 026
Cash	108	141
Total	**9 313**	**1 167**

The marked increase in balances with central banks is primarily attributable to foreign central banks.

15. Loans and advances to banks.

Breakdown by business type.

EUR million	30 June 2016	31 Dec. 2015
Public-sector loans	22 702	22 782
Current account claims	1 550	939
Securities repurchase transactions	7 265	2 662
Other loans	2 305	2 793
Borrower's note loans	50	110
Overnight and term money	101	128
Mortgage loans	151	114
Other receivables	2 481	716
Total	**36 606**	**30 245**
of which to central counterparties	3 894	729

Breakdown by region.

EUR million	30 June 2016	31 Dec. 2015
Banks within Germany	30 296	25 879
Banks outside Germany	6 310	4 366
Total	**36 606**	**30 245**

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. The increased portfolio of other receivables is due to short-term receivables from securities sales on the reporting date.

16. Loans and advances to customers.

Breakdown by business type.

EUR million	30 June 2016	31 Dec. 2015
Other loans	27 154	28 296
Mortgage loans	31 114	31 092
Public-sector loans	17 261	17 282
Receivables from finance leases	4 574	4 616
Transmitted loans	3 084	3 213
Securities repurchase transactions	12 773	11 318
Current account claims	3 099	2 701
Overnight and term money	4 922	4 038
Borrower's note loans	3 422	2 777
Other receivables	3 311	3 452
Total	**110 715**	**108 785**
of which to central counterparties	5 006	2 728

Breakdown by region.

EUR million	30 June 2016	31 Dec. 2015
Customers within Germany	73 609	72 794
Customers outside Germany	37 105	35 991
Total	**110 715**	**108 785**

The rise in securities repurchase transactions is especially the result of the increase in the volume of business with central counterparties. Driven by new business with large European companies, the volume of overnight and term money, as well as borrower's note loans increased.

The item »Other loans« contains mainly syndicated loans in the amount of EUR 8 316 million (previous year: EUR 8 847 million) and corporate finance not secured by mortgages. The decline in other loans is largely due to repayments of the Sealink Funding junior loans and of investment loans.

17. Allowances for losses on loans and advances.

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

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which from finance leases	Loans and advances to banks	Loans and advances to customers	of which from finance leases
Balance as at 1 January 2016	**2**	**1 013**	**91**	**6**	**108**	**13**
Utilization	0	– 77	– 12	0	0	0
Additions	0	106	9	5	33	2
Reversals	0	– 123	– 12	– 2	– 34	– 3
Changes in the scope of consolidation	0	– 1	0	0	– 2	0
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 11	0	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	– 1	0	0	0	0
Balance as at 30 June 2016	**1**	**906**	**76**	**10**	**105**	**11**

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which from finance leases	Loans and advances to banks	Loans and advances to customers	of which from finance leases
Balance as at 1 January 2015	**2**	**1 453**	**119**	**7**	**132**	**16**
Utilization	0	– 407	– 31	0	0	0
Additions	0	226	24	4	59	4
Reversals	– 2	– 231	– 19	– 5	– 83	– 8
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 26	– 1	0	0	0
Changes resulting from exchange rate fluctuations and other changes	2	– 3	– 3	0	0	0
Balance as at 31 December 2015	**2**	**1 013**	**91**	**6**	**108**	**13**

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

EUR million	30 June 2016	31 Dec. 2015
Trading assets	67 876	61 678
Financial assets designated at fair value	886	913
Positive fair values from hedging derivatives	2 859	2 174
Total	**71 621**	**64 765**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Debentures and other fixed-income securities	12 054	14 460	239	278
Money market instruments	915	648	0	0
Bonds and debentures	11 139	13 812	239	278
Equities and other non-fixed-income securities	837	750	181	185
Equities	391	310	0	0
Investment units	446	440	179	182
Other securities	0	0	2	3
Other	24 775	22 351	465	450
Borrower's note loans	3 002	3 945	440	426
Other money market transactions	20 104	16 892	0	0
Other loans and receivables			25	24
Miscellaneous	1 668	1 515	0	0
Positive fair values from derivative financial instruments	30 211	24 117		
Total	**67 876**	**61 678**	**886**	**913**

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«. The continued decline in interest rates also led to a marked increase in the positive fair values from trading derivatives, especially the fair values of interest rate derivatives.

Counter to this, maturities reduced the volume of bonds and debentures in net trading assets. Holdings of debentures in the trading portfolio also decreased owing to maturities and disposals that exceeded new business.

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 2016	31 Dec. 2015
Positive fair values from portfolio fair value hedges	2 237	1 610
Positive fair values from micro fair value hedges	622	564
Total	**2 859**	**2 174**

19. Financial investments.

EUR million	30 June 2016	31 Dec. 2015
Debentures and other fixed-income securities	25 899	24 181
Bonds and debentures	25 674	23 988
Money market instruments	226	192
Equities and other non-fixed-income securities	13	26
Other securities	13	26
Equity investments	812	859
Shares in affiliates	163	164
Total	**26 887**	**25 230**

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

EUR million	30 June 2016	31 Dec. 2015
Associates	215	227
Joint ventures	13	12
Total	**228**	**239**

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

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

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

- In 2015 LBBW opened negotiations on the sale of two unconsolidated equity investments. One equity investment (cellent AG) that was allocated to the Corporate Items reporting segment was disposed of already in January 2016. The sale of the second equity investment (VISA Europe Limited), which was assigned to the Retail/Savings Banks reporting segment, was concluded in the second quarter of 2016.
- One real estate property for which LBBW had opened sales negotiations at the end of the 2015 financial year, was sold in the first quarter of 2016. This affected the Corporates reporting segment
- LBBW opened negotiations for several real estate properties in the first half-year. The sale should be concluded in the third quarter of 2016. This affects the Corporates 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 held for sale were as follows:

EUR million	30 June 2016	31 Dec. 2015
Assets		
Financial investments	0	104
Investment property	19	49
Total	**19**	**153**

22. Intangible assets.

EUR million	30 June 2016	31 Dec. 2015
Goodwill	380	380
Software	87	93
Advance payments and acquisition cost of intangible assets in development or preparation	76	51
Other intangible assets	38	18
Total	**581**	**541**

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 »Administrative expenses«.

Goodwill impairment test.

As a rule, goodwill is tested for impairment in the fourth quarter of each financial year by comparing the recoverable amount of the cash-generating unit 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 a cash-generating unit 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. The reclassification of the international business activities from the Corporates to the Financial Markets segment did not impact on goodwill.

As at 30 June 2016, there are no triggering events to justify an impairment of goodwill.

23. Investment property.

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

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

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

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

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

EUR million	2016	2015
Balance as at 1 January	**649**	**705**
Additions	0	158
Disposals	– 4	– 87
Transfer to non-current assets or disposal groups held for sale	– 19	– 49
Currency translation differences	2	24
Changes in fair value from assets (through profit or loss)	– 1	– 38
Transfers out of/into inventories and property and equipment	9	– 65
Other reclassifications	0	2
Balance as at 30 June/31 December	**637**	**649**

See Note 36 et seq. for additional quantitative information.

24. Property and equipment.

EUR million	30 June 2016	31 Dec. 2015
Land and buildings	438	443
Leased assets under operating leases	101	105
Operating and office equipment	85	95
Technical equipment and machinery	17	18
Leased assets under finance leases	3	3
Advance payments and assets under construction	1	6
Total	**644**	**670**

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

25. Other assets.

EUR million	30 June 2016	31 Dec. 2015
Inventories	419	400
Receivables from tax authorities	23	16
Other miscellaneous assets	832	573
Total	**1 274**	**989**

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

26. Deposits from banks.

Breakdown by business type.

EUR million	30 June 2016	31 Dec. 2015
Transmitted loans	23 322	23 234
Securities repurchase transactions	7 855	8 676
Borrower's note loans	4 390	4 656
Overnight and term money	2 330	2 308
Public-sector registered covered bonds issued	801	909
Current account liabilities	1 044	1 993
Mortgage-backed registered covered bonds issued	348	324
Other liabilities	5 556	2 148
Total	**45 646**	**44 248**
of which to central counterparties	2 496	3 717

Breakdown by region.

EUR million	30 June 2016	31 Dec. 2015
Banks within Germany	40 820	39 581
Banks outside Germany	4 826	4 667
Total	**45 646**	**44 248**

27. Deposits from customers.

Breakdown by business type.

EUR million	30 June 2016	31 Dec. 2015
Current account liabilities	30 917	34 753
Overnight and term money	10 218	8 291
Borrower's note loans	2 246	2 351
Securities repurchase transactions	5 711	2 745
Public-sector registered covered bonds issued	3 797	3 990
Savings deposits	7 135	7 142
Mortgage-backed registered covered bonds issued	846	944
Other liabilities	2 037	2 323
Total	**62 906**	**62 540**
of which to central counterparties	4 657	2 447

Breakdown by region.

EUR million	30 June 2016	31 Dec. 2015
Customers within Germany	52 547	55 504
Customers outside Germany	10 360	7 036
Total	**62 906**	**62 540**

The volume of securities repurchase transactions rose particularly with the extension of the volume of business conducted with central counterparties. Overnight and term money also increased mainly through transactions with institutional investors. The lower volume of public-sector customer deposits had the opposite effect and reduced the current account liabilities.

28. Securitized liabilities.

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

EUR million	30 June 2016	31 Dec. 2015
Issued debentures	28 492	25 133
Mortgage-backed covered bonds	9 271	6 834
Public-sector covered bonds	4 050	5 898
Other bonds	15 171	12 401
Other securitized liabilities	4 860	4 291
Total	**33 352**	**29 424**

With regard to other debentures, the new issuance of bonds and debentures significantly exceeded repayments and maturities, so that the portfolio volume increase in the first six months of the year. The volume of mortgage-backed covered bonds increased through new issuance combined with few maturities.

See Note 41 for further explanations regarding issuing activity.

29. Financial liabilities 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 2016	31 Dec. 2015
Trading liabilities	86 368	67 278
Financial liabilities designated at fair value	3 157	3 257
Negative fair values from hedging derivatives	4 165	3 528
Total	**93 690**	**74 063**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Negative fair values from trading derivatives and economic hedging derivatives	28 946	23 445		
Money market transactions	47 555	36 190	100	88
Securitized liabilities	8 882	7 069	1 418	1 587
Delivery obligations from short sales of securities	960	550		
Borrower's note loans	24	24	702	643
Subordinated liabilities			285	323
Other	1	0	652	617
Total	**86 368**	**67 278**	**3 157**	**3 257**

The increase in trading liabilities was due in particular to the rise in money market transactions. The continued decline in interest rates led to a significant increase in the negative fair values from trading derivatives. The volume of securitized liabilities held in the trading portfolio also fell because of the net increase in certificates of deposit.

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 2016	31 Dec. 2015
Negative fair values from portfolio fair value hedges	2 774	2 296
Negative fair values from micro fair value hedges	1 391	1 231
Total	**4 165**	**3 528**

30. Provisions.

EUR million	30 June 2016	31 Dec. 2015
Provisions for pensions	3 350	2 908
Provisions for litigation and recourse risks	150	146
Provisions for lending business	66	71
Other personnel-related provisions	90	104
Other provisions	183	171
Total	**3 838**	**3 401**

The rise in pension obligations was due to the adjustment as at 30 June 2016 of the discount rate to current interest rate levels.

31. Other liabilities.

EUR million	30 June 2016	31 Dec. 2015
Liabilities from		
Other taxes	74	53
Employment	12	34
Deliveries and services	68	125
Finance leases	4	4
Advances received	140	94
Other miscellaneous liabilities	832	399
Total	**1 130**	**709**

Other miscellaneous liabilities include liabilities from payments not yet transferred and various accrual and deferral items, including the guarantee charge for the risk shield. The rise in other miscellaneous liabilities is largely attributable to an increase in liabilities for higher margin holdings from client clearing.

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 2016	31 Dec. 2015
Subordinated liabilities	3 937	3 917
Typical silent partners' contributions	1 228	1 298
Capital generated from profit-participation rights	118	114
Total	**5 283**	**5 329**

33. Equity.

EUR million	30 June 2016	31 Dec. 2015
Share capital	3 484	3 484
Capital reserve	8 240	8 240
Retained earnings	903	1 062
Other income	258	413
Unappropriated profit/loss	187	425
Shareholders' equity	**13 073**	**13 624**
Equity attributable to non-controlling interest	20	19
Total	**13 093**	**13 643**

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

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

Equity includes accumulated actuarial gains and losses amounting to EUR – 977 million (previous year: EUR – 682 million), as well as taxes recognized directly in equity totaling EUR 426 million (previous year: EUR 300 million).

Please refer to the statement of changes in equity for a detailed breakdown of the performance of equity.

Notes on financial instruments.

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

34. Fair value measurement.

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

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

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

If no prices quoted 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 fixing prices.

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

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

Financial instruments	Valuation models	Material parameters
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean reversion
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options	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 and disposal groups held for sale	According to the respective balance-sheet item
Liabilities measured at fair value	
Trading liabilities	Currency options, interest rate swaps and interest rate options, credit derivatives, equities, index options, commodity options, money market transactions, forward rate agreements
Financial liabilities designated at fair value	Own bearer bonds and borrower's note loans issued
Negative fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Liabilities carried at amortized cost	
Deposits from banks	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from banks – of which finance leases	Finance lease agreements
Deposits from customers	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from customers – of which finance leases	Finance lease agreements
Securitized liabilities	Own bearer bonds and borrower's note loans issued
Other liabilities – of which finance leases	Finance lease agreements
Subordinated capital	Bonds, participation certificates
Liabilities from disposal groups	According to the respective balance-sheet item
Irrevocable loan commitments	Credit line agreements

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

Exchange-traded derivatives are valued using market prices.

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

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

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

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

LBBW makes use of the portfolio exception in accordance with IFRS 13.48 for the fair value measurement of derivatives in the following:

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

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

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

- Recognition of credit risks in relation to receivables and counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives.
- Weaknesses in the models and/or parameters used, for example, so-called model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day One profit or loss on specific complex derivatives and loans that are measured at fair value.
- 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 2016		31 Dec. 2015	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**9 313**	**9 313**	**1 167**	**1 167**
Assets carried at fair value				
Trading assets	67 876	67 876	61 678	61 678
Derivatives	30 211	30 211	24 117	24 117
Currency-related derivatives	4 105	4 105	4 032	4 032
Interest rate-related derivatives	25 555	25 555	19 561	19 561
Credit derivatives	132	132	180	180
Share-/index-related derivatives	385	385	285	285
Commodity-related and other derivatives	32	32	60	60
Equity instruments	837	837	750	750
Securities	12 054	12 054	14 460	14 460
Receivables	24 775	24 775	22 351	22 351
Financial assets designated at fair value	886	886	913	913
Equity instruments	181	181	185	185
Securities	239	239	278	278
Loans and receivables	465	465	450	450
Positive fair values from hedging derivatives	2 859	2 859	2 174	2 174
Interest rate derivatives	2 852	2 852	2 163	2 163
Cross-currency interest rate swaps	7	7	11	11
Financial investments (AfS)	20 590	20 590	19 170	19 170
Equity instruments	983	983	1 041	1 041
Securities	19 607	19 607	18 129	18 129
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	36 595	37 969	30 237	31 362
Public-sector loans	22 701	24 045	22 781	23 893
Securities repurchase transactions	7 265	7 263	2 662	2 662
Other receivables	6 629	6 661	4 794	4 806
Loans and advances to customers after allowances for losses on loans and advances	109 703	116 135	107 665	112 715
Public-sector loans	17 252	20 131	17 273	19 674
Mortgage loans	30 992	34 175	30 907	33 515
Securities repurchase transactions	12 773	12 802	11 318	11 349
Other receivables	48 686	49 027	48 167	48 177
of which finance leases	4 487	4 762	4 512	4 722
Financial investments (LaR)	6 297	6 410	6 060	6 109
Equity instruments	5	5	7	7
Securitizations	308	310	323	324
Government bonds	5 517	5 625	5 501	5 547
Other securities	468	470	228	231
Non-current assets and disposal groups held for sale	**0**	**0**	**104**	**104**

Equity and liabilities.

EUR million	30 June 2016 Carrying amount	Fair value	31 Dec. 2015 Carrying amount	Fair value
Liabilities measured at fair value				
Trading liabilities	86 368	86 368	67 278	67 278
Derivatives	28 946	28 946	23 445	23 445
Currency-related derivatives	4 166	4 166	4 757	4 757
Interest rate-related derivatives	23 335	23 335	17 413	17 413
Credit derivatives	404	404	476	476
Share-/index-related derivatives	997	997	727	727
Commodity-related and other derivatives	43	43	73	73
Delivery obligations from short sales of securities	960	960	550	550
Deposits	47 579	47 579	36 214	36 214
Securitized liabilities	8 882	8 882	7 069	7 069
Other financial liabilities	1	1	0	0
Financial liabilities designated at fair value	3 157	3 157	3 257	3 257
Deposits	1 612	1 612	1 549	1 549
Securitized liabilities	1 545	1 545	1 708	1 708
Negative fair values from hedging derivatives	4 165	4 165	3 528	3 528
Interest rate derivatives	4 074	4 074	3 441	3 441
Cross-currency interest rate swaps	91	91	87	87
Liabilities carried at amortized cost				
Deposits from banks	45 646	46 905	44 248	45 056
Securities repurchase transactions	7 855	7 857	8 676	8 675
Borrower's note loans	4 390	4 614	4 656	4 868
Other liabilities	33 401	34 434	30 916	31 512
Deposits from customers	62 906	64 603	62 540	63 898
Current account liabilities	30 917	30 941	34 753	34 769
Borrower's note loans	2 246	2 508	2 351	2 517
Registered covered bonds	4 643	5 595	4 934	5 808
Securities repurchase transactions	5 711	5 713	2 745	2 752
Other liabilities	19 390	19 846	17 757	18 052
Securitized liabilities	33 352	34 225	29 424	30 182
Other liabilities – of which finance leases	4	4	4	4
Subordinated capital	5 283	5 342	5 329	5 380
Subordinated liabilities	3 937	4 157	3 917	4 128
Capital generated from profit-participation rights	118	140	114	140
Silent partners' contributions	1 228	1 045	1 298	1 112

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 next level whose parameter has a material effect on the fair value measurement.

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

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

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

Assets.

	Prices traded on active markets (Level I)		Valuation method – on the basis of externally observable parameters (Level II)		Valuation method – on the basis of not externally observable parameters (Level III)	
EUR million	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Cash and cash equivalents	**105**	**140**	**9 208**	**1 027**	**0**	**0**
Assets carried at fair value						
Trading assets	5 393	6 413	61 744	54 573	739	691
Derivatives	375	295	29 405	23 395	430	426
Currency-related derivatives	0	0	3 958	3 917	147	115
Interest rate-related derivatives	0	0	25 277	19 255	278	306
Credit derivatives	0	0	132	179	0	0
Share-/index-related derivatives	354	259	27	21	5	5
Commodity-related and other derivatives	21	37	11	23	0	0
Equity instruments	389	309	448	441	0	0
Securities	4 628	5 808	7 426	8 651	0	0
Receivables	1	0	24 465	22 086	309	265
Financial assets designated at fair value	0	0	880	901	6	12
Equity instruments	0	0	176	173	6	12
Securities	0	0	239	278	0	0
Receivables	0	0	465	450	0	0
Positive fair values from hedging derivatives	0	0	2 859	2 174	0	0
Interest rate derivatives	0	0	2 852	2 163	0	0
Cross-currency interest rate swaps	0	0	7	11	0	0
Financial investments (AfS)	17 623	16 104	2 513	2 602	454	464
Equity instruments	537	585	0	0	445	456
Securities	17 086	15 519	2 513	2 602	8	8
Investment property	0	0	0	0	637	649
Non-current assets and disposal groups held for sale	**0**	**0**	**0**	**0**	**19**	**153**

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 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Liabilities measured at fair value						
Trading liabilities	1 100	1 255	84 861	65 702	407	321
Derivatives	983	707	27 556	22 417	407	321
Currency-related derivatives	0	0	4 156	4 745	11	11
Interest rate-related derivatives	0	0	23 076	17 109	259	304
Credit derivatives	0	0	271	475	133	1
Share-/index-related derivatives	956	639	36	83	5	5
Commodity-related and other derivatives	27	68	17	5	0	0
Delivery obligations from short sales of securities	117	547	843	2	0	0
Deposits	0	0	47 579	36 214	0	0
Securitized liabilities	0	0	8 882	7 069	0	0
Other financial liabilities	1	0	0	0	0	0
Financial liabilities designated at fair value	0	0	2 393	2 565	764	692
Deposits	0	0	1 574	1 511	39	38
Securitized liabilities	0	0	820	1 054	725	654
Negative fair values from hedging derivatives	0	0	4 165	3 528	0	0
Interest rate derivatives	0	0	4 074	3 441	0	0
Cross-currency interest rate swaps	0	0	91	87	0	0

Transfers to levels.

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

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

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

Assets.

EUR million	Transfers from Level I to Level II 30 June 2016	Transfers from Level I to Level II 31 Dec. 2015	Transfers from Level II to Level I 30 June 2016	Transfers from Level II to Level I 31 Dec. 2015
Assets carried at fair value				
Trading assets	764	47	110	522
Securities	764	47	110	522
Financial investments (AfS)	41	72	103	69
Securities	41	72	103	69

Equity and liabilities.

EUR million	Transfers from Level I to Level II 30 June 2016	Transfers from Level I to Level II 31 Dec. 2015	Transfers from Level II to Level I 30 June 2016	Transfers from Level II to Level I 31 Dec. 2015
Liabilities measured at fair value				
Trading liabilities	282	2	0	0
Delivery obligations from short sales of securities	282	2	0	0

In the first half of 2016, LBBW carried out reclassifications from Level I to Level II, as there were no listed prices from active markets to hand for the corresponding financial instruments. Reclassifications in the opposite direction took place as listed prices from active markets became available for them again.

Development of Level III.

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

Assets.

30 June 2016

	Trading assets			
	Derivatives			Loans and advances
EUR million	Currency-related derivatives	Interest rate-related derivatives	Share-/index--related derivatives	
Carrying amount as at 1 January 2016	**115**	**306**	**5**	**265**
Gains and losses recognized in net consolidated profit/loss	32	– 16	0	0
of which net interest income	0	1	0	0
of which net trading gains/losses	32	– 16	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
Income and expenses recognized in Other income[1)]	0	0	0	0
Additions through acquisitions	0	0	0	138
Disposals through sales	0	0	0	– 98
Repayments/offsetting	0	– 12	0	0
Changes from foreign currency translation	0	0	0	0
Transfers	0	0	0	0
Transfers to Level III	0	0	0	4
Transfers in accordance with IFRS 5	0	0	0	0
Carrying amount as at 30 June 2016	**147**	**278**	**5**	**309**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	32	– 16	0	0
of which net interest income	0	1	0	0
of which net trading gains/losses	32	– 16	0	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0

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

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
Equity instruments	Securities	Equity instruments	Securities			
12	**0**	**456**	**8**	**649**	**153**	**1 969**
– 1	0	– 3	0	0	– 82	– 69
0	0	0	0	0	0	1
0	0	0	0	0	0	15
– 1	0	0	0	0	0	– 1
0	0	– 3	0	0	– 82	– 85
0	0	59	0	0	7	66
0	0	3	0	0	0	141
– 1	0	– 40	0	– 4	– 79	– 222
– 5	0	– 29	0	0	0	– 47
0	0	0	0	5	0	4
0	0	0	0	6	0	6
0	0	0	0	0	0	4
0	0	0	0	– 19	19	0
6	**0**	**445**	**8**	**637**	**19**	**1 854**
– 1	0	23	0	0	0	38
0	0	0	0	0	0	1
0	0	0	0	0	0	15
– 1	0	0	0	0	0	– 1
0	0	23	0	0	0	23

31 Dec. 2015

EUR million	Trading assets			
	Derivatives			Loans and advances
	Currency related derivatives	Interest rate-related derivatives	Share/index-related derivatives	
Carrying amount as at 1 January 2015	**134**	**449**	**3**	**13**
Gains and losses recognized in net consolidated profit/loss	38	– 115	2	5
of which net interest income	8	– 7	0	– 1
of which net trading income	29	– 109	2	6
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0
Income and expenses recognized in Other income[1]	0	0	0	0
Additions through acquisitions	0	0	0	255
Disposals through sales	0	– 18	0	0
Repayments/offsetting	– 56	– 10	0	– 8
Changes in the scope of consolidation	0	0	0	0
Changes from foreign currency translation	0	0	0	0
Transfers	0	0	0	0
Transfers from Level III	0	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0
Carrying amount as at 31 December 2015	**115**	**306**	**5**	**265**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	30	– 115	2	5
of which net interest income	8	– 7	0	– 1
of which net trading gains/losses	22	– 109	2	6
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0

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

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
Equity instruments	Securities	Equity instruments	Securities			
25	**25**	**542**	**21**	**705**	**16**	**1 933**
– 4	1	– 13	0	– 3	– 1	– 92
0	0	0	0	0	0	1
0	0	1	0	0	0	– 71
– 4	1	0	0	0	0	– 3
0	0	– 14	0	0	0	– 14
0	0	0	0	– 3	– 1	– 4
0	0	87	0	0	0	87
0	0	30	6	157	0	449
– 6	– 1	– 26	– 10	– 84	– 64	– 209
– 2	– 4	– 29	0	0	0	– 109
0	0	16	0	0	0	16
0	0	0	– 9	– 11	0	– 20
0	0	0	0	– 65	0	– 65
0	– 21	0	0	0	0	– 21
0	0	– 153	0	– 49	202	0
12	**0**	**456**	**8**	**649**	**153**	**1 969**
– 5	0	– 9	0	– 3	– 1	– 96
0	0	0	0	0	0	1
0	0	1	0	0	0	– 78
– 5	0	0	0	0	0	– 4
0	0	– 10	0	0	0	– 10
0	0	0	0	– 3	– 1	– 4

Equity and liabilities.

30 June 2016	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-related derivatives	Interest rate-derivatives	Credit derivatives	Share-/index-related derivatives			
Carrying amount as at 1 January 2016	**11**	**304**	**1**	**5**	**38**	**654**	**1 013**
Gains and losses recognized in net consolidated profit/loss	– 1	– 36	0	0	0	76	40
of which net interest income	2	0	0	0	– 1	– 4	– 4
of which net trading gains/losses	– 2	– 36	0	0	0	30	– 8
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	1	50	51
Repayments/offsetting	0	– 9	0	0	0	– 4	– 14
Transfers to Level III	0	0	132	0	0	0	132
Carrying amount as at 30 June 2016	**11**	**259**	**133**	**5**	**39**	**725**	**1 171**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 1	– 36	0	0	0	76	40
of which net interest income	2	0	0	0	– 1	– 4	– 4
of which net trading gains/losses	– 2	– 36	0	0	0	30	– 8
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	1	50	51

31 Dec. 2015	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-related derivatives	Interest rate-derivatives	Credit derivatives	Share-/index-related derivatives			
Carrying amount as at 1 January 2015	**16**	**432**	**4**	**3**	**160**	**808**	**1 423**
Gains and losses recognized in net consolidated profit/loss	– 3	– 98	– 2	2	– 2	33	– 71
of which net interest income	0	4	0	0	0	2	6
of which net trading gains/losses	– 3	– 102	– 3	2	0	19	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 2	13	11
Disposals through sales	0	– 20	0	0	0	0	– 20
Repayments/offsetting	– 2	– 5	– 1	0	– 62	– 187	– 258
Transfers from Level III	0	– 5	0	0	– 57	0	– 62
Carrying amount as at 31 December 2015	**11**	**304**	**1**	**5**	**38**	**654**	**1 013**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 3	– 98	– 2	2	– 2	33	– 71
of which net interest income	0	4	0	0	0	2	6
of which net trading gains/losses	– 3	– 102	– 3	2	0	19	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	– 2	13	11

The unrealized profit and loss on Level III financial instruments is based on both observable and non-observable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

Sensitivity analysis Level III.

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

For the investments classified as Level III the calculation of the sensitivities essentially takes place through an upshift/downshift of the individual beta factors. If no beta factors are used in the measurement, the sensitivities are calculated on the basis of the average percentage change in fair value. This is based on the upshift/downshift of the investments whose measurement is based on a beta factor.

The information is intended to show the potential effects of the relative uncertainty in the fair values of financial instruments, the measurement of which is based on non-observable input parameters.

Assets.

	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Assets carried at fair value				
Trading assets	7.2	9.5	– 2.9	– 3.3
Derivatives	3.7	3.8	– 2.7	– 3.1
Interest rate-related derivatives	3.1	3.1	– 2.2	– 2.2
Share-/index-related derivatives	0.1	0.2	– 0.2	– 0.3
Currency-related derivatives	0.4	0.5	– 0.3	– 0.6
Receivables	3.6	5.7	– 0.2	– 0.2
Financial investments (AfS)	16.6	16.8	– 14.7	– 15.1
Equity instruments	16.6	16.8	– 14.7	– 15.1
Total	**23.8**	**26.3**	**– 17.6**	**– 18.4**

Equity and liabilities.

	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Liabilities measured at fair value				
Trading liabilities	9.7	2.3	– 10.5	– 2.9
Derivatives	9.7	2.3	– 10.5	– 2.9
Interest rate-related derivatives	1.6	1.6	– 2.4	– 2.4
Credit derivatives	7.7	0.1	– 7.7	– 0.1
Share-/index-related derivatives	0.2	0.3	– 0.1	– 0.2
Currency-related derivatives	0.3	0.3	– 0.3	– 0.3
Financial liabilities designated at fair value	0.1	0.1	– 0.1	– 0.1
Securitized liabilities	0.1	0.1	– 0.1	– 0.1
Total	**9.8**	**2.4**	**– 10.6**	**– 3.0**

Significant non-observable Level III parameters.

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

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

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

Assets.

30 June 2016 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Credit derivatives	Correlation price model	Credit correlation	49 % – 80 %	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	39 %	abs. – 30 %/+ 30 %
Receivables	Net present value method	Credit spread (bp)	70 – 285	rel. – 30 %/+ 30 % abs. – 25bp
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 0.90 % – 10.53 % --- 0.29 – 1.23	n/a --- individually per Instrument --- rel. + 5 %/– 5 %
Investment property	Discounted cash flow method	Rent dynamization/ indexing ---- Discounting interest rate ---- Vacancy rate (»rental loss risk«) --- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % ---- 4.3 % – 8.9 % ---- 2.0 % – 5.0 % --- EUR 0 – 25/m^2 ---- 1.0 % – 6.5 %	n/a

31 Dec. 2015 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Credit derivatives	Correlation price model	Credit correlation	50 % – 81 %	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	67 %	abs. – 30 %/+ 30 %
Receivables	Net present value method	Credit spread (bp)	75 – 220	rel. – 30 %/+ 30 % abs. – 25bp
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.26 % – 6.48 % --- 0.29 – 1.23	n/a --- individual per instrument --- rel. + 5 %/– 5 %
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Vacancy rate (»rental loss risk«) --- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % ---- 4.0 % – 8.3 % ---- 2.0 % – 5.0 % --- EUR 0 – 19/m^2 ---- 1.0 % – 6.5 %	n/a

Equity and liabilities.

30 June 2016 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 46% – 99%	rel. – 20%/+ 10%
Credit derivatives	Correlation price model TRS model	Credit correlation Discount curve (bp)	49% – 80% 101 – 127	abs. – 30%/+ 10% rel. – 30%/+ 30%
Share-/index-derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25%/+ 15%
Currency-related derivatives	Option price model	Currency correlation	39%	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	11% – 99% --- 39%	rel. – 20%/+ 10% --- abs. – 30%/+ 30%

31 Dec. 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	50% – 81%	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	67%	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% --- 67%	rel. – 20%/+ 10% --- abs. – 30%/+ 30%
Other financial liabilities	Option price model	Interest rate correlation	21% – 99%	rel. – 20%/+ 10%

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

Day One profit or loss.

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

Credit spreads and correlations between interest rates and default risks of different asset classes are not observable throughout the market or cannot be derived from prices observed on the market. The market participants may have different opinions about the characteristics of the unobservable parameters used in these models. Hence, the transaction price may deviate from what is considered by LBBW to be the fair value.

LBBW holds so-called Day One profits for trading portfolios in the interest rate and credit derivative classes and receivables.

The following table shows the performance of the day one profit for the first half of 2016 compared with year-end 2015, which was accrued to the use of major unobservable parameters for financial instruments recognized at fair value.

EUR million	2016	2015
Balance as at 1 January	**10**	**1**
New transactions (additions)	0	10
Gains/losses recognized in the income statement during the reporting period (reversals)	– 5	– 1
Balance as at 30 June/31 December	**5**	**10**

37. Reconciliation of carrying amounts to categories.

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

30 June 2016 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	36 595					36 595
Loans and advances to customers after allowances for losses on loans and advances	109 703					109 703
Financial assets at fair value through profit or loss[1]			67 876	886		68 762
Financial investments	6 297	20 590				26 887
Deposits from banks					45 646	45 646
Deposits from customers					62 906	62 906
Securitized liabilities					33 352	33 352
Financial liabilities at fair value through profit or loss[2]			86 368	3 157		89 526
Subordinated capital					5 283	5 283

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

31 Dec. 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	30 237					30 237
Loans and advances to customers after allowances for losses on loans and advances	107 665					107 665
Financial assets at fair value through profit or loss[1]			61 678	913		62 591
Financial investments	6 060	19 170				25 230
Non-current assets and disposal groups held for sale[1]	0	104	0	0		104
Deposits from banks					44 248	44 248
Deposits from customers					62 540	62 540
Securitized liabilities					29 424	29 424
Financial liabilities at fair value through profit or loss[2]			67 278	3 257		70 536
Subordinated capital					5 329	5 329

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, in the course of which results were burdened significantly by fair value fluctuations (mainly in securitization products), 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 2016 Carrying amount	30 June 2016 Fair value	31 Dec. 2015 Carrying amount	31 Dec. 2015 Fair value	1 July 2008 Nominal amount	1 July 2008 Carrying amount
Held for trading reclassified as loans and receivables	**19**	**19**	**18**	**19**	**935**	**913**
of which securitization transactions	0	0	0	0	134	128
of which other securities	19	19	18	19	801	785
Available for sale reclassified as loans and receivables	**31**	**32**	**37**	**38**	**29 023**	**27 373**
of which securitization transactions	0	0	0	0	14 643	13 302
of which other securities	31	32	37	38	14 380	14 071
Total	**50**	**51**	**55**	**57**	**29 958**	**28 286**

The nominal volume of the securities reclassified from the held-for-trading category was EUR 19 million as at 30 June 2016 (31 December 2015: EUR 19 million), all of which related to other securities.

Securities recategorized as available for sale accounted for a nominal volume of EUR 32 million (31 December 2015: EUR 38 million), which also include entirely other securities.

The reclassified portfolios therefore contributed EUR 1 million (30 June 2015: EUR 1 million) to the results in the first half of 2016.

Had there been no reclassification, the contribution to results would have been less than EUR 1 million as at 30 June 2016 (30 June 2015: EUR 1 million). As in the previous year, the fair value changes of reclassified AfS securities would not have had an effect on Other income.

In the first half year, original interest payments of less than EUR 1 million (30 June 2015: EUR 1 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 28 778 million.

39. Breakdown of derivatives volume.

30 June 2016	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	112 314	43 752	36 110	9 663	201 839	4 112	4 257
Interest rate-related derivatives	192 289	279 544	440 103	415 516	1 327 452	28 407	27 409
Credit derivatives	979	3 061	16 235	3 011	23 286	132	404
Share-/index-related derivatives	1 485	4 360	6 596	2 071	14 511	385	997
Commodity-related and other derivatives	1 000	548	50	0	1 599	32	43
Total	**308 068**	**331 266**	**499 093**	**430 260**	**1 568 687**	**33 070**	**33 110**

31 Dec. 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	109 588	49 073	38 063	11 759	208 483	4 043	4 843
Interest rate-related derivatives	120 582	198 117	351 997	356 068	1 026 764	21 723	20 854
Credit derivatives	1 060	3 633	15 465	3 084	23 242	180	476
Share-/index-related derivatives	2 594	5 262	6 734	797	15 388	285	727
Commodity-related and other derivatives	665	715	56	0	1 437	60	73
Total	**234 489**	**256 801**	**412 316**	**371 708**	**1 275 314**	**26 291**	**26 973**

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.

The nominal increase in interest rate-related derivatives is as a result of a greater volume of interest rate swaps with central counterparties.

With regard to »netting agreements«, the German Federal Financial Supervisory Authority (BaFin) issued a general decree on 9 June 2016 (Ref.: ED WA-Wp 1000-2016/0001) in response to a decision of the German Federal Court of Justice (Bundesgerichtshof – BGH) on 9 June 2016 with regard to Section 104 of the German Insolvency Code. The BaFin will therefore uphold the supervisory practice that existed prior to the ruling, until the legislator has made a legislative adjustment to Section 104 of the German Insolvency Code, as was announced on 9 June 2016. The legislator has announced the new act, which is currently under preparation, for the third quarter of 2016. On account of the general ruling and the legislative announcement on the statutory amendment of Section 104 of the German Insolvency Code, no negative effects are expected for LBBW.

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 2016	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the related liabilities
Assets carried at fair value		
Trading assets	2 473	1 228
Securities	2 473	1 228
Financial investments (AfS)	2 795	2 132
Securities	2 795	2 132
Assets carried at amortized cost		
Loans and advances to banks	17 717	17 734
Public-sector loans	17 701	17 718
Other receivables	15	15
Loans and advances to customers	5 584	5 590
Public-sector loans	341	341
Mortgage loans	1 959	1 961
Other receivables	3 284	3 288

31 Dec. 2015 EUR million	Transferred assets continue to be recognized in full Carrying amount of transferred assets	Carrying amount of the related liabilities
Assets carried at fair value		
Trading assets	6 854	5 242
Securities	6 248	4 636
Receivables	606	606
Financial assets designated at fair value	35	35
Receivables	35	35
Financial investments (AfS)	2 858	2 389
Securities	2 858	2 389
Assets carried at amortized cost		
Loans and advances to banks	17 541	17 539
Public-sector loans	17 522	17 520
Other receivables	19	19
Loans and advances to customers	7 056	7 054
Public-sector loans	770	770
Mortgage loans	1 974	1 973
Other receivables	4 312	4 311

41. Information on issuing activities.

1 Jan. – 30 June 2016 EUR million	Amount	Volume	Repurchases	Repayments
Covered bonds	9	2 935	233	2 304
Money market transactions	830	87 651	1 584	85 809
Other bearer bonds	3 752	191 965	1 345	1 894
Other bonds	0	0	462	0
Total	**4 591**	**282 550**	**3 623**	**90 007**

1 Jan. – 31 Dec. 2015 EUR million	Amount	Volume	Repurchases	Repayments
Covered bonds	34	4 812	279	4 868
Money market transactions	1 693	281 011	1 419	282 348
Other bearer bonds	8 079	414 299	1 374	24 234
Other bonds	0	0	418	0
Total	**9 806**	**700 122**	**3 489**	**311 451**

Other notes.

42. Related party disclosures.

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

These include the shareholders of LBBW (see Note 33), controlled subsidiaries that are however not consolidated for reasons of materiality, structured entities, associates accounted for using the equity method, joint ventures, persons in key positions and their relatives, as well as companies controlled by these individuals. Persons in key positions include the members of the Board of Managing Directors and of the Supervisory Board, including members of LBBW (Bank) as parent company.

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

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

30 June 2016 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	0	0	0	92	0	328
Loans and advances to customers	1 432	1	73	140	59	666
Allowances for losses on loans and advances	0	0	– 36	0	– 8	0
Financial assets at fair value through profit or loss	3 187	0	74	94	0	1 420
Financial investments	0	0	161	73	21	5 517
Total assets	**4 619**	**1**	**272**	**399**	**71**	**7 931**
Deposits from banks	0	0	0	0	0	7 986
Deposits from customers	28	5	98	74	42	6 680
Financial liabilities at fair value through profit or loss	949	0	1	180	1	2 170
Subordinated capital	90	0	0	7	0	24
Total equity and liabilities	**1 068**	**5**	**99**	**262**	**43**	**16 861**
Contingent liabilities and loan commitments	**101**	**0**	**2**	**22**	**18**	**92**

31 Dec. 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	188	0	0	109	0	146
Loans and advances to customers	1 440	1	86	143	57	537
Allowances for losses on loans and advances	0	0	– 37	0	– 8	0
Financial assets at fair value through profit or loss	2 357	0	48	77	0	143
Financial investments	0	0	243	47	39	5 501
Total assets	**3 986**	**1**	**341**	**375**	**88**	**6 328**
Deposits from banks	7 550	0	0	0	0	17
Deposits from customers	40	4	98	95	36	6 183
Financial liabilities at fair value through profit or loss	1 156	0	3	76	1	897
Subordinated capital	92	0	0	7	0	68
Total equity and liabilities	**8 838**	**4**	**102**	**178**	**37**	**7 164**
Contingent liabilities and loan commitments	**100**	**0**	**6**	**13**	**21**	**123**

Related party transactions resulted in material effects in net interest income of EUR 147 million (previous year: EUR 24 million).

LBBW did not exercise the exemption in accordance with IAS 24.25. The visible shift between shareholders and other related parties/companies compared with the previous year is largely due to the departure of Landeskreditbank Baden-Württemberg as a shareholder of LBBW. Accordingly, Landeskreditbank Baden-Württemberg is recognized as other related party/company as at the reporting date of 30 June 2016.

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

Contingent liabilities and other obligations.

EUR million	30 June 2016	31 Dec. 2015
Contingent liabilities	5 813	5 489
Sureties and guarantee agreements	5 729	5 410
Other	85	78
Other obligations	21 219	22 375
Irrevocable loan commitments	20 669	21 796
Other	550	579
Total	**27 032**	**27 864**

In addition to the other obligations shown above, obligations of EUR 276 million (previous year: EUR 284 million) arise from rental and lease agreements.

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.

New rules at EU level were introduced as at 1 January 2015 within the scope of the Bank Recovery and Resolution Directive (Directive 2014/59/EU (BRRD)) for the bank levy that was previously governed on a national level. The contributing banks are obliged to make annual contributions to the restructuring fund. These are measured in such a way that the aggregate of the annual contributions from all contributing banks reaches 1% of the covered deposits of all contributing banks in the period from 2015 to 2024 (Section 12b (2) in conjunction with Section 12a (1) of the German Restructuring Fund Act (Restrukturierungsfondsgesetz – RStruktFG)). On request (Section 12 (5) RStruktFG), LBBW was permitted to pay 15% of the fixed annual contribution as irrevocable payment commitments for 2016 (2015: 30%). The accrued payment commitments were covered by cash collateral of EUR 29.6 million. LBBW shall meet the payment obligation in full or in part at first request. The authority responsible should only request the amount in case of resolution measures. LBBW recognizes a contingent liability in the amount of the payment obligation.

Guarantee fund and German Deposit Protection Fund.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which came into force on 3 July 2015, governs the 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 (annual contribution) in line with the target volume of the contribution year (taking into account changes in covered deposits, among other factors).

As owner of the bank-related guarantee system, LBBW makes an irrevocable commitment to the German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV) to make further payments on first demand e. g. in the compensation case pursuant to Section 10 EinSiG, in addition to the annual contribution.

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 2016	31 Dec. 2015
Legal disputes	10	10
Total	**10**	**10**

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.

The exposure of the LBBW Group to the three sectors of financial institutions, companies and the public-sector entities with registered offices in Ireland, Italy, Portugal and Spain has increased to EUR 5.2 billion compared with the previous year (previous year: EUR 4.8 billion). This increase is largely due to higher derivative exposures (net) to financial institutions in Spain (EUR 268 million), Italy (EUR 105 million) and Ireland (EUR 58 million).

To banks.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Receivables	0.2	0.2	5.9	3.4	2.7	4.8	4.6	2.2
Financial assets at fair value through profit or loss (excluding derivatives)	11.0	8.7	62.7	41.2	0.0	1.0	128.3	106.9
Derivatives (net)	6.7	– 51.8	117.5	12.5	0.0	– 1.0	192.2	– 76.2
Financial investments (AfS)	0.0	0.0	37.2	38.2	0.0	0.0	48.7	70.8
Revaluation reserve	0.0	0.0	1.0	1.5	0.0	0.0	3.3	3.8
Total	**17.9**	**– 42.9**	**223.3**	**95.3**	**2.7**	**4.8**	**373.8**	**103.7**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.0	0.2	0.0	0.0	0.4	0.5
CDS liability items	0.0	0.0	0.3	– 0.2	0.0	0.0	0.1	0.0
Nominals of CDS assets	0.0	0.0	10.0	61.0	0.0	0.0	12.0	23.5
Nominals of CDS liabilities	0.0	0.0	– 58.0	– 58.0	0.0	0.0	– 20.0	– 20.0

To corporates.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Receivables	302.0	330.4	154.2	162.5	16.8	18.2	518.1	559.0
Allowances for losses on loans and advances (specific loan loss provision)	0.0	0.0	0.0	0.0	0.0	0.0	– 44.2	– 44.7
Financial assets at fair value through profit or loss (excluding derivatives)	342.4	361.7	0.6	0.7	0.0	0.0	4.9	0.3
Derivatives (net)	0.0	0.0	12.3	9.6	0.0	0.0	71.4	59.4
Financial investments (AfS)	10.6	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	3.3	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments (LaR)	19.8	19.7	0.0	0.0	0.0	0.0	0.0	0.0
Total	**674.8**	**721.1**	**167.1**	**172.8**	**16.8**	**18.2**	**550.2**	**574.0**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.2	0.2	0.0	0.0	0.2	– 0.6
CDS liability items	0.0	0.0	0.0	– 0.1	0.0	0.0	0.0	0.0
Nominals of CDS assets	0.0	0.0	23.6	57.6	0.0	0.0	26.0	57.0
Nominals of CDS liabilities	0.0	0.0	– 3.0	– 12.6	0.0	0.0	– 12.0	– 21.0

To public sector.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015	30 June 2016	31 Dec. 2015
Financial assets at fair value through profit or loss (excluding derivatives)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Derivatives (net)	0.3	0.0	2.2	– 0.2	1.9	– 0.3	1.6	0.0
Financial investments (AfS)	0.0	0.0	2 103.3	2 056.4	269.1	282.0	758.5	752.3
Revaluation reserve	0.0	0.0	– 172.2	– 91.5	– 4.6	– 1.5	– 50.0	– 41.0
Total	**0.3**	**0.0**	**2 105.5**	**2 056.2**	**271.0**	**281.7**	**760.2**	**752.3**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.2	0.1	0.0	1.0	0.0	– 0.7	0.4	0.0
CDS liability items	0.1	– 0.1	2.2	– 1.2	1.9	0.4	1.2	0.0
Nominals of CDS assets	18.0	55.0	32.1	298.2	0.0	73.1	77.7	130.0
Nominals of CDS liabilities	– 45.0	– 55.0	– 223.3	– 299.0	– 71.1	– 72.4	– 50.7	– 125.2

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 2016 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**7 289**	**0**	**0**	**0**	**7 289**
Assets carried at fair value					
Trading assets	115 456	65 370	13 404	756	35 927
Financial assets designated at fair value	741	175	0	24	542
Positive fair values from hedging derivatives	5 506	5 312	0	19	175
Financial investments (AfS)	19 364	0	0	0	19 364
interest-bearing assets	16 916	0	0	0	16 916
non-interest-bearing assets	2 449	0	0	0	2 449
Assets carried at amortized cost					
Loans and advances to banks	38 963	12 482	0	1 231	25 250
Loans and advances to customers	110 731	17 054	0	38 532	55 146
of which finance leases	3 882	0	0	254	3 628
Financial investments (LaR)	6 298	0	0	0	6 298
interest-bearing assets	6 277	0	0	0	6 277
non-interest-bearing assets	21	0	0	0	21
Total	**304 349**	**100 393**	**13 404**	**40 562**	**149 991**
Loan commitments and other agreements	45 575	0	0	3 787	41 789
Total exposure	**349 925**	**100 393**	**13 404**	**44 349**	**191 779**

31 Dec. 2015 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	**1 125**	**0**	**0**	**0**	**1 125**
Assets carried at fair value					
Trading assets	101 608	53 702	13 601	670	33 635
Financial assets designated at fair value	786	172	0	23	591
Positive fair values from hedging derivatives	3 881	3 713	0	11	156
Financial investments (AfS)	18 363	0	0	0	18 363
interest-bearing assets	15 683	0	0	0	15 683
non-interest-bearing assets	2 680	0	0	0	2 680
Assets carried at amortized cost					
Loans and advances to banks	31 732	5 139	0	1 437	25 156
Loans and advances to customers	108 421	15 156	0	38 067	55 199
of which finance leases	4 260	0	0	307	3 953
Financial investments (LaR)	6 073	0	0	0	6 073
interest-bearing assets	6 052	0	0	0	6 052
non-interest-bearing assets	21	0	0	0	21
Non-current assets and disposal groups held for sale	**73**	**0**	**0**	**0**	**73**
Total	**272 062**	**77 883**	**13 601**	**40 208**	**140 371**
Loan commitments and other agreements	47 117	0	0	3 823	43 294
Total exposure	**319 179**	**77 883**	**13 601**	**44 031**	**183 665**

As at the reporting date of 30 June 2016, 99.4 % (previous year: 99.3 %) of the assets of the total portfolio of EUR 350 billion are neither impaired nor overdue.

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

Portfolio quality – exposure in arrears and not impaired.

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

As at 30 June 2016, this applied to gross exposure of EUR 230 million (previous year: EUR 158 million). Almost half of these transactions are less than three months overdue. The increase in the up to 12 months maturity bracket concerns mainly transactions for which write-downs were created as at the reporting date of 31 December 2015 and which have now migrated into the portfolio of assets that are in arrears but not impaired through the complete coverage of the cash flow.

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

30 June 2016 EUR million	<=1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	2	0	0	0	0	0	2
Loans and advances to customers	55	47	9	16	2	98	227
of which finance leases	0	1	2	1	1	13	19
Total	**57**	**47**	**9**	**16**	**2**	**98**	**229**
Loan commitments and other agreements	0	0	1	0	0	0	1
Total exposure	**57**	**47**	**10**	**16**	**2**	**98**	**230**

31 Dec. 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	0	2	0	0	0	3	5
Loans and advances to customers	21	60	9	19	3	42	153
of which finance leases	3	1	0	0	0	0	3
Total	**21**	**61**	**9**	**19**	**3**	**44**	**157**
Loan commitments and other agreements	0	0	0	0	0	1	1
Total exposure	**21**	**62**	**10**	**19**	**3**	**45**	**158**

Portfolio quality – impaired assets.

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

EUR million	30 June 2016	31 Dec. 2015
Assets carried at amortized cost		
Loans and advances to banks	3	4
Loans and advances to customers	1 671	1 914
of which finance leases	81	92
Total	**1 674**	**1 919**
Loan commitments and other agreements	123	182
Total exposure	**1 798**	**2 101**

Impaired assets decreased by EUR 0.3 billion compared with 31 December 2015. The change mainly related to loans and advances to customers.

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

	30 June 2016		31 Dec. 2015	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	290	16.1	303	14.5
2) Arrears/infringement > 90 days [1]	151	8.4	179	8.5
3) Improbable repayment [2]	1 357	75.5	1 619	77.0
Total exposure	**1 798**	**100.0**	**2 101**	**100.0**

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

Forbearance.

As at 30 June 2016, LBBW Group holds assets with a net carrying amount of EUR 1.5 billion for which forbearance measures were adopted. Modifications in relation to the terms and conditions were mainly granted. A EUR 0.7 billion sub-portfolio of the assets for which forbearance measures have been adopted comprises impaired assets.

LBBW has received guarantees of EUR 0.3 billion for assets with forbearance measures.

46. Equity and total amount at risk.

EUR million	30 June 2016	31 Dec. 2015
Equity	**15 945**	**16 287**
Core capital (Tier I)	12 677	12 931
of which common equity Tier I capital (CET I)	11 842	12 181
of which additional Tier I capital (AT I)	835	749
Supplementary capital (Tier II)	3 268	3 356
Total amount at risk (formerly position subject to a capital charge)	**76 916**	**74 460**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	61 626	60 483
Risk exposure value for settlement and delivery risks	1	0
Total exposure amount for position, foreign exchange and commodity risk	8 563	7 198
Total risk exposure amount for operational risks	4 715	4 787
Total amount of risk due to CVA	2 012	1 993
Total capital ratio (in %)	**20.7**	**21.9**
Tier I capital ratio in %	**16.5**	**17.4**
Common equity Tier I ratio (in %)	**15.4**	**16.4**

The common equity Tier I (CET I) of LBBW Group declined due to the increase in actuarial losses. Retained profits in accordance with the profit appropriation decision have a counteracting effect. Pursuant to the CRR transitional rules, additional Tier I capital (AT I) increased due to the changes in deductibles and the way in which they are included. Pursuant to the CRR transitional rules, supplementary (T II) capital was reduced by 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.

This increase in the total amount at risk is as a result of the increase in the risk-weighted exposure amounts for the credit risk due to general business development and from the increase in the total amount at risk for position, foreign exchange and commodity risk, mainly because of the rise in the general equity price risk.

The reduced own funds and higher total amount at risk lowered the capital ratios.

47. Events after the balance sheet date.

No significant events have occurred since 1 July 2016 which LBBW expects to affect LBBW's 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 half-year financial reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected future development of the Group in the remainder of the financial year.

Stuttgart, Karlsruhe, Mannheim and Mainz, 9 August 2016

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

RAINER NESKE

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 2016 that are part of the semi annual financial report according to Section 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34, as is applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IAS 34 applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart, 12 August 2016

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Wirtschaftsprüfungsgesellschaft

KOCHOLL
Wirtschaftsprüfer

EISELE
Wirtschaftsprüfer

Note regarding forward-looking statements.

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

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

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